华夏银行
HUAXIA BANK

2023
ANNUAL REPORT

IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of Hua Xia Bank Co., Limited (the "Company") undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liability thereto.

ii. The *Annual Report 2023 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the 43rd Meeting of the Eighth Board of Directors of the Company on 26 April 2024. 15 of the 16 directors that should attend the meeting were present actually. Non-executive Director Zeng Beichuan, absent from the meeting due to business engagement, authorized Non-executive Director Cai Zhiwei to exercise the voting right on his behalf. There were 16 valid votes. Directors and senior managers were present as non-voting attendees.

iii. Profit distribution plan for the reporting period that was reviewed by the Board of Directors:

With 15,914,928,468 ordinary shares outstanding of the Company at the end of 2023 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.84 (before tax) per 10 shares.

For details, please see "Section IV Corporate Governance".

iv. The 2023 Financial Statements of the Company have been audited by Ernst & Young Hua Ming LLP in accordance with Chinese auditing standards, with standard unqualified auditor's report being issued.

v. Li Minji, Chairman of the Board of Directors and Wang Xingguo, Principal of Financial Affairs of the Company, hereby warrant that the Financial Statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company's actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company's future development strategies and business objectives. Please refer to risk-related part in "Section III Management Discussion and Analysis".

Should there be any discrepancy between the English version and the Chinese Version, the latter shall prevail.

华夏

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LIST OF DOCUMENTS FOR INSPECTION:

1. Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs.
2. Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs.
3. Original of the Annual Report Bearing the Signature of Chairman of the Company.
4. Originals of All Documents and Announcements Disclosed by the Company on the *China Securities Journal, Shanghai Securities News, Securities Times* and *Securities Daily* during the Reporting Period.
5. *Articles of Association of Hua Xia Bank Co., Limited.*

MESSAGE FROM CHAIRMAN

Chairman: Li Minji

2023 was the first year to fully implement the guiding principles of the 20th CPC National Congress, and started a new chapter for the Chinese modernization drive. The Central Economic Work Conference held in the year charted the course and provided the fundamental guidelines for economic work. The Central Financial Work Conference in the year drew a grand blueprint for stepping up the drive to build China into a financial powerhouse. In the past year, Hua Xia Bank unswervingly followed the path of financial development with Chinese characteristics, kept in mind the political and people-oriented nature of financial work, better coordinated effective upgrading in quality with reasonable expansion in quantity and better harmonized development with security. We took solid steps on the path of high-quality development despite all the difficulties and challenges, and delivered good results in the year that showed stable progress and sound momentum. The total assets stood at RMB4,254.766 billion, an increase of 9.09% over the end of the previous year. The net profit attributable to shareholders of the listed company was RMB26.363 billion, a year-on-year increase of 5.30%. The Company was named a domestic systemically important bank in China for the third consecutive year, ranked among the world's top 50 banks for two years in a row, and took the 46th spot among global banks by tier-1 capital.

All that we harvested in 2023 were from our unremitting efforts to deliver.

Our original aspiration to serve the real economy has become further entrenched. With an in-depth understanding of the relationship between functionality and profitability of financial services, the Company continued to provide higher-quality financial services for major strategies, key areas and weaker links, and allocated more financial resources for promoting sci-tech innovation, advanced manufacturing, green development and micro, small and medium-sized enterprises. We implemented the "Thousand, Hundred, Ten" program, securing steady growth in medium – and long-term loans to manufacturing and loans to strategic emerging industries. The balance of green loans increased by 9.00%, and the share of green loans continued to increase. The balance of "two no-less-than" MSE loans increased by 8.77%. The personal pension-related financial service system was comprehensively upgraded, with the financing customers and business activity growing rapidly in the elderly care industry. The full-stack industrial digital finance achieved innovative development and the digital financing business was fast-tracked.

We were more confident in fortifying the line of defense for financial security. With an in-depth understanding of positive interaction between high-quality development and high-level security, the Company took the prevention and control of risks as the eternal theme of financial work, further enhanced the awareness of potential dangers, strengthened the philosophy of risk management and properly handled the relationship between power and responsibility, speed and stability as well as prevention and elimination. We continued to deepen the reform of the comprehensive risk management system, established and improved the risk appetite transmission mechanism and optimized the credit policy and strategy system. By improving the efficiency of professional approval management, centrally disposing of outstanding risks, refining the internal control and compliance management mechanism, stepping up risk management in key areas, accelerating the digital transition of risk control, promoting steady improvements in risk management, we have further enhanced the resilience of high-quality development. Allowance to NPLs was 160.06%, up 0.18 percentage points over the end of the previous year. The ratio of special mention loans and non-performing loans was down 0.04 percentage points and 0.08 percentage points, respectively. The ratio of loans overdue for more than 90 days to NPLs was 86.45%, which met the regulatory requirement.

We were more patient in enhancing the guiding role of development strategies. With a thorough understanding of the complexity and uncertainty of the market environment and in the face of structural changes and changing trends, we combined strategic steadfastness and tactical flexibility. Taking the opportunity of comprehensive mid-term review of the planning, we accelerated the "four strategic transitions" and "eight key projects", further enhanced the systematicness and execution of strategy management and persistently strove for solid progress in plan implementation. We stepped up digital transition across the board, embracing cutting-edge technologies. Our IT investment grew by 4.79% year-on-year, accounting for 4.34% of operating income. More than 95% of the high-frequency lobby-based personal transactions were turned to be self-service. Corporate banking transitioned faster to the "commercial banking + investment banking" model, registering a year-on-year growth of 4.10% in corporate customers and a year-on-year growth of 11.11% in the business scale of investment banking. Retail banking transition improved its quality and efficiency, with a 7.83% year-on-year increase in balance of personal deposits and a 12.33% year-on-year growth in cumulative number of credit cards issued. Financial market transition gained momentum. The RMB and foreign-currency treasury transactions grew by 33.48% from the previous year, and the balance of wealth management products rose by 15.30% over the previous year.

We were even more determined to accelerate reform, innovation and development. With an in-depth understanding of the financial development pattern in the new era, we combined the Head Office's central push with branches' marginal revolution. The organizational structure of the Head Office was adjusted in a market-oriented, law-based and orderly manner. The strategic management system was improved, the asset and liability management system upgraded and the research system built. The mechanism for implementing economic and financial policies was improved, a group-wide collaboration incentive mechanism created and the performance assessment mechanism refined. We efficiently completed the restructuring of Beijing Daxing Hua Xia Rural Bank Co., Ltd. to further unleash the development potential, which was the first case of restructuring a rural banking subsidiary of a joint-stock bank. Putting value creation at the core, we upgraded our product and service capabilities, endeavored to build a diversified and professional system of financial products and services, innovatively launched the Hua Xia Treasury Cloud platform, and piloted the "Investment-linked Loan" and "Stock Option Loan", released the customized digital product "Shopping Basket Security Loan", successfully issued the Hua Xia-Luckin co-branded credit card and introduced the first batch of new energy REITs and the first photovoltaic infrastructure REIT in China.

The 2024 year will witness our continued efforts to strive for new progress on a new journey.

The year 2024 marks the 75th anniversary of the founding of the People's Republic of China, and is a crucial year for achieving the objectives and tasks laid down in the 14th Five-Year Plan. It is also a critical year to implementing Hua Xia Bank Bank's five-year development plan. We have critical battles to fight and win in the year ahead. Hua Xia Bank will adhere to the principle of pursuing progress while ensuring stability, promoting stability through progress, and establishing the new before abolishing the old, deeply practice the political and people-oriented nature and actively carry forward the financial culture with Chinese characteristics. We will keep to the main task of serving the real economy, put focus on further implementing strategies and structural adjustments and firmly follow the path of financial development with Chinese characteristics through enhancing group-wide management and sophisticated management while forestalling and defusing risks. We will strive for high-quality development of Hua Xia Bank in support of the high-quality economic and social development, and play our part in driving the faster development of new quality productive forces and the Chinese modernization.

We will work hard to cement the foundation for "stability". With an accurate understanding of the even more complex and severe situation of risk management and the stronger risk management necessitated by high-quality development, we will exert every effort to forestall systemic financial risks, keep to the right path while making innovations and solve problems in the course of development. We will, with a focus on creating a sound, robust, forward-looking and efficient system of Group-level comprehensive risk management and compliance governance, improve the Group-level risk control system, strictly control the risk costs and accelerate the digital transition of risk control. By creating synergies among the front, middle and back offices, as the three lines of defense, and among the Head Office, branches and sub-branches, we will ensure high-quality development with high-quality risk control at the Group level.

We will work hard to boost the momentum for "progress". We will embrace the historic mission and major strategic opportunities of serving new quality productive forces and pushing ahead with the "Five Priorities" of technology finance, green finance, inclusive finance, pension finance and digital finance, and keep performing our original mission of financially serving the real economy. We will, in line with our own strengths and characteristics, explore new models and paths of serving new quality productive forces and developed special plans for the "Five Priorities". Resources within the Group will be further consolidated to improve the quality and efficiency of services. Technology finance will tackle the difficulties head on in a well-focused manner. Green finance will ride with tailwinds to establish the new before abolishing the old. Inclusive finance will serve the public wellbeing by addressing people's most urgent needs first. Pension finance will become full-fledged and deliver more benefits to the elderly. Digital finance will seize opportunities to expand with maintaining security. Overall, we will better accommodate economic and social development and meet the growing financial needs of the people with strong, sufficient and sustainable services in a sound structure and at a steady pace.

We will chart the right course for "establishing the new". With an accurate understanding of the requirements of high-quality financial development, we will remain resolved to make "unremitting efforts on one blueprint" in pursuit of better quality, higher efficiency and stronger dynamics. Making full use of the existing institutions and licenses, we will comprehensively deepen the management model, strengthen the implementation of strategies and improve the quality and efficiency of management to improve the Group-wide governance structure and working mechanism at a faster pace, improve the strategic goal promotion, monitoring and evaluation mechanism, enhance the accuracy of resource allocation and the guiding role of the incentive and constraint mechanism, enhance the driving force of data, technological support and operational capacity and move forward faster to build a build a colossal, competitive, outstanding modern financial group with stable operations.

We will work harder toward "abolishing the old". With an accurate understanding of the uneven, uncoordinated and inadequate development in the push for high-quality development, we will adhere to the three main tasks of seeking progress while ensuring stability, value creation and capital-light operation. We will fully implement the working mechanism for operations scheduling in accordance with the New Capital Regulation and strive for enhanced quality and efficiency through fine-grained work and all-out efforts. We will redouble efforts to adjust the customer mix, rebalance the assets, liabilities and profits and improve the performance of institutions and personnel, in an effort to harmonize the quality, structure, scale and efficiency of development and effectively upgrade and appropriately expand the output.

Constant effort brings success, just like how trees make a forest and trickles make a river. With the strong support from our shareholders and our friends from all sectors of society, we at Hua Xia Bank will maintain our resolve, shore up our confidence and capitalize on opportunities and tailwinds to pursue progress, create more value for customers and investors, and make greater contributions to building a great country and advancing national rejuvenation on all fronts through Chinese modernization.

Chairman: Li Minji

26 April 2024

SECTION I DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank	Hua Xia Bank Co., Limited
CBRC, CBIRC	China Banking Regulatory Commission, China Banking and Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
RMB yuan	Renminbi, the lawful currency of PRC
Beijing-Tianjin-Hebei Region	Region where the Head Office and the following tier one branches of the Group are located: Beijing, Tianjin, Shijiazhuang, Tianjin FTZ and Beijing Municipal Administrative Center
Yangtze River Delta	Region where the following tier one branches of the Group are located: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ
Guangdong-Hong Kong-Macao Greater Bay Area	Region where the following tier one branches of the Group are located: Shenzhen, Guangzhou, Hong Kong and Haikou
Central and Eastern China	Region where the following tier one branches of the Group are located: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou and Nanchang
Western China	Region where the following tier one branches of the Group are located: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou
Northeastern China	Region where the following tier one branches of the Group are located: Shenyang, Dalian, Changchun and Harbin
Subsidiaries	Huaxia Financial Leasing Co., Ltd., Huaxia Wealth Management Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd., Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.,
Huaxia Wealth Management	Huaxia Wealth Management Co., Ltd.


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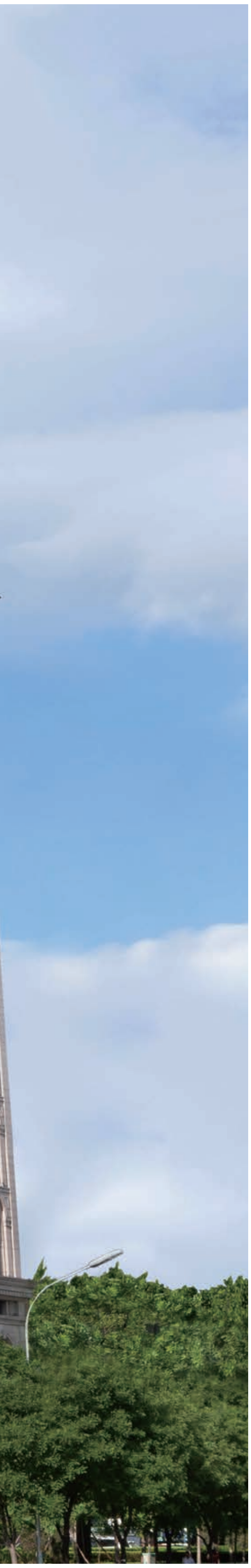


SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

2.1 COMPANY PROFILE

2.1.1 **Legal name in Chinese:** 华夏银行股份有限公司
Chinese abbreviation: 华夏银行
Legal name in English: HUA XIA BANK CO., Limited

2.1.2 **Legal representative:** Li Minji

2.1.3 **Secretary to the Board:** Song Jiqing
Securities affairs representative: Wang Dawei
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Investor relation contact number: 010-85238570, 85239938
Fax: 010-85239605
Email: zhdb@hxb.com.cn

2.1.4 **Registered place:** 22 Jianguomennei Street, Dongcheng District, Beijing
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Website: http://www.hxb.com.cn
Email: zhdb@hxb.com.cn
Historical change of registered address: In April 2005, the Company's registered address was changed from No. 111, Xidan Beidajie, Xicheng District, Beijing to 22 Jianguomennei Street, Dongcheng District, Beijing.

2.1.5 **Newspapers and website for disclosure of the annual report:** *China Securities Journal* (www.cs.com.cn)
Shanghai Securities News (www.cnstock.com)
Securities Times (www.stcn.com)
Securities Daily (www.zqrb.cn)
Website of the stock exchange for disclosure of annual report: http://www.sse.com.cn
Locations where copies of the annual report are kept: Office of the Board of Directors of the Company

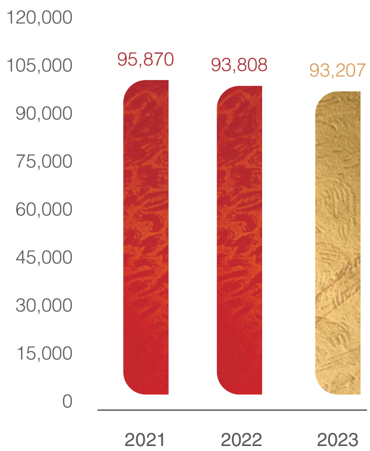
2.1.6 **Place where share is listed:** Shanghai Stock Exchange
Stock name of ordinary A-share: 华夏银行
Stock code of ordinary A-share: 600015

2.1.7 Other relevant information:
Name of depository of shares of the Company: Shanghai Branch of China Securities depository and Clearing Corporation Limited.
Name of accounting firm the Company engaged: Ernst & Young Hua Ming LLP
Business address: 19/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dongcheng District, Beijing, China
Signed CPAs: Zhang Fan, Sun Lingling
Sponsor institution for continuous supervision: CSC Financial Co. Ltd.
Office address: F/11, Taikang Group Tower, Building 1, Courtyard 16, Jinghui Street, Chaoyang District, Beijing
Signed sponsor representatives: Sui Yuyao, Lv Xiaofeng
Period of continuous supervision: 18 October 2022 to 31 December 2023

2.2 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

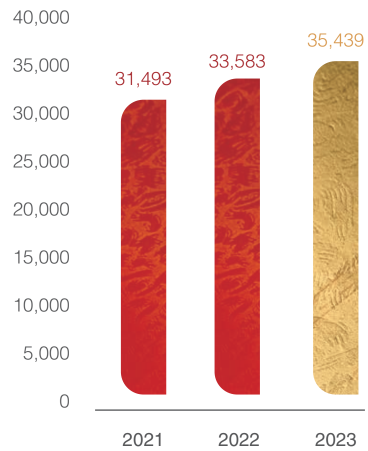
Operating income

(Unit: RMB1 million)



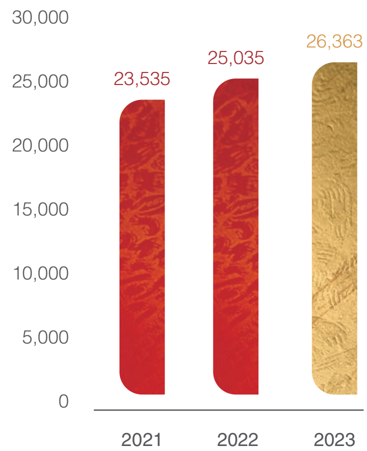
Total profit

(Unit: RMB1 million)



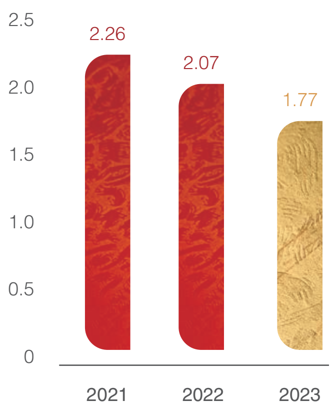
Net profit attributable to shareholders of the listed company

(Unit: RMB1 million)



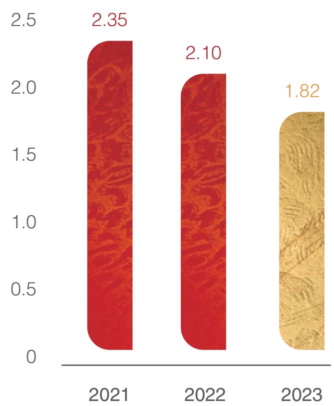
Net interest spread

(Unit: %)



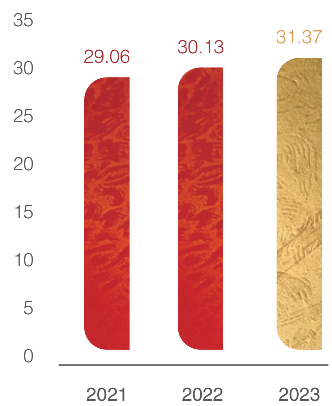
Net interest margin

(Unit: %)



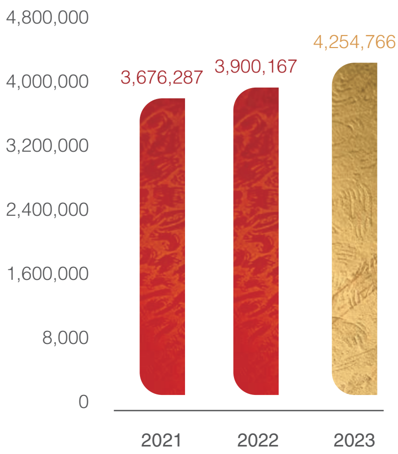
Cost-to-income ratio

(Unit: %)



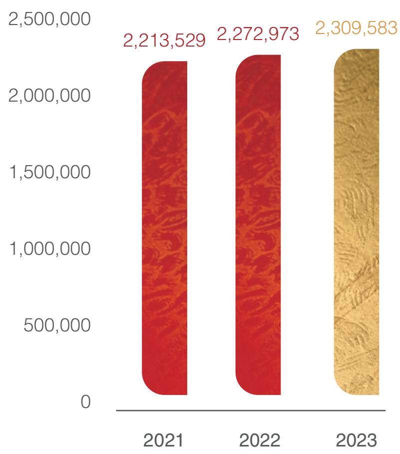
Total assets

(Unit: RMB1 million)



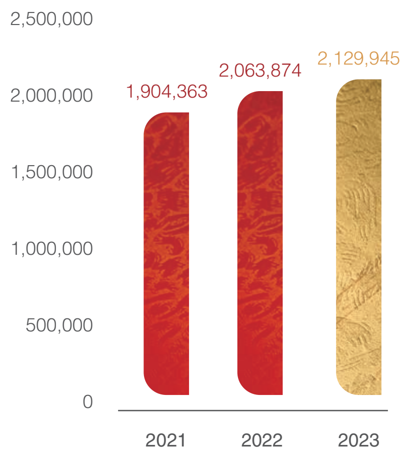
Total loans

(Unit: RMB1 million)



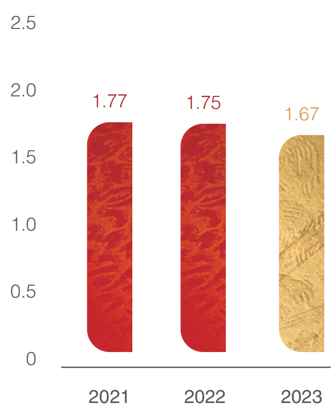
Total deposits

(Unit: RMB1 million)



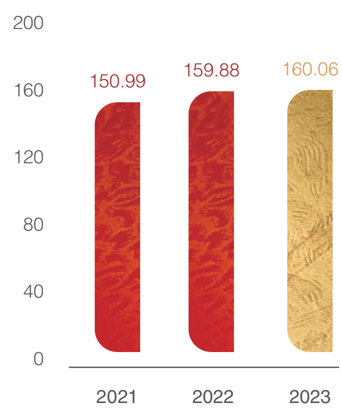
NPL ratio

(Unit: %)



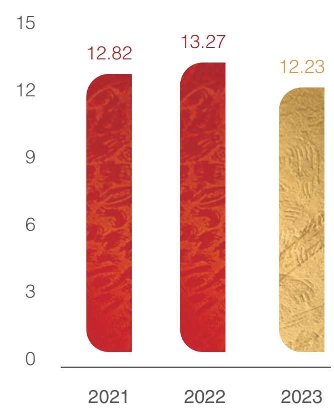
Allowance to NPLs

(Unit: %)



Capital adequacy ratio

(Unit: %)



(Unit: RMB1 million)

Item	2023	2022	Increase/decrease compared with previous year (%)	2021
Main accounting data				
Operating income	93,207	93,808	-0.64	95,870
Operating profit	35,443	33,695	5.19	31,538
Total profit	35,439	33,583	5.53	31,493
Net profit attributable to shareholders of the listed company	26,363	25,035	5.30	23,535
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	26,273	25,134	4.53	23,577
Net cash flows from operating activities	253,177	78,975	220.58	71,015
Major financial indicators				
Basic earnings per share (in RMB)	1.48	1.43	3.50	1.35
Diluted earnings per share (in RMB)	1.48	1.43	3.50	1.35
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.47	1.44	2.08	1.35
Net cash flow per share from operating activities (in RMB)	15.91	4.96	220.77	4.62
Profitability (%)				
Weighted average return on equity	8.71	9.00	Down 0.29 percentage points	9.04
Weighted average return on net assets after deduction of extraordinary profit and loss	8.68	9.04	Down 0.36 percentage points	9.06
Return on assets	0.66	0.67	Down 0.01 percentage point	0.67
Return on capital	8.32	8.17	Up 0.15 percentage points	8.19
Net interest spread	1.77	2.07	Down 0.30 percentage points	2.26
Net interest margin	1.82	2.10	Down 0.28 percentage points	2.35
Cost-to-income ratio	31.37	30.13	Up 1.24 percentage points	29.06

(Unit: RMB1 million)

Item	End of 2023	End of 2022	Increase/decrease compared with the end of previous year (%)	End of 2021
Scale indicators				
Total assets	4,254,766	3,900,167	9.09	3,676,287
Of which: Total loans	2,309,583	2,272,973	1.61	2,213,529
Total liabilities	3,933,004	3,576,845	9.96	3,375,585
Of which: Total deposits	2,129,945	2,063,874	3.20	1,904,363
Net assets attributable to shareholders of the listed company	318,579	320,457	-0.59	298,292
Net assets attributable to ordinary shareholders of the listed company	278,586	260,486	6.95	238,321
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	17.50	16.37	6.90	15.49
Asset quality indicators (%)				
NPL ratio	1.67	1.75	Down 0.08 percentage points	1.77
Allowance to NPLs	160.06	159.88	Up 0.18 percentage points	150.99
Allowance to total loans ratio	2.67	2.80	Down 0.13 percentage points	2.67

Notes:

1. Relevant indicators are calculated according to the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2023 Revision)* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision)*. The Company distributed a cash dividend totaling RMB936 million to preference shareholders in March 2023. The Company paid interest totaling RMB1,940 million to holders of perpetual bonds in June 2023. While calculating the basic earnings per share and the weighted average return on equity (ROE), the Company takes into account the distribution of dividend to preference shareholders and payment of interest on perpetual bonds.

2. Return on assets is calculated as net profit divided by the average of total assets at the beginning and end of the period.

3. Return on capital is calculated as net profit divided by the average of the total equity at the beginning and end of the period.

4. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

5. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

6. According to the former CBRC's Notice on Adjusting the Regulatory Requirements on Allowances for Loan Impairment Losses of Commercial Banks (Y.J.F. [2018] No. 7), the regulatory policy of differentiated dynamic adjustment of allowances was practiced for joint – stock banks. At the end of the reporting period, the Group's allowance to NPLs and allowance to total loans ratio meet regulatory requirements.

2.3 MAJOR FINANCIAL DATA IN 2023 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	23,117	24,525	23,467	22,098
Net profit attributable to shareholders of the listed company	5,854	6,260	5,841	8,408
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	5,818	6,186	5,858	8,411
Net cash flows from operating activities	36,085	38,060	47,994	131,038

2.4 OTHER MAIN REGULATORY INDICATORS

Item (%)	Regulatory value	End of 2023	End of 2022	End of 2021
Core tier-1 capital adequacy ratio	≥7.75	9.16	9.24	8.78
Tier-1 capital adequacy ratio	≥8.75	10.48	11.36	10.98
Capital adequacy ratio	≥10.75	12.23	13.27	12.82
Leverage ratio	≥4.125	6.16	6.76	6.95
Liquidity coverage ratio	≥100	129.43	150.11	138.15
Net stable funding ratio	≥100	105.14	108.61	107.83

Item (%)		Regulatory value	End of 2023	End of 2022	End of 2021
Loan-to-deposit ratio	RMB		90.24	93.81	101.02
	RMB equivalent		64.15	75.34	52.97
	RMB and foreign currency		89.24	93.35	99.19
Liquidity ratio	RMB	≥25	68.72	65.49	61.10
	RMB equivalent	≥25	162.92	303.33	161.26
	RMB and foreign currency	≥25	72.83	70.78	64.43
Loan concentration ratio of the largest single borrower		≤10	2.80	2.83	3.60
Loan concentration ratio of top 10 borrowers			14.12	14.31	17.35

Notes:

1. Core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio, capital adequacy ratio, liquidity coverage ratio and net stable funding ratio were calculated on a consolidated basis under regulatory criteria.

2. Loan-to-deposit ratio, liquidity ratio, leverage ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated on an unconsolidated basis under the regulatory standards.

3. Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%

Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%

2.5 HONORS AND AWARDS

On 10 January 2023,

the Company was named the "Excellent Bond Investment Institution 2022" by Shanghai Stock Exchange at its Outstanding Bond Market Participants Awards 2022.

On 29 March 2023,

the Company's "Hua Xia Bank Fund Supervision Cloud Platform" project won the "2022 Excellent Case of Innovative FinTech Application" at the "Innovation China" FinTech Industry Innovation Forum & Sixth China FinTech Innovation Conference (2022) organized by China Association for Science and Technology (CAST).

On 16 June 2023,

the Company won the "Outstanding Wealth Management Bank Award", "Outstanding Private Banking Award" and "Outstanding Wealth Service Banking Award" at the 2023 China Asset Management and Wealth Management Development Conference & Third 'Golden Reputation Award' ceremony organized by Pystandard.

On 3 August 2023,

at the Banking ESG Development Forum 2023 held by CBIMC, the Company won the "Top 20 Banks by Comprehensive ESG Performance" for its AAA rating, and the Company's "Innovative Financing Project for Air Pollution Control in Beijing-Tianjin-Hebei Region" won the "Annual Model Case of Green Finance in Banking ESG 2023".

During 18 and 19 September 2023,

the Company's "NaaS Capacity Building Project" won the first prize of technological innovation projects, and the "Hua Xia Bank Design Component Library Project" won the second prize, and the "Data Center Network Delay Measurement and Analysis System Development Project" won the innovation award at the "2022 Technological Innovation Awards" of the National IDC Industrial technological Innovation Strategic Alliance (NIISA) released at the 2nd International Internet Industry Technology Innovation Conference.

On 20 October 2023,

in the 2022-2023 information disclosure evaluation of Shanghai-listed companies on the Shanghai Stock Exchange, the Company was given a Grade A (excellent) evaluation result.

On 26 September 2023,

the Company won the "Best Organization Award" at the final of the first "FinTech Talent Competition – Commentators" held by the *Financial Computerizing* magazine.

On 30 November 2023,

at the annual event of the Digital Finance Joint Publicity Year co-sponsored by China Financial Certification Authority (CFCA), Digital Finance Joint Publicity Year and cebnet.com.cn, the Company won the "Most Trusted Award for Mobile Banking" and the "Best Innovation Award for Corporate Digital Finance".

On 11 November 2023,

the Company won the "Best Practice Case" at the "Best Practices of Board of Directors of Listed Companies 2023" event held by China Association of Listed Companies.

On 8 December 2023,

at the 2023 "Digital Intelligence + Industrial Chains + Financial Services" leading practices contest jointly held by the 10000link.com and the International Supply Chain Finance Research Center of Fudan University, the Company won the "Tian Xin Award Leader in Industry-Finance Integration Innovation" in recognition of its innovative achievements in industrial digital finance.

On 15 December 2023,
the Company was named the "Best Bank for Trade Finance" at the China Transaction Banking 50 Forum (CTB50), the 13th (2023) annual selection of the Most Trusted Financial Service Providers for Chinese Economic and Trade Enterprises (Golden Trade Award) held by the Organizing Committee of the Annual Conference of China Transaction Banking.

On 19 December 2023,
at the sixth Annual Financial Business Brand Case Competition sponsored by China Finance, the Company's digital inclusive finance product "Shopping Basket Security Loan" won the "Inclusive Finance Case of the Year", and its "Energy Station" reward points redemption platform won the "Integrated Marketing Case of the Year".

On 20 December 2023,
the Company won the "Bloomberg Green Finance ESG 50 Awards 2023" at the 2023 Bloomberg Green Finance ESG 50 list released by the Bloomberg Green Finance and *Bloomberg Businessweek Chinese Edition*.

On 10 January 2024,
in the "Ten Financial Informatization Events 2023" published by the *Financial Computerizing* magazine, the "quantum advantage established for the first time in the financial sector: quantum computing of investment portfolio optimization solutions outpaces classical computing" proposed by the Company entered the list.

On 12 January 2024,

the Company was named Excellent Acceptor, Excellent Discounting Institution and Excellent Settlement Institution in the 2023 Outstanding Institution Awards held by Shanghai Commercial Paper Exchange.

On 18 January 2024,

the Company was awarded the "Market Influence of the Year" (Core Institutional Investor, Money Market Institutional Investor and Issuer of Interbank Certificates of Deposit" and Market Co-builder) and the "Market Innovation of the Year" ("CFETS Inter-bank Deposits, Bond Issuance, X-Repo and iDeal) by the China Foreign Exchange Trading System (National Interbank Funding Center) in its 2023 high-quality business development evaluation of inter-bank RMB market members.

On 18 January 2024,

at the 2022 FinTech Development Awards held by the People's Bank of China, the "Photonic FinTech Research and Exploration" project proposed by the Company won the second prize, and the "Lakehouse-based Multi-modal Data Value Agile Delivery System Project" won the third prize.

On 30 January 2024,

at the "Banking News of the Year 2023" list published by the China Banking Association, the Hua Xia Bank Financially Empowers High-quality Development of Specialized and Sophisticated Producers of New and Unique Products proposed by the Company won the "Technology Finance News Award".

SECTION III

MANAGEMENT DISCUSSION AND ANALYSIS

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

3.1 BUSINESS OVERVIEW OF THE COMPANY

The Company was founded in October 1992 in Beijing and reorganized into a joint-stock company in April 1996. The Company launched its IPO and went public in September 2003 as China's fifth listed company. As at the end of the reporting period, the Company had set up 44 tier one branches, 78 tier two branches and 982 outlets with 40,300 employees in 120 Chinese cities at prefecture level and above, forming a nationwide service network based on presence in economically central cities. Acting on its five-pronged development philosophy, namely "Innovative, Coordinated, Green, Open and Shared", the Company has defined its ultimate goal as serving the real economy and creating value for customers and shareholders. The Company provides corporate and institutional customers with professional, distinctive and comprehensive financial services, including deposits, loans, investment banking, trade finance, green finance, internet finance and cash management. The Company provides individual customers with diverse financial products and services, including deposits, consumer finance, debit card, credit card, wealth management, private banking, electronic banking and pension finance, to meet individuals' demand for comprehensive financial services. Aiming at operational compliance and innovative development, the Company has continuously pursued coordinated, stable development of financial market, asset management and asset custody, and improved the ability to serve the real economy and customers. Among the Top 1000 World Banks 2022 published by *The Banker* (UK) in July 2023, the Company ranked 46th by tier-1 capital and 60th by total assets.

3.2 IMPLEMENTATION OF THE COMPANY' S DEVELOPMENT STRATEGIES

In the face of a volatile international environment and challenges in the domestic economic recovery, The Company remained guided by the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully studied and implemented the guiding principles of the 20th CPC National Congress, the Second Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference and the Central Financial Work Conference earnestly implemented the decisions and plans of the CPC Central Committee and the State Council, adhered to the general principle of pursuing progress while ensuring stability, applied the new development philosophy in full, in the right way, and in all fields of endeavor in the new development stage. The Company comprehensively deepened the strategic transition in four segments, namely, digitalization, retail banking, corporate banking and financial market business and endeavored to implement the regional strategy of "Three Regions, Two Lines and Multiple Points"[1] and eight key projects including structural adjustment, risk management and institutional reform, advanced the work on reform, development and stability in a coordinated manner and made progress in strategic goals and tasks to schedule with overall good performance.

Overview of strategic transition

Digital transition was carried out across the board to tackle daunting challenges. Digital transition was sped up, with a digital capability evaluation system created to stimulate the potential of digital innovation. Fully harnessing digital operations, the Company built the Hua Xia Treasury Cloud brand, put into operation an enterprise-level digital customer management platform and built an enterprise-level remote banking platform. Full-stack industrial digital finance saw innovative development. The Bank created digital credit-based digital finance products, launched the industrial digital finance credit platform and monitoring and operation platform and released the "Shuyitong" industrial digital finance brand. The Company coordinated efforts to promote the risk control transition to digital intelligence, continued to iteratively upgrade the functions of the big data-based risk identification and warning system, started the construction of an enterprise-level special asset management system and put into production the compliance rule base and compliance graph system. Efforts were made to consolidate data management capabilities, push forward the data standard system building and built an enterprise-level data analysis model management system. The FinTech capacity was steadily enhanced. The Company strengthened the enterprise-level architecture management, successfully built a new-generation agile data delivery system and constructed an enterprise-level comprehensive defense system with three centers in two cities. During the reporting period, the Group's IT investment grew by 4.79% year-on-year, accounting for 4.34% of operating income. Digital lending under industrial digital finance recorded RMB2.678 billion in new lending.

The quality and efficiency of corporate banking transition were improved. The Company embarked on full transition to ecosystem-based customer growth in a push for the "industry + customer" marketing system, implemented the "3-3-1-1"[2] customer strategy in depth and continued to deepen the bank-government cooperation. Corporate deposits archived quality growth, keeping their costs at low levels. Corporate loans kept serving the real economy and stepped up lending to such fields as technological innovation, specialized and sophisticated producers of new and unique products, strategic emerging industries and carbon emission reduction. Investment banking entered the fast track with the mechanisms improved, the organizational push enhanced and the business collaboration deepened, ranking the Company among the top few by size of underwritings. Trade finance advanced with platform-based, scenario-based, online and digital transformation. The Company deepened the green finance development strategy, continued to increase support for green, low-carbon and circular economy, kept innovating products with a focus on green credit, green investment, green leasing, green consumption and carbon finance to promote business development, and strengthened ESG risk management for growing brand influence. At the end of the reporting period, the registered a year-on-year growth of 4.10% in corporate customers and a year-on-year growth of 11.11% in the business scale of investment banking.

Retail banking transition delivered marked results. The retail customer base has grown steadily. The Company built a digital customer service model with improved customer rewards services. The "Splendid Hua Xia" consumer season event was promoted across the country, and the pension finance services with Hua Xia characteristics were provided. The Company enhance the growth sustainability of the personal deposit business, continued to improve the basic product system, improved the efficiency of digital customer service and boosted the professionalism of asset allocation. The personal loan business, well aligned with the national policies, helped keep the residential mortgage business stable, facilitated scenario-based development of consumer credit and strengthened support for consumer finance. The Company systematically advanced the wealth management bank drive by improving the product shelves, optimizing the

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1 Three Regions refer to the Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area. Two Lines refer to the areas along the Beijing-Guangzhou rail line and Beijing-Shanghai rail line. Multiple Points refer to other key areas.

2 "3-3-1-1" broadly refers to the key targeted customer groups of the Company. The numbers stand for over 3,000 domestic A-share listed companies, over 300 high-quality local state-owned enterprises, about 100 centrally controlled businesses, and about 10,000 NEEQ-listed companies and a number of emergency industry leaders.

business systems and enriching asset allocation scenarios. The credit card business developed steadily and transitioned faster to an ecosystem-based mode of development. Innovative scenarios were introduced to stimulate consumer needs and persistently improve the self-service channels. As at the end of the reporting period, the Company recorded a 3.01% year-on-year increase in balance of personal loans (excluding credit cards), a 7.83% year-on-year increase in balance of personal deposits and a 12.33% year-on-year growth in cumulative number of credit cards issued.

The financial market business transition continued to gain steam. The Company continued to shift the financial market business to a capital-light mode. The treasury business dynamically adjusted the trading strategy and the financial institution customer management system was furthered, with the bills trading volume hitting a new high. The asset management business moved faster toward higher-quality development, with the size of products expanding quickly, the investment income continuing to outperform and the expansion of channels gaining pace. The asset custody business continued to improve structurally, the mutual fund custody expanded rapidly and a chain-like development mechanism for customer customers was created. Custody services were further digitally transformed and the capability of professional operations was enhanced. During the reporting period, the Company's RMB and foreign-currency treasury transactions grew by 33.48% from the previous year. The balance of wealth management products rose by 15.30% over the previous year.

Implementation of key projects

The differentiated regional development strategy was furthered. The Company adhered to the regional development strategy of "Three Regions, Two Lines and Multiple Points" and built a new pattern of coordinated regional development led by "Three Regions" and supported by "Two Lines and Multiple Points". The Company went deeper in building "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially", integrated itself into the local mainstream economy and kept providing stronger financial support for the key enterprises, key projects and key fields in the Beijing-Tianjin-Hebei Region. In the Yangtze River Delta, the Company furthered the integration mechanism to strengthen region-wide cooperation. It developed a new competitive edge in "commercial banking + investment banking", fully accessed the consumer finance scenarios in the Yangtze River Delta, expanded the new model of cooperation of intelligence supply chain, built a bridgehead for offshore business and integrated itself deeply into the "Green and Beautiful Yangtze River Delta" drive. The Guangdong-Hong Kong-Macao Greater Bay Area Branch accelerated its development, contributing significantly more to the Bank's operating income and profits. It endeavored to achieve growth in four specialty fields and made key breakthroughs in two major industries, created a new model of bond investment and underwriting collaboration in free trade zones, built a private banking brand in the Greater Bay Area and promoted innovative development of the green finance business. At the end of the reporting period, the Company's outstanding loans at branches in the Three Regions grew by 2.70% over a year ago.

The Company further integrated itself into Beijing' s big picture of development in the new era. The Company signed strategic cooperation agreements with key regions in Beijing, giving an impetus to high-quality development in key parts of the capital city. In support of Beijing-based enterprises and key projects, credit facilities were granted proactively for the headquarters or tier-one core subsidiaries of central SOEs. Tapping into the consumer potential in the capital city, the Company hosted the "Colorful Capital Hua Xia Shopping Festival" and other events during the 2023 Beijing Consumer Season. To help build Beijing into an international sci-tech innovation center, the Company developed a full-chain financial service mechanism and piloted the "Investment-linked Loan" and "Stock Option Loan" products. Serving Beijing's drive for the Model City for Global Digital Economy, the Company launched a new e-CNY, and participated in the pilot program on data elements of the Beijing International Big Data Exchange. The Company took an active part in building the "Two Areas" and "Three Platforms" to develop its unique edge in trade finance services. The quality and effectiveness of inclusive financial services were improved to stoke the rural revitalization in the capital city. The "Provident Fund-Backed Credit" was launched to help improve people's livelihood in Beijing and build a service-oriented government of the capital city.

Continuous improvements were made in the risk and internal control compliance management system. The Company strengthened risk pre-guidance, gave full play to the pivotal role of risk appetite transmission, increased the fine-grained and differentiated level of credit, investment and financing policies, and strengthened the alignment between credit approval guidelines and regional credit strategies. Solid controls were applied to the risk process and credit management process was streamlined, with the split of duties and internal control checks and balances enhanced between account managers and risk managers. The Company accelerated the disposal of outstanding risks, sped up the transition of asset resolution and continued to improve our fine-grained management capabilities and the disposal quality and efficiency of non-performing assets. Risk control was enhanced in key fields and a new system of real estate-related financial services was created to help local governments steadily mitigate risks in outstanding debts. The Company accelerated digital risk control project, iteratively upgraded the enterprise-level big data-based risk identification and warning system, and fully started the development of a special asset management system. To enhance the risk culture development, the "prudent yet enterprising" risk culture was promoted to further foster the correct perceptions of operation, performance and risks. Compliance of operations was increasingly improved by accelerating the compliance system reconstruction and system development, moving due diligence to earlier stages and strengthening the compliance monitoring of early warning.

The market-based mechanisms and systems were improved at a faster pace. The Company adhered to market-oriented development to comprehensively improve management efficiency and business results. A scientific, rational, coordinated and effective mechanism for resource allocation was created to guide key regions, branches, and businesses onto a fast track of development. The Company continued to optimize the collaborative marketing mechanism and formed a routine collaboration mechanism between the Head Office and branches offices, between front, middle and back offices, between business lines, between the parent and subsidiaries and between inside and outside the Group. A new intelligent operations system was built to strengthen intensive operation, improve the digital operations system, promote coordination of channels and create first-class customer experience. The incentive and restraint mechanism was improved and the customer indicators assessment was comprehensively enhanced, so as to shape an assessment and distribution system with value creation at the core and a combination of incentive methods. In an effort to improve the research system, researches were conducted on key topics such as private economy, consumer credit and industrial policies, and forward-looking researches on business trends were carried out. Corporate governance was improved and the organizational structure and responsibilities were optimized. The Head Office's organizational structure adjustment plan was gradually implemented. The talent pool for operation and management was built and the professional development series were developed at a faster pace.

3.3 DISCUSSION AND ANALYSIS OF BUSINESS PERFORMANCE

3.3.1 External environment and industry developments

The year 2023 saw an uneven recovery of the global economy, the biggest seismic shift in the world order in a century, which even gained pace, and frequent occurrence of regional hotspot issues. In such a more complex, grim and uncertain external environment, China managed to fulfill its main objectives and tasks of economic and social development and made solid progress in high-quality development in the year despite a number of difficulties and challenges, including overcapacities in some industries and weak public expectations. Macro policies continued to unleash the synergy of the policy toolkit. The intensity and effectiveness of fiscal policies were enhanced to ensure spending in key areas. Monetary policies were implemented in a targeted and effective way, with required reserve ratios and policy interest rates lowered for multiple times. Financial policies laid greater stress on serving the real economy, forestalling and defusing financial risks and deepening financial reform. Inclusive loans to micro and small businesses grew steadily, financing support was strengthened for technology enterprises and the relending facility for clean and efficient use of coal was further utilized. All-out efforts were made to keep real estate market stable and financial reforms were furthered. The banking industry has generally maintained sound momentum, continued to improve the quality and efficiency of serving the real economy, kept improving the credit supply structure to bolster economic recovery and development, strengthened risk prevention in key areas, advanced digital transformation across the board and explored new paths for transformation and reform.

3.3.2 Overview of the Bank's operating results

During the reporting period, the Company adhered to the general principle of pursuing progress while ensuring stability, endeavored to promote transition, make structural adjustments, enhance performance and prevent risks, and met all operating objectives, making solid headway in high-quality development.

The balance sheet expanded steadily. At the end of the reporting period, the Group's total assets reached RMB4,254.766 billion, an increase of RMB354.599 billion or 9.09% over the end of the previous year; total loans increased by RMB36.61 billion or 1.61% to RMB2,309.583 billion; and deposit balance increased by RMB66.071 billion or 3.20% to RMB2,129.945 billion.

The quality and efficiency of operations were boosted stably. During the reporting period, total profit stood at RMB35.439 billion, a year-on-year increase of RMB1.856 billion or 5.53%. The net profit attributable to shareholders of the listed company was RMB26.363 billion, a year-on-year increase of RMB1.328 billion or 5.30%.

Quality management was markedly effective. As at the end of the reporting period, the Group's balance of NPLs stood at RMB38.505 billion, a decrease of RMB1.365 billion or 3.42% from the end of the previous year. The NPL ratio was 1.67%, down 0.08 percentage points from the end of the previous year.

3.4 INCOME STATEMENT ANALYSIS

During the reporting period, the Group realized net profit of RMB26.845 billion, a growth of RMB1.355 billion or 5.32% over the previous year.

(Unit: RMB1 million)

Item	2023	2022	Increase/ (decrease)	Growth (%)
Operating income	93,207	93,808	-601	-0.64
– Net non-interest income	70,442	74,293	-3,851	-5.18
– Net non-interest income	22,765	19,515	3,250	16.65
Operating expenses	57,764	60,113	-2,349	-3.91
– Tax and surcharges	1,066	1,053	13	1.23
– General and administrative expenses	29,236	28,264	972	3.44
– Impairment losses on credit and other assets	25,967	30,769	-4,802	-15.61
– Other business costs	1,495	27	1,468	5,437.04
Net non-operating income and expenditure	-4	-112	108	N/A
Total profit	35,439	33,583	1,856	5.53
Income tax	8,594	8,093	501	6.19
Net profit	26,845	25,490	1,355	5.32

Extraordinary profit and loss items and amounts

(Unit: RMB1 million)

Item	2023	2022	2021
Profit/loss from the disposal of assets	39	-3	-8
Government subsidies recorded in profit or loss	159	78	92
Other net operating income and expenses	-44	-139	-88
Total extraordinary profit and loss	154	-64	-4
Less: Income tax influence of extraordinary profit and loss	60	34	34
Extraordinary profit and loss, net	94	-98	-38
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	4	1	4
Extraordinary profit and loss attributable to ordinary shareholders of the Company	90	-99	-42

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss (2023 Revision)*.

3.4.1 Operating income

During the reporting period, the Group recorded RMB93.207 billion in operating revenue, of which net interest income accounted for 75.58% and net non-interest income accounted for 24.42%. The table below sets out the composition of operating income of the Group in the past three years.

Item (%)	2023	2022	2021
Net non-interest income	75.58	79.20	83.03
Net fee and commission income	6.87	11.05	9.65
Other net incomes	17.55	9.75	7.32
Total	100.00	100.00	100.00

Breakdown of operating income by geography

(Unit: RMB1 million)

Region	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Beijing-Tianjin-Hebei Region	36,777	7.46	9,647	11.50
Yangtze River Delta	20,268	-5.41	12,241	-1.15
Guangdong-Hong Kong-Macao Greater Bay Area	6,530	2.61	2,195	-31.79
Central and Eastern China	11,501	-8.61	3,493	244.82
Western China	10,127	-11.25	4,596	-20.70
Northeastern China	1,355	-23.19	96	N/A
Subsidiaries	7,280	20.57	3,804	-7.29
Offset among segments	-631	N/A	-629	N/A
Total	93,207	-0.64	35,443	5.19

During the reporting period, there were no major changes in profit composition, principal operation and structure, or profitability of principal operation from the previous reporting period.

3.4.2 Net non-interest income

During the reporting period, the Group realized net interest income of RMB70.442 billion. The table below sets out the average balances and average interest rates of the Group's interest-earning assets and interest-bearing liabilities.

Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

	2023			2022		
Item	Average balance	Interest	Average interest rate (%)	Average balance	Interest	Average interest rate (%)
Interest-generating assets:						
Loans and advances to customers	2,271,112	107,644	4.74	2,223,454	107,894	4.85
Balances with central banks	171,455	2,545	1.48	175,279	2,570	1.47
Peer assets	215,015	4,702	2.19	219,643	4,816	2.19
Financial investments	1,217,919	40,720	3.34	916,982	36,035	3.93
Total interest-generating assets	3,875,501	155,611	4.02	3,535,358	151,315	4.28
Interest-bearing liabilities:						
Deposits taken	2,073,981	42,748	2.06	2,029,335	41,241	2.03
Due to central banks	134,173	3,568	2.66	122,998	3,626	2.95
Debt obligations payable	576,172	15,443	2.68	533,441	14,752	2.77
Peer liabilities and others	1,004,396	23,410	2.33	803,976	17,403	2.16
Total interest-bearing liabilities	3,788,722	85,169	2.25	3,489,750	77,022	2.21
Net non-interest income		70,442			74,293	
Net interest spread			1.77			2.07
Net interest margin			1.82			2.10

The table below sets out the changes in the Group's net interest income resulting from changes in the scale and interest rate factors.

(Unit: RMB1 million)

Item	2023 over 2022		
	Scale change	Scale change	Total
Interest-generating assets:			
Loans and advances to customers	2,313	-2,563	-250
Balances with central banks	-56	31	-25
Peer assets	-101	-13	-114
Financial investments	11,826	-7,141	4,685
Change of interest income	**13,982**	**-9,686**	**4,296**
Interest-bearing liabilities:			
Deposits taken	907	600	1,507
Due to central banks	329	-387	-58
Debt obligations payable	1,182	-491	691
Peer liabilities and others	4,338	1,669	6,007
Change of interest expenses	**6,756**	**1,391**	**8,147**
Change of net interest income	**7,226**	**-11,077**	**-3,851**

3.4.2.1 Interest income

For the reporting period, the Group realized net interest income of RMB155.611 billion, a growth of RMB4.296 billion or 2.84% over last year.

(Unit: RMB1 million)

Item	2023	Percentage (%)	% change	2022
Interest income from loans and advances to customers	107,644	69.18	-0.23	107,894
Interest income from financial investments	40,720	26.16	13.00	36,035
Interest income on due from central banks	2,545	1.64	-0.97	2,570
Interest income from interbank business	4,702	3.02	-2.37	4,816
Total	**155,611**	**100.00**	**2.84**	**151,315**

Interest income from loans and advances to customers

The Group realized RMB107.644 billion of interest income from loans and advances to customers for the reporting period, a decrease of RMB250 million or 0.23% from last year, primarily because of a lower average rate of return on loans and advances to customers. The table below sets out the average balances and average interest rates of the Group's interest income from loans and advances to customers by business type and maturity structure.

By business type

(Unit: RMB1 million)

	2023			2022		
Category	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
Corporate loans	1,569,453	65,687	4.19	1,562,581	69,263	4.43
Personal loans	701,659	41,957	5.98	660,873	38,631	5.85
Total	2,271,112	107,644	4.74	2,223,454	107,894	4.85

Note: Corporate loans include discounted bills.

By maturity structure

(Unit: RMB1 million)

	2023			2022		
Category	Average balance	Interest income	Average interest rate (%)	Average balance	Interest income	Average interest rate (%)
General short-term loans	765,179	37,258	4.87	777,299	34,521	4.44
Medium and long-term loans	1,505,933	70,386	4.67	1,446,155	73,373	5.07
Total	2,271,112	107,644	4.74	2,223,454	107,894	4.85

Note: General short-term loans include discounted bills.

Interest income from financial investments

During the reporting period, the Group recorded RMB40.72 billion in interest income from financial investments, up RMB4.685 million or 13.00% from the previous year, mainly due to the expansion of financial investments.

Interest income on due from central banks

The Group's interest income on due from central banks for the reporting period stood at RMB2.545 billion, a drop of RMB25 million or 0.97% from last year, mainly due to the decrease in balances with central banks.

Interest income from interbank business

During the reporting period, the Group recorded RMB4.702 billion in interest income from interbank business, down RMB114 million or 2.37% from the previous year, mainly due to the contraction in interbank business.

3.4.2.2 Interest expenses

During the reporting period, the Group recorded RMB85.169 billion in interest expenses, up RMB8.147 billion or 10.58% year-on-year, primarily because of the expansion of interest-bearing liabilities.

Interest expenses on deposits taken

During the reporting period, the Group's interest expense on deposits taken was RMB42.748 billion, an increase of RMB1.507 billion or 3.65% over last year, mainly due to expansion in deposits at basically stable costs.

(Unit: RMB1 million)

	2023			2022		
Category	Average balance	Interest expense	Average interest rate (%)	Average balance	Interest expense	Average interest rate (%)
Corporate demand deposits	564,360	6,317	1.12	585,894	6,287	1.07
Corporate time deposits	1,003,374	25,994	2.59	1,009,379	25,777	2.55
Personal demand deposits	140,122	295	0.21	134,774	377	0.28
Personal time deposits	366,125	10,142	2.77	299,288	8,800	2.94
Total	2,073,981	42,748	2.06	2,029,335	41,241	2.03

Interest expenses on due to central banks

During the reporting period, the Group's interest expenses on amounts due to central banks were RMB3.568 billion, a decrease of RMB58 million or 1.60% from last year, mainly because of the decline in amounts due to central banks and a lower average cost ratio.

Interest expenses on debt obligations payable

During the reporting period, the Group recorded RMB15.443 billion in interest expenses on debt obligations payable, an increase of RMB691 million or 4.68% over the previous year, mainly due to a larger size of debt obligations payable.

Peer liabilities and other interest expenses

During the reporting period, the Group recorded RMB23.41 billion in interest expenses on peer liabilities and others, an increase of RMB6.007 billion or 34.52% from the previous year, mainly due to the rise in the size and average cost ratio of interbank liabilities.

3.4.3 Net non-interest income

(Unit: RMB1 million)

Item	2023	2022	Increase/ (decrease)	Growth (%)
Net fee and commission income	6,402	10,369	-3,967	-38.26
Investment loss/(gain)	9,425	6,247	3,178	50.87
Gains on changes in fair value	2,609	2,161	448	20.73
Exchange gains	548	144	404	280.56
Other operating income	3,623	546	3,077	563.55
Gains on asset disposal	39	-3	42	N/A
Other income	119	51	68	133.33
Total	22,765	19,515	3,250	16.65

3.4.3.1 Net fee and commission income

During the reporting period, the Group realized net fee and commission income of RMB6.402 billion, a decrease of RMB3.967 billion or 38.26% from last year, primarily because of the decline in income on agency business.

(Unit: RMB1 million)

	2023			2022	
Item	Amount	Percentage (%)	% change	Amount	Percentage (%)
Bank card business	4,991	42.96	-4.55	5,229	36.54
Agency business	2,528	21.76	-46.29	4,707	32.90
Credit commitments	1,597	13.74	-28.80	2,243	15.68
Custody and other fiduciary services	815	7.01	-2.86	839	5.86
Other business	1,688	14.53	30.75	1,291	9.02
Total fee and commission income	11,619	100.00	-18.80	14,309	100.00
Less: Fee and commission expenses	5,217	–	32.41	3,940	–
Net fee and commission income	6,402	–	-38.26	10,369	–

3.4.3.2 Investment income, and gains on changes in fair value and exchange gain

During the reporting period, the Group recorded RMB12.582 billion in investment income, gains on changes in fair value and exchange gain, up RMB4.03 billion or 47.12% from last year, mainly due to increase in investment income.

3.4.4 General and administrative expenses

During the reporting period, the Group recorded RMB29.236 billion in general and administrative expenses, a growth of RMB972 million or 3.44% over the previous year, mainly due to the increase in insurance, annuity and provident fund contributions and the increase in depreciations and amortizations. At the end of the reporting period, the cost-to-income ratio was 31.37%, a year-on-year increase of 1.24 percentage points.

(Unit: RMB1 million)

Item	2023			2022	
	Amount	Percentage (%)	% change	Amount	Percentage (%)
Staff remuneration and welfare	16,174	55.32	3.22	15,669	55.43
Business expenses	8,446	28.89	2.81	8,215	29.07
Depreciation and amortization	4,616	15.79	5.39	4,380	15.50
Total	29,236	100.00	3.44	28,264	100.00
Cost-to-income ratio, %		31.37	Up 1.24 percentage points		30.13

3.4.5 Impairment losses on credit and other assets

During the reporting period, the Group's impairment losses on credit and other assets totaled RMB25.967 billion, a decrease of RMB4.802 billion or 15.61% from the previous year, mainly due to the drop in allowance for impairment losses on financial investments. The table below sets forth the composition of the Group's impairment losses on credit and other assets and the changes.

(Unit: RMB1 million)

Item	2023	2022	Increase/ (decrease)	Growth (%)
Loans and advances to customers	25,520	26,992	-1,472	-5.45
Financial investments	-1,383	3,274	-4,657	-142.24
Interbank business	30	178	-148	-83.15
Projected liabilities	-1,015	91	-1,106	-1,215.38
Others	2,815	234	2,581	1,102.99
Total	25,967	30,769	-4,802	-15.61

3.4.6 Income tax expense

(Unit: RMB1 million)

Item	2023	2022
Pre-tax profit	35,439	33,583
Income tax at statutory tax rate of 25%	8,860	8,396
Plus: Tax effect of non-deductible expense	3,675	3,577
Less: Tax effect of tax-exempt income	3,516	3,473
Less: Effect of different tax rates applicable to subsidiaries	425	407
Total	8,594	8,093

3.5 BALANCE SHEET ANALYSIS

3.5.1 Analysis of assets

As at the end of the reporting period, the Group recorded total assets of RMB4,254.766 billion, an increase of RMB354.599 billion or 9.09% from the end of the previous year, mainly due to increase in the Group's loans and advances to customers and financial investments.

(Unit: RMB1 million)

	End of 2023		End of 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Loans and advances to customers	2,256,596	53.04	2,217,691	56.86
Financial investments	1,605,288	37.73	1,294,931	33.20
Cash on hand and balances with central banks	202,434	4.76	175,383	4.50
Due from and placements with banks and other financial institutions	68,072	1.60	75,511	1.94
Financial assets purchased under agreements to resell	20,157	0.47	58,442	1.50
Others	102,219	2.40	78,209	2.00
Total	4,254,766	100.00	3,900,167	100.00

Note: Including derivative financial assets, fixed assets, right-of-use assets, intangible assets, deferred income tax assets and other assets.

Overseas assets

At the end of the reporting period, the Group had RMB83.565 billion of overseas assets, accounting for 1.36% of total assets.

3.5.1.1 Loans and advances to customers

At the end of the reporting period, the Group recorded RMB2,309.583 billion in total loans and advances to customers, up RMB36.61 billion or 1.61% over the end of the previous year. For details of the Group's loans and advances to customers, please refer to the "3.8 Loan Quality Analysis".

3.5.1.2 Financial investments

As at the end of the reporting period, the Group recorded RMB1,598.742 billion total financial investments, growing by RMB300.263 billion or 23.12% over the end of the previous year, mainly due to increase in the bond investment and fund investment. The table below shows the proportional mix of the Group's financial investments by product.

(Unit: RMB1 million)

	End of 2023		End of 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Bond investment	1,153,977	72.18	777,295	59.86
Fund investments	194,767	12.18	147,778	11.38
Asset management plan of financial institutions	145,590	9.11	261,928	20.17
Beneficiary rights of assets and others	31,789	1.99	25,526	1.97
Certificates of deposit with banks and other financial institutions	28,057	1.75	23,263	1.79
Equity investment	6,489	0.41	7,131	0.55
Debt financing plans	38,073	2.38	55,558	4.28
Total	1,598,742	100.00	1,298,479	100.00
Plus: Accrued interest	19,450	–	13,467	–
Less: Allowances for impairment losses on debt investments	12,904	–	17,015	–
Total	1,605,288	–	1,294,931	–

Financial bonds held

(Unit: RMB1 million)

	End of 2023		End of 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Financial bonds of policy banks	20,176	50.99	172,171	67.72
Financial bonds of commercial banks	10,256	25.92	74,267	29.21
Non-banking financial bonds	9,134	23.09	7,805	3.07
Total	39,566	100.00	254,243	100.00

Of which, material financial bonds:

(Unit: RMB1 million)

Bond Name	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses
Bond 1	7,540	3.07	2030-03-10	–
Bond 2	3,390	2.82	2033-05-22	–
Bond 3	3,240	3.22	2026-05-14	–
Bond 4	3,030	3.26	2027-02-24	–
Bond 5	3,020	3.23	2025-01-10	–
Bond 6	2,980	4.65	2028-05-11	–
Bond 7	2,820	3.45	2029-09-20	–
Bond 8	2,810	3.09	2024-06-18	–
Bond 9	2,800	3.12	2031-09-13	–
Bond 10	2,720	2.93	2025-03-02	–

3.5.1.3 Derivative financial instruments

(Unit: RMB1 million)

	End of 2023			End of 2022		
	Contractual/ nominal	Fair value		Contractual/ nominal	Fair value	
Item	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange forwards	20,460	285	257	47,252	1,215	1,228
Foreign exchange swaps	432,676	2,943	2,913	385,128	5,989	4,847
Interest rate swaps	133,934	398	550	35,281	49	32
Option contracts	88,210	177	172	90,315	252	252
Credit risk mitigation warrants	260	–	8	–	–	–
Total		3,803	3,900		7,505	6,359

3.5.1.4 Financial assets purchased under agreements to resell

(Unit: RMB1 million)

Item	End of 2023 Amount	End of 2023 Percentage (%)	End of 2022 Amount	End of 2022 Percentage (%)
Bonds	1,000	4.89	37,266	63.64
Bills	17,832	87.28	21,293	36.36
Certificates of deposit with banks and other financial institutions	1,599	7.83	–	–
Total	20,431	100.00	58,559	100.00
Plus: Accrued interest	33	–	190	–
Less: Allowance for impairment losses	307	–	307	–
Total	20,157	–	58,442	–

3.5.1.5 Cash on hand and balances with central banks

At the end of the reporting period, the Group recorded RMB202.434 billion in cash on hand and balances with central banks, an increase of RMB27.051 billion or 15.42% from the end of the previous year, mainly due to appropriate increase in excess reserves to meet the liquidity security and normal payment and clearing needs.

3.5.1.6 Due from and placements with banks and other financial institutions

At the end of the reporting period, the Group registered RMB68.072 billion in due from banks and placements with banks and other financial institutions, a decrease of RMB7.439 billion or 9.85% from the end of the previous year, mainly because non-renewal of matured borrowings by banks and other financial institutions.

3.5.2 Liability analysis

As at the end of the reporting period, the Group recorded total liabilities of RMB3,933.004 billion, up RMB356.159 billion or 9.96% from the end of the previous year, primarily due to the increase in deposits taken, financial assets sold under agreements to repurchase and debt obligations payable. The table below shows the proportional mix of the Group's main liability items.

(Unit: RMB1 million)

Item	End of 2023 Amount	End of 2023 Percentage (%)	End of 2022 Amount	End of 2022 Percentage (%)
Due to central banks	153,561	3.90	100,836	2.82
Deposits taken	2,165,881	55.07	2,094,669	58.56
Due to and placements from banks and other financial institutions	781,427	19.87	726,799	20.32
Financial assets sold under agreements to repurchase	202,827	5.16	73,631	2.06
Debt obligations payable	592,643	15.07	530,397	14.83
Others	36,665	0.93	50,513	1.41
Total	3,933,004	100.00	3,576,845	100.00

Note: Others include derivative financial liabilities, staff remunerations payable, tax and fee payable, lease liabilities, projected liabilities and other liabilities.

Liability quality management system and quality of liabilities

The Company attaches great importance to liability quality management and has in place a liability quality management system appropriate for the Company's size and complexity of liabilities. First, the organizational structure has been improved. The Board of Directors takes the ultimate responsibility for liability quality management and supervises the senior management to effectively manage and control the quality of liabilities. The Senior Management organizes the implementation of liability quality management. Line management departments and branches perform the functions of decision-making, execution and supervision of liability quality management within their respective sphere of responsibility. Second, a system of policies and procedures encompassing strategies, policies, processes, limits and contingency plans and covering the parent bank, subsidiaries and domestic and overseas branches has been established to clarify management responsibilities, procedures and methods. The liability quality metrics are in place to monitor and manage the liability business with a full range of factors, under multiple dimensions and throughout the process. Third, the internal control system for liability quality management has been refined. The Company strictly follows relevant laws and regulations and internal policies and procedures, and optimizes the performance assessment system, intensifies internal auditing of liability quality management, highlights the compliance management and risk management requirements and ensures the effective operation of the liability quality management system. Fourth, an information management system is continuously improved to provide strong support and guarantee for day-to-day monitoring, measurement, control, analysis and reporting.

During the reporting period, the Company actively implemented the development plan and the asset and liability management strategy to keep stabilizing and diversifying the sources of liabilities. The organization of deposit taking was enhanced, the proportion of deposits increased and the structure of deposits improved. Financing channels were expanded in a proactive manner to replenish funds with various maturities by issuing bonds, certificates of deposit with banks and other financial institutions, etc. in alignment with the structured monetary policy instruments, diversifying the sources of funds. Policy and market developments were closely watched to ensure well-timed adjustments to the structure and maturity of liabilities and strengthen cost control. The structural matching of assets and liabilities was strengthened to strike a balance between safety, liquidity and profitability. The management information system was improved, with the asset and liability management digitally transformed to effectively support liability quality management. Laws and regulations were strictly followed to ensure authenticity and compliance of the liability business. In 2023, the Company saw solid growth of total liabilities with an improved structure, reasonable costs and steady liquidity, manifesting compliance with regulatory requirements.

Next, the Company will continue to strengthen the liability quality management and enrich management tools to boost the quality and efficiency of the liability business and ensure its compliance and robustness in development.

3.5.2.1 Deposits taking

As at the end of the reporting period, the Group recorded RMB2,129.945 billion in total deposits taken, up RMB66.071 billion or 3.20% over the end of the previous year.

(Unit: RMB1 million)

	End of 2023		End of 2022	
Item	Amount	Percentage (%)	Amount	Percentage (%)
Corporate demand deposits	601,442	28.24	569,550	27.60
Corporate time deposits	888,342	41.70	747,659	36.22
Personal demand deposits	144,310	6.78	137,877	6.68
Personal time deposits	368,465	17.30	337,846	16.37
Other deposits	127,386	5.98	270,942	13.13
Total	2,129,945	100.00	2,063,874	100.00
Plus: Accrued interest	35,936	–	30,795	–
Total	2,165,881	–	2,094,669	–

Note: Other deposits include security deposit received, outward remittance, remittances outstanding and others.

3.5.2.2 Financial assets sold under agreements to repurchase

(Unit: RMB1 million)

Item	End of 2023 Amount	End of 2023 Percentage (%)	End of 2022 Amount	End of 2022 Percentage (%)
Bonds	202,261	99.76	72,295	98.28
Bills	488	0.24	1,266	1.72
Total	202,749	100.00	73,561	100.00
Plus: Accrued interest	78	–	70	–
Total	202,827	–	73,631	–

3.5.3 Changes in shareholders' equity

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained profit	Minority interests	Total shareholders' equity
1 January 2023	15,915	59,971	60,759	-1,581	21,909	47,124	116,360	2,865	323,322
Increase in the reporting period	–	–	–	778	2,210	1,655	26,363	482	31,488
Decrease in the reporting period	–	19,978	22	–	–	–	12,884	164	33,048
31 December 2023	15,915	39,993	60,737	-803	24,119	48,779	129,839	3,183	321,762

Reasons for changes in shareholders' equity:

1. Decrease in "other equity instruments" and "capital reserve" was due to redemption of preference shares by the Company during the reporting period.

2. Increase in "other comprehensive income" mainly results from the changes in fair value of other debt investments and other equity instrument investments during the reporting period.

3. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve, distributed cash dividends to all of the shareholders and paid interest to holders of perpetual bonds, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased in the reporting period.

4. The increase of "retained profit" is mainly due to the realization of net profit of the Group during the reporting period.

5. The increase of "minority interests" is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period, and the decrease in "minority interests" is due to cash dividend payout by non-wholly-controlled subsidiaries of the Group during the reporting period.

3.6 CASH FLOW STATEMENT ANALYSIS

Net cash inflows from operating activities

The Group's net cash inflows from operating activities registered RMB253.177 billion, up RMB174.202 billion or 220.58% over last year, mainly due to the increase in placements from banks and other financial institutions, financial assets sold under agreements to repurchase and due to central banks.

Net cash outflows from investing activities

The Group's net cash outflows from investing activities registered RMB267.748 billion, an increase of RMB181.418 billion or 210.14% from last year, mainly due to more cash disbursements on investments.

Net cash inflows from financing activities

The Group's net cash inflows from financing activities registered RMB28.722 billion, up RMB9.214 billion or 47.23% over last year, mainly due to the increase in cash receipts from issuance of securities.

3.7 MAIN ITEMS WITH OVER 30% CHANGES IN THE COMPARATIVE ACCOUNTING STATEMENTS

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/ decrease compared with the end of previous year (%)	Main reason
Derivative financial assets	3,803	-49.33	Decrease in FX swap derivative financial assets
Financial assets purchased under agreements to resell	20,157	-65.51	Decrease in bonds purchased under agreements to resell
Debt investments	986,805	45.09	Increase in bond investment
Fixed assets	55,395	103.43	Increase in operating lease commitments
Due to central banks	153,561	52.29	Increase in mid-term credit facility
Derivative financial assets	3,900	-38.67	Decrease in FX swap derivative financial liabilities
Financial assets sold under agreements to repurchase	202,827	175.46	Increase in bonds sold under agreements to repurchase
Taxes and dues payable	3,464	-56.79	Decrease in corporate income tax payable
Projected liabilities	1,437	-41.37	Decrease in allowance for impairment losses on credit commitments
Other equity instruments	39,993	-33.31	Redemption of preference shares
Other comprehensive income	-803	N/A	Changes in fair value of other debt investments and other equity instrument investments

(Unit: RMB1 million)

Major accounting item	Reporting period	% change	Main reason
Net fee and commission income	6,402	-38.26	Decrease in fee and commission income on agency business
Fee and commission expenses	5,217	32.41	Increase in fee and commission expenses
Investment loss/(gain)	9,425	50.87	Increase in investment gain on held-for-trading financial assets and derivative financial instruments
Exchange gains	548	280.56	Increase in gains on foreign exchange settlement and sale
Other operating income	3,623	563.55	Increase in leasing gains
Profit/loss from the disposal of assets	39	N/A	Increase in profit/loss from the disposal of assets
Other income	119	133.33	Increased income on government subsidies for operating activities
Other impairment losses on assets	666	1,750.00	Increase in repossessed assets and operating lease commitments
Other business costs	1,495	5,437.04	Increase in other business costs
Non-operating expenses	170	-46.03	Decrease in non-operating expenses

3.8 LOAN QUALITY ANALYSIS

3.8.1 Loan risk classification

In accordance with the *Rules on Risk Classification of Financial Assets of Commercial Banks* issued by the former CBIRC and PBOC, the Group classified loans into five categories according to risk level, namely, pass, special mention, substandard, doubtful and loss, of which pass and special mention loans are regarded performing, while the last three categories are regarded as non-performing loans.

As at the end of the reporting period, the balance and share of the last four categories of loans at the Group were down from the previous year. The balance of special mention loans stood at RMB63.231 billion, a decrease of RMB46 million over the end of the previous year, and accounted for 2.74% of total loans, down 0.04 percentage points from the end of the previous year. The balance of NPLs stood at RMB38.505 billion, down RMB1.365 billion over the end of the previous year, and accounted for 1.67% of total loans, down 0.08 percentage points from the end of the previous year.

(Unit: RMB1 million)

	End of 2023			End of 2022	
Item	Balance	Percentage (%)	Increase/ decrease compared with the end of previous year (%)	Balance	Percentage (%)
Performing loans	2,207,847	95.59	1.75	2,169,826	95.47
Special-mention loans	63,231	2.74	-0.07	63,277	2.78
Substandard loans	16,580	0.72	-4.43	17,348	0.76
Doubtful loans	10,937	0.47	0.19	10,916	0.48
Loss	10,988	0.48	-5.32	11,606	0.51
Total	2,309,583	100.00	1.61	2,272,973	100.00
Performing loans	2,271,078	98.33	1.70	2,233,103	98.25
NPLs	38,505	1.67	-3.42	39,870	1.75

3.8.2 Distribution of loans and NPLs by product type

As at the end of the reporting period, the Group's balance of corporate loans recorded RMB1,487.926 billion, an increase of RMB42.215 billion or 2.92% over the end of the previous year. The balance of personal loans reached RMB724.87 billion, an increase of RMB17.869 billion or 2.53% over the end of the previous year. The balance of discounted bills was RMB96.787 billion, a decrease of RMB23.474 billion or 19.52%. Specifically, the balance of corporate NPLs stood at RMB26.241 billion, down RMB2.971 billion, representing a NPL ratio of 1.76%, down 0.26 percentage points over the end of the previous year. The balance of personal NPLs stood at RMB12.264 billion, up RMB1.606 billion, representing a NPL ratio of 1.69%, up 0.18 percentage points from the end of the previous year.

(Unit: RMB1 million)

	End of 2023				End of 2022			
Product type	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Corporate loans	1,487,926	64.42	26,241	1.76	1,445,711	63.61	29,212	2.02
Personal loans	724,870	31.39	12,264	1.69	707,001	31.10	10,658	1.51
Discounted bills	96,787	4.19	–	–	120,261	5.29	–	–
Total	2,309,583	100.00	38,505	1.67	2,272,973	100.00	39,870	1.75

3.8.3 Distribution of loans and NPLs by industry

During the reporting period, the Group actively implemented economic development policies and regulatory requirements of the State, firmly grasped the requirements of high-quality financial development, adhered to the original aspiration of financially serving the real economy and continued to support the development of the real economy. With risks controlled, the Group continued to adjust and improve its asset structure to better serve the real economy. As of the end of the reporting period, the Group recorded a relatively fast growth in loans to manufacturing, the transportation, warehousing and post industry and the electric power, heat, gas and water production and supply industry, which grew by 10.07%, 8.88% and 6.40% over the end of the previous year, respectively.

As at the end of the reporting period, manufacturing, wholesale & retail and real estate pooled most of the Group's NPLs, collectively accounting for 35.94% of the Group's total NPLs, down 4.99 percentage points from the end of the previous year. Specifically, the asset quality indicators of manufacturing, wholesale and retail showed improvements when compared with the end of the previous year. The balance of NPLs in the two industries decreased by RMB3,164 million and RMB431 million, respectively, and the NPL ratio fell by 1.70 and 0.23 percentage points compared with the end of the previous year, respectively. During the reporting period, the real estate industry saw a rise in NPL ratio due to industry risks and other factors. The electric power, heat, gas and water production and supply industry also saw an increase in NPL ratio from the end of the previous year due to risk exposures of a few existing customers.

(Unit: RMB1 million)

	End of 2023				End of 2022			
Industry	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Leasing and commercial services	451,697	19.56	1,596	0.35	431,098	18.97	1,951	0.45
Manufacturing	234,265	10.14	4,855	2.07	212,827	9.36	8,019	3.77
Water conservancy, environment and public facilities management	143,314	6.21	516	0.36	152,195	6.70	1,458	0.96
Wholesale and retail	136,057	5.89	4,914	3.61	139,364	6.13	5,345	3.84
Construction industry	105,762	4.58	2,710	2.56	104,395	4.59	3,396	3.25
Real estate	96,736	4.19	4,071	4.21	109,219	4.81	2,956	2.71
Electric power, heat, gas and water production and supply industry	68,781	2.98	1,511	2.20	64,644	2.84	502	0.78
Transportation, warehousing and post industry	65,982	2.86	1,358	2.06	60,599	2.67	1,479	2.44
Financial services	55,164	2.39	48	0.09	43,655	1.92	291	0.67
Mining industry	32,390	1.40	1,782	5.50	30,991	1.36	2,027	6.54
Other corporate industries	97,778	4.22	2,880	2.95	96,724	4.26	1,788	1.85
Discounted bills	96,787	4.19	–	–	120,261	5.29	–	–
Personal loans	724,870	31.39	12,264	1.69	707,001	31.10	10,658	1.51
Total	2,309,583	100.00	38,505	1.67	2,272,973	100.00	39,870	1.75

Note: Other corporate industries mainly comprise agriculture, forestry, animal husbandry and fishery, information transmission, software and IT services, accommodation and catering, culture, sports and recreation, etc.

3.8.4 Distribution of loans and NPLs by geographical area

During the reporting period, the Group continued to implement the differentiated regional development strategy of "Three Regions, Two Lines and Multiple Points". Led by "Three Regions" and bolstered by "Two Lines and Multiple Points", the Company strengthened tiered management of regional branches and identified priorities of regional development in line with China's major regional strategies and regional reality and industrial characteristics, so as to boost the development of market entities, further fortify the foundation for regional business management and promote high-quality development of regional assets.

At the end of the reporting period, the Group recorded RMB2,309.583 billion in total loans and advances to customers, up RMB36.61 billion or 1.61% over the end of the previous year. By total size, the Yangtze River Delta, the Beijing-Tianjin-Hebei Region and Central and Eastern China were the top three regions by outstanding loans, which were RMB690.854 billion, RMB560.832 billion and RMB354.765 billion, accounting for 29.91%, 24.28% and 15.36%, respectively. By growth rate, the Group recorded faster growth in loans for the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, which reached 4.40% and 4.38%, up 0.30 percentage points and 0.79 percentage points, respectively.

At the end of the reporting period, the Beijing-Tianjin-Hebei Region and the Guangdong-Hong Kong-Macao Greater Bay Area saw a rise in the regional NPL ratio. The Beijing-Tianjin-Hebei Region's NPL ratio rose by 0.75 percentage points from the end of the previous year to 3.57%. The Guangdong-Hong Kong-Macao Greater Bay Area's NPL ratio rose 0.40 percentage points from the end of the previous year to 1.23%. Other regions saw a decline in the regional NPL ratio.

(Unit: RMB1 million)

	End of 2023				End of 2022			
Geographical area	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Beijing-Tianjin-Hebei Region	560,832	24.28	20,003	3.57	560,897	24.68	15,841	2.82
Yangtze River Delta	690,854	29.91	5,086	0.74	661,870	29.12	6,043	0.91
Guangdong-Hong Kong-Macao Greater Bay Area	252,791	10.95	3,102	1.23	242,127	10.65	2,017	0.83
Central and Eastern China	354,765	15.36	4,692	1.32	345,359	15.19	7,793	2.26
Western China	284,608	12.32	2,907	1.02	284,960	12.54	3,804	1.33
Northeastern China	50,421	2.19	900	1.78	60,426	2.66	2,969	4.91
Subsidiaries	115,312	4.99	1,815	1.57	117,334	5.16	1,403	1.20
Total	2,309,583	100.00	38,505	1.67	2,272,973	100.00	39,870	1.75

3.8.5 Distribution of loans and NPLs by guarantee type

At the end of the reporting period, the Group kept the security structure of loans basically stable. Its unsecured loans accounted for 27.77%, up 3.00 percentage points over the end of last year; its guaranteed loans took a 30.15% share, up 0.56 percentage points from the end of last year; and its collateral-backed loans made up 42.08%, down 3.56 percentage points from the end of last year.

(Unit: RMB1 million)

	End of 2023				End of 2022			
Guarantee method	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)	Balance	Percentage (%)	Balance of NPLs	NPL ratio (%)
Unsecured loans	641,308	27.77	8,602	1.34	563,093	24.77	8,770	1.56
Guaranteed loans	696,231	30.15	9,541	1.37	672,486	29.59	13,307	1.98
Collateral loans	972,044	42.08	20,362	2.09	1,037,394	45.64	17,793	1.72
– Mortgage loans	713,081	30.87	16,501	2.31	735,100	32.34	14,238	1.94
– Pledged loans	258,963	11.21	3,861	1.49	302,294	13.30	3,555	1.18
Total	2,309,583	100.00	38,505	1.67	2,272,973	100.00	39,870	1.75

3.8.6 Distribution of loans by overdue period

As at the end of the reporting period, the balance of overdue loans at the Group was RMB45.307 billion, with a ratio of 1.96%. Specifically, loans overdue for up to 90 days amounted to RMB12.019 billion, accounting for 0.52%, and loans overdue for more than 90 days stood at RMB33.288 billion, accounting for 1.44%. The Group adopted prudential classification standards for overdue loans. At the end of the reporting period, the Group's loans overdue for more than 90 days and NPLs accounted for 86.45% of total overdue loans, staying within 100%.

(Unit: RMB1 million)

	End of 2023		End of 2022	
Item	Balance	Percentage (%)	Balance	Percentage (%)
Performing loans	2,264,276	98.04	2,230,537	98.13
Overdue loans	45,307	1.96	42,436	1.87
Of which: Overdue for 1 day to 90 days (inclusive)	12,019	0.52	10,897	0.48
Overdue for 91 to 360 days (inclusive)	20,023	0.87	13,335	0.59
Overdue for 361 days to 3 years (inclusive)	10,061	0.43	13,719	0.60
Overdue for more than 3 years	3,204	0.14	4,485	0.20
Total	2,309,583	100.00	2,272,973	100.00
Overdue for more than 90 days	33,288	1.44	31,539	1.39

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

3.8.7 Restructured loans

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB7.63 billion, an increase of RMB4.968 billion and accounting for 0.33%, up 0.21 percentage points over the end of the previous year.

(Unit: RMB1 million)

Item	End of 2023		End of 2022	
	Amount	Percentage in total loans (%)	Amount	Percentage in total loans (%)
Restructured loans	7,630	0.33	2,662	0.12

3.8.8 Particulars of top 10 borrowers

During the reporting period, the Company strictly controlled the loan concentration risk. The balance of top 10 borrowers amounted to RMB49.13 billion, accounting for 2.24% of total loans and 14.12% of net capital at the end of the period, respectively. The balance of single largest legal-person customer loans of the Company was RMB9.75 billion, accounting for 0.44% of total loans of the Company at the end of the reporting period and 2.80% of net capital.

(Unit: RMB1 million)

Item	End of 2023		End of 2022	
	Balance	Percentage in total loans (%)	Balance	Percentage in total loans (%)
Top 10 borrowers	49,130	2.24	50,465	2.34

3.8.9 Loan migration

Item (%)	End of 2023	End of 2022	End of 2021
Performing loan migration ratio	1.52	1.37	1.77
Special-mention loan migration ratio	29.37	29.38	33.00
Substandard loan migration ratio	66.76	53.89	71.97
Doubtful loan migration ratio	67.10	50.96	50.66

3.8.10 Basic Information on repossessed assets

As at the end of the reporting period, the book balance of repossessed assets of the Group amounted to RMB1.923 billion, down RMB226 million from the end of the previous year.

(Unit: RMB1 million)

Item	End of 2023 Amount	End of 2023 Allowance for impairment losses	End of 2022 Amount	End of 2022 Allowance for impairment losses
Repossessed assets	1,923	1,479	2,149	1,068

3.8.11 Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2023	End of 2022
Balance at the beginning of the period	**63,744**	**58,997**
Charge/(reversal) for the year	25,520	26,992
Less: Write-offs and transfer-out in the year	30,607	24,864
Recovery in the year	2,965	2,611
Change in exchange rate	9	8
Balance at the end of the period	**61,631**	**63,744**

Charge method for allowance for impairment losses on loans: The Group sets aside allowances for impairment losses on loans based on expected loss model as required by the new accounting standards in the light of customers' probability of default, loss given default, other quantitative risk parameters and macro forward-looking information, and states them in profit or loss.

3.9 CAPITAL MANAGEMENT

3.9.1 Capital composition and its changes

(Unit: RMB1 million)

	31 December 2023		31 December 2022		31 December 2021	
Item	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Net core tier-1 capital	280,828	259,578	262,499	243,588	240,073	224,226
2. Net tier-1 capital	321,128	299,571	322,724	303,559	300,279	284,197
3. Net capital base	374,867	347,904	377,107	352,713	350,673	328,743
4. Risk-weighted Assets	3,065,277	2,883,590	2,841,800	2,696,326	2,735,128	2,606,592
Of which: Credit risk-weighted assets	2,856,408	2,685,862	2,644,304	2,508,904	2,547,742	2,427,573
Market risk-weighted assets	34,936	35,056	21,016	20,990	16,150	16,149
Operational risk-weighted assets	173,933	162,672	176,480	166,432	171,236	162,870
5. Core tier-1 capital adequacy ratio (%)	9.16	9.00	9.24	9.03	8.78	8.60
6. Tier-1 capital adequacy ratio (%)	10.48	10.39	11.36	11.26	10.98	10.90
7. Capital adequacy ratio (%)	12.23	12.06	13.27	13.08	12.82	12.61

Note: According to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012) and relevant regulatory rules, the minimum capital adequacy ratio requirement is 8%, and the capital conservation buffer and counter-cyclical capital buffer is 2.5%. The Company entered the list of China's domestic systemically important banks (D-SIBs) issued by PBOC and NFRA, subject to a capital surcharge requirement of 0.25% for D-SIBs. The Company met the capital surcharge requirement for D-SIBs.

3.9.2 Leverage ratio and its changes

(Unit: RMB1 million)

Item	31 December 2023	30 September 2023	30 June 2023	31 March 2023
Net tier-1 capital	299,571	291,243	286,774	287,940
Adjusted on – and off-balance sheet asset balance	4,859,545	4,751,968	4,712,261	4,657,192
Leverage ratio (%)	6.16	6.13	6.09	6.18

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC Decree No. 1 in 2015). The Company entered the list of China's domestic systemically important banks (D-SIBs) issued by PBOC and NFRA, subject to an additional leverage ratio of 0.125% for D-SIBs. The Company met the additional leverage requirements for D-SIBs.

3.9.3 According to the Capital Rules for Commercial Banks (Provisional) (CBRC Decree No. 1, 2012), the Regulation Governing Leverage Ratio of Commercial Banks (Revised) (CBRC Decree No. 1 in 2015) and other relevant regulatory rules, please refer to the special column of investor relationship at www.hxb.com.cn, the Company's official website, for disclosure of capital adequacy ratio and leverage ratio of the Group.

3.10 ANALYSIS OF INVESTMENTS

3.10.1 Material equity investments

Holdings in other listed companies

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	14.75	0.07	3.29	Other equity instrument investments	Membership fees converted to shares

Holdings in unlisted companies and companies to be listed

(Unit: RMB1 million)

Name	Initial investment cost	Shares held (Million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
National Financing Guarantee Fund Co., Ltd.	1,000	–	1.51	1,000	–	–	Other equity instrument investments	Investment with self-owned capital
China UnionPay Co., Ltd.	81	212.50	2.13	1,928	36.25	–	Other equity instrument investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	52.50	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Huaxia Financial Leasing Co., Ltd.	4,920	–	82	4,920	625.71	–	Long-term equity investments	Investment with self-owned capital
Huaxia Wealth Management Co., Ltd.	3,000	–	100	3,000	–	–	Long-term equity investments	Investment with self-owned capital

Notes:

1. The cost method was adopted for accounting of the Group's long-term equity investments. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

2. For the restructuring of Beijing Daxing Hua Xia Rural Bank Co., Ltd., please see "6.13 SIGNIFICANT EVENTS OF SUBSIDIARIES".

3.10.2 Analysis of major controlling and equity participation companies

3.10.2.1 Huaxia Financial Leasing Co., Ltd.

The company, with a registered capital of RMB10 billion, started operation in April 2013, in which the Company holds an 82% stake. Its business scope covers financial leasing, transfer of financial leasing assets, fixed-income securities investment and acceptance of lease premium from lessees.

At the end of the reporting period, the company's total assets and net assets were RMB169.836 billion and RMB17.286 billion, respectively. For the reporting period, the company realized operating income of RMB6.237 billion and net profit of RMB2.651 billion.

3.10.2.2 Huaxia Wealth Management Co., Ltd.

The company, with a registered capital of RMB3 billion, started operation in September 2020, in which the Company holds a 100% stake. Its business scope covers issuing wealth management products to the public, and investing and managing the investors' assets as trustee, issuing wealth management products to qualified investors and investing and managing the investors' assets as trustee and financial advisory and consulting services.

At the end of the reporting period, the company's total assets and net assets were RMB4.915 billion and RMB4.726 billion, respectively. For the reporting period, the company realized operating income of RMB941 million and net profit of RMB505 million.

3.10.2.3 Kunming Chenggong Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB50 million, started operation in July 2011, in which the Company holds a 70% stake. Its business scope covers deposits taking, extension of loans on a short-term, medium-term and long-term basis, domestic settlement, bill acceptance and discounting, inter-bank lending, bank card business, commissioned issuance, encashment and underwriting of government bonds, agency payment and insurance, etc.

At the end of the reporting period, the bank's total assets and net assets reached RMB549,649,600 and RMB76,216,600, respectively. The deposit balance stood at RMB411,641,600 and total loans at RMB410,862,000. For the reporting period, the bank realized operating income of RMB18,738,700 and net profit of RMB1,646,000.

3.10.2.4 Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.

The bank, with a registered capital of RMB75 million, started operation in September 2011, in which the Company holds a 70% stake. Its business scope covers deposits taking, extension of loans on a short-term, medium-term and long-term basis, domestic settlement, bill acceptance and discounting, bank card business, commissioned issuance, encashment, underwriting and trading of government bonds, guarantees, etc.

At the end of the reporting period, the bank's total assets and net assets reached RMB1,562,648,900 and RMB159,490,400, respectively. The deposit balance stood at RMB1,314,707,400 and total loans at RMB1,288,837,000. For the reporting period, the bank realized operating income of RMB65,542,200 and net profit of RMB13,310,300.

3.10.3 Material non-equity investments

During the reporting period, the Company did not make any material non-equity investment.

3.11 OTHER INFORMATION DISCLOSED PURSUANT TO REGULATORY REQUIREMENTS

3.11.1 Interest receivable

According to the *Notice on Amending and Issuing the Formats of Financial Statements for Financial Enterprises in 2019* (C.K. [2019] No. 36), the interest accrued on financial instruments using the effective interest rate method shall be included in the book balance of relevant financial instruments and presented in relevant statement items. Interest due and receivable but not received is stated under "other assets".

Charge of allowance for bad debts of interest receivables:

During the reporting period, the Group examined interest receivable based on the expected credit loss (ECL) model and accrued the allowance for impairment of financial instruments.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company mainly adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company followed the principles of "confirming to identification conditions, providing effective evidence, filing after writing-off, and maintaining recovery rights". After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.

3.11.2 Financial assets measured at fair value

For financial assets stipulated by standard articles and traded on the active market, the Company determines their fair value separately with reference to the buy-in and sell-out prices available on the market.

As for the financial assets without an active market, the Company adopts valuation techniques to determine their fair value. The valuation technologies include using recent far market transactions (if available) voluntarily conducted by parties to transaction familiar with market conditions, using the present fair value of other financial instruments that are substantially the same for reference and discounted cash flow analysis and option pricing models. The valuation technologies should use market parameters where possible. If market parameters are unavailable, the valuation management department shall estimate its and the counterparty's credit risk, market volatility and relevance, regularly review the above estimates and assumptions and make adjustments where necessary.

(Unit: RMB1 million)

Item	Amount at the beginning of the period	Changes in fair value through profit or loss in the year	Accumulated changes in fair value through equity	Allowances for impairment losses during the period	Amount at the end of the period
Derivative financial assets	7,505	-3,702	–	–	3,803
Loans and advances to customers measured at fair value through other comprehensive income	102,731	–	-380	-39	83,792
Held-for-trading financial assets	359,584	2,680	–	–	316,586
Other debt investments	248,105	–	1,176	19	295,408
Other equity instrument investments	7,131	–	-2,152	–	6,489
Total financial assets	725,056	-1,022	-1,356	-20	706,078
Derivative financial assets	6,359	2,459	–	–	3,900
Total financial liabilities	6,359	2,459	–	–	3,900

Note: There is no necessary articulation in the table.

3.11.3 Off-balance-sheet items that may have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of 2023	Balance at the end of 2022
Credit commitments	963,960	986,154
Of which:		
Irrevocable loan commitments	14,095	4,881
Bank acceptance drafts	420,564	468,421
L/Gs and other payment commitments issued	29,173	30,742
L/Cs issued	149,424	170,757
Unused credit card limit	343,372	307,094
Financial lease commitments	7,332	4,259
Capital expenditure commitments	6,854	4,771

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.

3.11.4 Gain/loss on asset securitization in the reporting period

During the reporting period, the Company conducted no asset securitization business.

3.11.5 Innovative products

The Company remained guided by strategies, putting creating value for customers at the core. It enhanced the driving force of innovation, upgraded product and service capabilities, digitally empowered business development and providing high-quality services for the real economy.

The corporate banking business acted on the guiding principles from the Central Economic Work Conference, implemented the State's major strategic plans and strengthened financial services in key areas. The Hua Xia Treasury Cloud platform was launched to accommodate the corporate treasury system development and digital transformation of financial management, and empower customers' push for efficient and convenient multi-bank account management, payment settlement and digital upgrading. The Investment-linked Loan and other products were launched to meet the needs of specialized and sophisticated producers of new and unique products and tech firms in different stages of growth and with different industry characteristics. With these efficient, convenient and unsecured credit facilities, we provided comprehensive financial services to meet the growing customers' demand for integrated debt and equity financing. In the pilot program on infrastructure REITs, a series or mix of products were offered under the philosophy of cultivating assets and managing customers to meet customers' financial needs in all aspects of asset listing, with special support loans and fund supervision products launched simultaneously. With a focus on customers' trade "ecospheres + scenarios", the Company launched the corporate internet banking functions including cross-border RMB outbound remittance, forward forex settlement and sales and limit order-based forex settlement, optimized such functions as digital product pool, digital factoring and online factoring products, and improved business quality and efficiency and customer experience by automated and intelligent means. The e-CNY corporate wallet functions were launched for such e-CNY use scenarios as healthcare, payment settlement, payroll service and cash concentration. The Community/Park Express products were introduced to meet the residential communities' and industrial parks' demand for classified management of bill payments and settlement funds.

The retail banking business pursued in-depth integration of technology and business and upgraded the customer service ecosystem across the board. The Company developed an enterprise-level retail banking ecosphere encompassing "housing, automobile, school, healthcare, travel and shopping" and launched the Phase I functions of the ecosphere platform, providing the scenarios and functions for serving ecosphere-based customers. The functions of personal online banking accounts were fully reengineered and upgraded with a focus on being "simple, convenient, lightweight, and secure", so as to upgrade the ecosystem of online service channels. The e-CNY payroll service features were launched on a pilot scale to enrich the application scenarios of e-CNY. The Company innovatively launched the "Inclusive Finance Smart Risk Control Platform", introduced the "Shopping Basket Security Loan", a tailor-made digital facility for customers, to efficiently meet merchants' urgent demand for micro, frequent and short-term financing, so as to serve micro and small businesses eligible for inclusive finance and contribute to rural revitalization. The Hua Xia-Luckin co-branded credit card was issued in alignment with young customers' coffee ecosphere. The Company issued the Hua Xia Midas Stone credit card answering the policy call for "expanding domestic demand, boosting consumption", and also issued the Hua Xia Energy Chain co-branded credit card covering all scenarios of electric vehicles and gas cars for green empowerment.

The financial market business enhanced efficiency and experience to reach more customers. To meet the financial institution customers' demand for gains on demand deposit, the domestic RMB interbank negotiated deposit was launched, a product characterized by simple procedure and flexible pricing. The quick bills discounting service was launched to enable nationwide use of a credit facility and allow upstream and downstream businesses of industrial chains to complete the online discounting of bills just in "seconds". The asset custody business enhanced the capability of services, operations and risk control. The first batch of new energy REITs and the first photovoltaic infrastructure REIT in China were implemented. The Company was among the first group of institutions accepted for direct links to the new-generation Central Bond Generalized System (CBGS) and launched the intelligent custody management platform and the intelligent custody customer service platform.

The industrial digital finance model made breakthroughs. Capitalizing on digital credit and smart risk control technology, the Company launched the Shuyitong product series to provide digital financing services for different scenarios. Five categories of digital financing products have been successively launched in the fields of electronics manufacturing, steel, chemicals and commodity trade, including the Digital Credit Link for purchase orders and the Digital Credit Link for receivables applicable to the upstream procurement scenarios, the Digital Credit Link for distributors applicable to downstream distribution scenarios, the goods-backed Digital Credit Link applicable to downstream procurement scenarios and the platform-based Digital Credit Link applicable to platform-based transaction scenarios.

Huaxia Wealth Management Co., Ltd. further improved its product system, clarified product labels and enhanced investor experience. A series of low-volatility stellar products were developed. A variety of innovative products were successfully issued, including the Yue Ying series structured products, Yue Xiang series subscription-redemption asynchronization products, Yue Jia and Yue Sheng series take-profit and stop-loss products, Yue Hui series fixed income + preference share products. The "Ririying" cash portfolio service, was launched to combine investor and consumer scenarios, providing customers with high-quality, multi-functional cash management tools. The first-of-its-class Tian Gong index series was launched, marking a foray into the relative income products. Under a "1+N" strategic framework, Huaxia Financial Leasing Co., Ltd. tapped deep into the financial leasing of traditional manufacturing and infrastructure construction equipment while expanding actively into the leasing business in such fields as new energy, residential solar PV systems, shipping, automobiles, construction machinery, energy storage and ocean fishing.

3.11.6 Structured entities controlled by the Company

For the consolidated structured entities of the Group and the interests and rights enjoyed in structured entities excluded from the consolidated financial statements in detail, please refer to Note "XIII. Structured Entities".

3.11.7 Material asset and stock right sales

During the reporting period, the Group did not make any material asset or stock right sales.

3.12 BUSINESS REVIEW

3.12.1 Corporate banking

During the reporting period, the Company moved faster to transform corporate banking toward "commercial banking + investment banking" in a bid to strengthen resource integration and collaborative marketing. On a customer-centric basis, the Company embarked on full transition to ecosystem-based customer growth in a push for the "industry + customer" marketing system, so as to deepen customer management, actively expand the customer ecosphere and speed up innovation, showing effective transformation of the development model.

Corporate customer management

The Company remained customer-centric and value-oriented, upheld the philosophy of "managing customers", kept deepening the "industry + customer" marketing and actively integrated itself into the mainstream economic sectors. In an all-round transition of customer base growth to an ecosystem-based model, the Company shifted customer acquisition from individual acquisition to ecosystem-based acquisition and bulk acquisition, and pushed for digital ecosystem map research and data-based targeted customer acquisition. Starting from the industrial, funding, platform-based and park-based ecosystems, the Company promoted "1+N+N" bulk customer development across customers' industrial chain, equity chain and capital chain, spanning small, medium-sized and large ecosystems. In the customer acquisition across the industrial chains for solar PV, construction and new energy vehicles, within industrial parks and along the government funding chain, the Company kept enriching and improving the ecosystem-based customer acquisition model by providing the "commercial banking + investment banking" integrated financial services, so as to continuously improve the capability of ongoing follow-up services for customers' fund transactions and the ability to cover all customers' business opportunities. At the end of the reporting period, the Company had 653,500 corporate accounts, an increase of 4.10% over the end of the previous year. During the reporting period, the Company added over 30,000 customers to its customer ecosphere.

The Company further implemented the "3-3-1-1" customer strategy, improved the "3-3-1-1" whitelist criteria, developed the lists of mainstream industries, leading industries and strategic emerging industries in 31 provinces and adjusted the "3-3-1-1" customer whitelist in accordance with the principle of being" closely aligned with the local mainstream" and "available for development and cooperation". The Company signed the "headquarters-to-headquarters" strategic cooperation agreements with 21 government agencies, business enterprises and public institutions, including Chongqing Municipal People's Government, Qinghai Provincial People's Government, Beijing Tongzhou District People's Government, Shenzhen Innovation Investment Group Co., Ltd., ZTE Corporation, Luckin Coffee (China) Co., Ltd., and actively deepened the overall business cooperation. At the end of the reporting period, the Company had 130 Head Office-level strategic customers, up 12 from the end of the previous year. The Company had business cooperation with 5,856 of the 12,329 whitelisted "3-3-1-1" customers. The above whitelisted "3-3-1-1" customers together had RMB303.720 billion in balance of corporate deposits, up 5.12% from the end of the previous year, and RMB326.265 billion in balance of loans, up 9.27% from the end of the previous year.

The bank-government cooperation was further deepened to strengthen the organizational push for institutional customer marketing and comprehensively improve the service level. The Company proceeded with building the treasury centralized electronic payment system, optimized the non-tax business system of central and local governments, rated as "excellent" by the Ministry of Finance in its comprehensive evaluation of non-tax revenue collection service for the central government for seven consecutive years. The Company furthered its cooperation with the National Healthcare Security Administration to become one of Beijing's main clearing banks for mobile healthcare security payments. The Company pushed forward the Ministry of Education's national integrated platform for extracurricular tutoring supervision and services to ensure business implementation. Adhering to the technology-empowered approach to scenario-based customer acquisition, the Company continued to expand the institutional customer ecosphere. The development and application of IT scenarios were stepped up in the fields of healthcare, education, social security, tobacco, public security, procuratorates and courts to provide innovative and scenario-based financial service solutions, and effectively enhance the stickiness of cooperation.

Corporate deposits

With deposits put at the heart of the bank, the Company strengthened the marketing of corporate deposits, kept expanding the sources of deposits, improved the deposit structure, strengthened the use of product portfolios, deepened tiered and classified customer marketing, vigorously expanded the deposit base of financing customers, institutional customers and settlement customers, carried out ecosystem-based customer marketing, enhanced the customer service capacity and achieved high-quality growth of corporate deposits. As at the end of the reporting period, the balance of corporate deposits of the Company increased by 1.85% year-on-year to RMB1,616.631 billion. The cost of corporate deposits was 2.06%, still a relatively low level among joint-stock commercial banks.

Corporate loans

The Company has always adhered to the original aspiration of serving the real economy, and stepped up its support and services for key areas. In terms of green finance, the Company deepened research in key fields of "carbon peak and carbon neutrality" such as renewable energy and energy storage, continued to carry out product innovation, developed special products for carbon credits-backed financing to enrich the carbon finance product family. The Company successfully launched China's first photovoltaic public REITs. In terms of technology finance, the Company formulated a special action plan, set up a dedicated service team at the Head Office, refined the credit, investment and financing policies, increased the allocation of credit resources, granted preferential pricing of loans, and vigorously supported high-tech firms, specialized and sophisticated producers of new and unique products, national technology innovation demonstration enterprises and specialist "champion manufacturers". Special products such as option loans and Investment-linked Loan were launched to serve tech firms and promote a virtuous cycle of technology, industry and finance. In terms of pension finance, the Company established a professional pension finance team, introduced the "Hua Xia Care" pension finance product series and provided customers with a package of financial services by integrating various financial products such as accounts, cash settlement management, treasury management and on – and off-balance-sheet financing.

At the end of the reporting period, the Company recorded RMB1,377.398 billion in outstanding corporate loans (excluding discounted bills), up 3.30% over the end of the previous year. Outstanding corporate loans (excluding discounted bills) at branches in the Three Regions amounted to RMB906.203 billion, up 5.55% compared with the end of the previous year. Outstanding green loans stood at RMB269.273 billion, growing faster than average and taking up an increasing share in total loans.

Corporate settlement

Settlement products were innovated and improved for greater convenience of services. During the reporting period, the Company launched the fund supervision products for public REITs projects to put idle funds to good uses and expand effective investment. Government-mandated fund supervision services were provided with a focus on fields vital to public wellbeing, including real estate, new urban residents, elderly care and education and training, so as to meet the fund supervision needs of government agencies at all levels such as housing, human resources and social security, civil affairs and education. Raised funds supervision services were provided for market-oriented financing such as corporate bonds, enterprise bonds, asset-backed securities, IPOs, and the NEEQ. The Company launched corporate collection products applicable to various scenarios to facilitate proactive corporate collections. The all-in-one corporate product was improved to meet customer demand for integrating cash pooling, tiered accounting and treasury management into one account.

Corporate banking was digitally transformed in an ongoing effort to improve service capabilities. To build the first-class corporate internet banking, the Company conducted reengineering of the corporate internet banking webpages and processes and made adjustments to the tone styles and layouts of more than 300 transaction pages in accordance with the new design specifications. The Company introduced new functions, such as super administrator of corporate internet banking, online verification of legal person's intention, and online inquiry of corporate credit reports, to further enhance the online and digital service capabilities of corporate banking. Taking the opportunity of serving key customers, the Company enhanced the customized and differentiated service capabilities of corporate internet banking and bank-corporate direct link, and strengthened the partnership with core enterprises through bank-corporate direct link. At the end of the reporting period, the Company had 446,700 corporate internet banking customers, an increase of 3.56% over the end of the previous year, and the number of monthly active users (MAU) of 273,300. Corporate mobile banking had 166,500 customers, an increase of 11.97% year-on-year.

The management of settlement funds was strengthened, and the Company's internet finance settlement product series was further applied. At the end of the reporting period, the Company's internet finance settlement series products registered 397 new clients, providing services for 2,508 customers from 21 industries such as leasing and commercial services, wholesale and retail, construction and manufacturing and assisted customers in managing RMB59.099 billion of funds in aggregate.

Investment banking

The "commercial banking + investment banking" transition strategy was implemented unswervingly. With a focus on professional capacity building, the investment banking mechanism was improved to strengthen the organizational capacity and deepen business coordination in pursuit of high-quality investment banking. The market competitiveness and customer recognition were further enhanced.

At the end of the reporting period, the Company recorded RMB771.656 billion in size of investment banking, up 11.11% year-on-year, and registered 941 customers served. Thanks to the persistent efforts to expand the corporate customer base with a better structure and higher level, the domestic underwritings totaled RMB194.007 billion (including asset securitizations), including RMB187.543 billion (including asset securitizations) of credit bond issuance in the interbank market. The Company ranked 18th out of 74 underwriters by underwriting volume[3].

The Company provided investment banking support for economic transition and fulfilled social responsibility in response to strategic decisions and plans of the CPC Central Committee and the State Council. The Company actively implemented China's "carbon peak and carbon neutrality" strategy and green and low-carbon transition strategy, attached great importance to green finance and furthered the green finance-related specialty business. During the reporting period, the Company jointly underwrote a carbon-neutral bond with an issue size of RMB1.5 billion. In an ongoing effort to develop the Chinese-issued green offshore bond market and build the "sustainable and better" value brand, the Company assisted Chinese enterprises in issuing 18 offshore green bonds with a total size of RMB1.265 billion. Responding to the call for comprehensively promoting rural revitalization, the Company strengthened financial services for rural revitalization with a focus on key areas and weaker links. The Company co-underwrote two rural revitalization bills with a total issuance of RMB900 million. The Company actively participated in the transformation and upgrading of traditional manufacturing, deeply integrated into the innovative development of advanced manufacturing, provided financial support for tech firms and underwrote ten tech innovation bills with an issue size of RMB11 billion.

The Company continued to cement the foundation for M&A syndication and professional team building and kept strengthening the matchmaking service systems including insurance matchmaking, lease matchmaking, brokerage matchmaking, trust matchmaking and equity matchmaking, with the business scale growing steadily.

The corporate wealth management system was improved. The Group's collaborative hub fully functioned to establish a customer-centric cross-selling and synergistic collaboration mechanism and build a circular value chain for corporate wealth management. On the sales side of corporate wealth management products, a well-selected product portfolio was offered to fully meet the wealth allocation needs of corporate customers. At the end of the reporting period, the Company distributed RMB55.629 billion of corporate wealth management products.

Trade finance

Following China's strategic plans, the Company stayed true to its original mission of effectively serving the real economy. The customer-centric trade finance pushed for platform-based, scenario-based, online development and digital transformation. The cross-border RMB business was vigorously promoted in response to the policy call for RMB internationalization. During the reporting period, the total cross-border RMB receipts and payments exceeded RMB100 billion, a year-on-year increase of 29.15%. The correspondent banking network further improved, with 627 or 52.87% of correspondent banks located along the Belt and Road.

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3 Ranked according to the underwritings of bonds published by Wind (NAFMII).

Box 1: Hua Xia Treasury Cloud Facilitated Digital and Intelligent Corporate Treasury Management

The Company served national strategies and facilitated corporate treasury management. The Company implemented the requirements of the 14th Five-Year Plan for the digital transformation of enterprises and the policies calling on central SOEs to accelerate their treasury system development and create a world-class financial management system. Toward corporate goals of strengthening cash management, improving the efficiency of fund use and preventing and controlling fund risks, the Company launched the Hua Xia Treasury Cloud to enhance the fine-grained, intensive and intelligent level of corporate financial management, thus serving the real economy and facilitating the digital and intelligent transformation of corporate treasury operations.

Integrated solutions were provided with a focus on treasury pain points. Hua Xia Treasury Cloud provided seven core modules, namely multi-bank account management, multi-bank payment settlement, liquidity management, investment and financing management, funding budget, fund monitoring and information services. The platform meets multi-level management needs of business conglomerates and their branches, subsidiaries and member entities, enabling dynamic information collection and see-through monitoring of domestic corporate banking accounts and fund flows, helping business conglomerates build the treasury system and provide enterprises with integrated solutions for payment settlement and cash management.

A treasury ecosystem was rapidly built on a solid technological base. Hua Xia Treasury Cloud was built on the cloud-native application development technology, integrating big data, cloud computing and other technologies to form a financial ecosystem with corporate finance and fund management as the core, so as to help enterprises establish a more secure, flexible and intelligent treasury management system. With quick launch and high efficiency, the cloud platform has seen marked improvements in business functions, services, product performance and customer experience. The cloud was short-listed for the "People's Bank of China FinTech Development Awards", highly praised by experts.

The customer base was broad and differentiated services were innovated. Hua Xia Treasury Cloud, targeted at all corporate customers, provides standard and customized settlement services for different sizes of customers. The standard version is immediately available upon subscription. The customized version is rapidly developed in the way of module customization, and provides a variety of service channels including corporate internet banking, corporate mobile banking, clients and open interfaces to meet the comprehensive and customized needs of enterprises. The target customer base covers large business conglomerates, small and medium-sized chain businesses, government agencies, commodity trade, construction and installation, Internet firms and other types of partners. As of the end of the reporting period, Hua Xia Treasury Cloud had 7,928 customers with RMB542.694 billion in transactions.

3.12.2 Retail finance

During the reporting period, the Company operated under the "customer-centric" business philosophy for the ultimate purpose of "serving the people, serving the real economy". Steady moves were made in pursuit of high-quality retail banking development, with all-out efforts made to promote digital and intelligent business transformation, product and service innovation, professional team building and fine-grained business management.

Retail customers

Remaining oriented to "creating customer value", the Company deepened tiered and grouped management of customers and effectively provided customers with convenient and efficient financial services. **A digital customer service model was built.** The Company established a transmission and promotion mechanism featuring "Cross-line Integration, Business-Technology-Data Integration and Head Office-Branch-Sub-branch Penetration", and promote the large-scale operation of the "Quick Win" digital customer management project. Based on customer segmentation and customer lifecycle management, the Company provided differentiated events, products and services for customers, digitally driving customer value creation and experience upgrading. **The customer reward services were improved.** Special events were organized for pension, payroll and credit card customers according to the customer lifecycle. A number of popular events were launched, including the Low-carbon Mobility Challenge and Vitality Wednesday. The wealth management and private banking customer's special benefits were enriched to integrate ecosphere scenarios and financial services. **The "Splendid Hua Xia" consumer season event was carried out.** In a continued effort to "expand domestic demand, boost consumption", the consumer season event was promoted nationwide, taking the "Colorful Capital Hua Xia Shopping Festival" and the "Shenzhen Hua Xia Shopping Festival" as good examples. Putting together high-quality resources, the Company issued cash coupons worth tens of millions yuan, extending the service reach to all the everyday life scenarios such as clothing, food, housing and mobility. **Specialty pension financial services were provided.** The six major transaction channels for personal pension were upgraded. The spectrum of pension finance products covering deposits, funds and insurance was gradually improved. The "Elderly VCare" dedicated asset allocation service was launched to meet the pension investment needs of customers with different risk appetites.

The individual customer groups kept expanding. At the end of the reporting period, the Company had 32,775,400 individual customers (excluding credit card holders), up 5.19% from the end of the previous year. Specifically, the Company had 14,700 private banking customers[4], up 6.96% over the end of last year, 564,100 consumer credit customers[5], up 0.58% over the end of last year, 610,400 acquiring customers, up 16.13% over the end of last year.

Personal deposits

Adapting to the changing market, deposit taking was integrated into the comprehensive customer management. The quantity and quality of personal deposits were improved through scenario building, digital empowerment and asset allocation. The Company actively expanded key project scenarios including bulk payroll service, housing resales, platform cooperation

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[4] Private banking customer means a customer with an average daily AUM worth at least RMB6 million in the previous month.

[5] Consumer credit customers refer to non-platform consumer credit customers.

and fund supervision, thus providing customers with a package of financial services, driving bulk customer growth and turning settlement funds into deposits. Taking advantage of the digital customer management project, the Company focused its customer management on key customer groups, including payroll service users, micro and small businesses, wealth management customers, acquiring service customers and personal loan borrowers, accurately identified customer needs, matched deposit products with specific customers according to their different needs and drove deposit growth by enhancing the overall customer value. The professional asset allocation capabilities were enhanced, seeking to add deposit products as an important part of, and a growing share in, the customer's asset portfolio. As at the end of the reporting period, the balance of personal deposits of the Company stood at RMB511.588 billion, up 7.83% from the end of the previous year.

Personal loans

The Company actively implemented the work requirements of the financial sector serving the real economy, vigorously acted on the policy guideline for supporting the upgrading of consumer spending and expanded personal credit supply to meet the reasonable consumer credit needs, and bolster the recovery and expansion of consumption. **Personal housing loans supported the housing market recovery.** The Company actively implemented national policies, maintained a city-specific approach to housing credit, lowered the mortgage rates for the existing first-time homebuyers in accordance with regulatory requirements and supported the needs of both first-time homebuyers and home upgraders. Systems and business processes were further streamlined to enhance product competitiveness and customer experience. **Consumer credit helped restore and upgrade consumption.** The Company accelerated transformation and increased asset allocation, boosting the pioneering role of retail transformation. Product and service innovation was strengthened, with ongoing efforts made to upgrade consumer credit products developed via in-house modeling under proprietary brands. With a focus on implementing policy requirements regarding the financial support for recovering and expanding consumption and the financial services for new urban residents, the Company provided differentiated personal consumer credit services and digital personal loan services according to the local financial needs relating to consumption and education. As at the end of the reporting period, the balance of personal loans (excluding credit cards) was RMB535.989 billion, up 3.01% from the end of the previous year. The balance of personal consumer loans reached RMB104.526 billion, up 20.71% from the end of the previous year.

Wealth management and private banking

With a focus on customer management, the Company continued to enrich the product shelves, endeavored to improve customer relations, strengthened professional portfolio services and systematically promoted the wealth management business.

The well-selected product portfolio was improved to meet the asset allocation needs of customers. In response to the changing market environment, the Company developed quickly redeemable cash-related financial service tools. The T+0 money-market fund portfolio product "Tiantianbao" and the T+0 cash wealth management portfolio product "Ririying" with payment features were launched. Cooperation institutions were added for the Longrui series consumer finance strategy products. The Ruicheng series capital market strategy products were issued. In a word, the product strategies were continuously refined and the wealth management allocation toolkit was diversified.

The business system was optimized to enhance customer relationship. The "Consolidate the Foundation" program was kicked off to improve the business models of wealth management and private banking customers and improve the capability of customer segmentation. The "Private Banking Creation + Premium" service project was upgraded to introduce legal, tax and other non-financial specialty services. Collaborative marketing events were carried out for the entrepreneur customer base, and the ability to provide comprehensive services for customers was enhanced. The "intelligent" series product service toolkit encompassing investment, financing, planning and value added benefits was developed for private banking customers, and the "commercial banking + investment banking + private banking" professional service tools were built to meet the comprehensive financial service needs.

Asset allocation scenarios were enriched to promote in-depth customer management. The Company provided the "Future-proof Portfolio" asset allocation service and the "Smart Diagnosis for Sustainability" asset health check service, held the "Well-planned Ride with Tailwinds" Head Office-level investment strategy meeting, organized over 100 sessions of the "One Hundred Wealth Upgrade Sessions" salon events, issued the report on Hua Xia Bank's private banking asset allocations and enhanced the whole-process asset allocation and advisory companionship services. The Hua Xia Wealth Management Culture was developed in line with specific seasons and occasions. Important solar terms, holidays and wealth knowledge dissemination were combined to promote the right investment philosophies and scientific investment methods among customers.

The professional team building was strengthened to improve the quality and efficiency of customer services. Special training was provided for wealth management teams, including wealth managers, investment advisers and product managers. A hierarchical versatility training system of the "Wealth Hanlin Scheme" was developed. The "Star Youth Model" Hanlin Wealth Competition and "Star Cup" asset portfolio competition were held to improve the team skills. The "Elite Club" of high-caliber private banking and wealth managers was established. The first group of Head Office-level branch investment advisers were certified and included in the Head Office-level investment advisory team for central management, so as to provide vertical empowerment for key customer services and improve the professional capability of customer services.

As at the end of the reporting period, the total financial assets of personal customers of the Company stood at RMB932.601 billion[6], up 0.47% from the end of the previous year. Amid capital market fluctuations and lower overall fee rate of product distribution, the Bank recorded a net fee and commission income of RMB1.016 billion from wealth management, down 38.21% year-on-year.

6 For, the total financial assets of personal customers, the data sources of fund distribution were adjusted, the statistical scope of distributed trust products was also adjusted and updated according to the system data of trust companies.

Acquiring and payment services

Putting the "payment for the people" philosophy into action, the Company continued to improve the payment settlement environment to better meet the business needs of small and medium-sized merchants. The scenario-based acquiring capacity was continuously built, with branch-specific industry scenarios developed in addition to the four major industries of catering, retail, markets and property management services, thus shaping the "4+X" industry scenarios. The "Internet Plus" healthcare service scenarios were further built. In cooperation with the Beijing Municipal Medical Insurance Bureau, the Company implemented the Beijing medical insurance mobile payment program to enable online payments for the people and allow one-stop settlement of both medical insurance fund expenses and personal expenses under hospital and pharmacy scenarios, thereby improving the medical service experience.

Credit card

The credit card business served the real economy on a customer-centric basis while staying true to the original nature of consumer services. The Company managed to steadily expand the credit card business through ecosystem-based customer acquisition and risk control policy enhancement, laying emphasis on customer management.

The credit card business shifted faster toward an ecosystem-based model with a focus on ecosystem-based innovation in products. Scenario-based and ecosystem-based customer acquisition focused on high-quality young customers was sped up on a customer-centric basis. The UP card scenarios-based marketing was carried out during the Miyun Ecological Marathon. The Hua Xia-Luckin co-branded credit card was issued based on coffee scenarios integrating customers, products and marketing, conveying the influence of the Hua Xia Bank youth brand. Targeting car owners, the Hua Xia Energy Chain co-branded credit card covering all scenarios of electric vehicles and gas cars was launched for green empowerment. The Company issued the Hua Xia Midas Stone credit card answering the policy call of Shijingshan District, Beijing Municipality for "expanding domestic demand, boosting consumption", creating a government-enterprise bond.

Innovative scenarios were introduced to stimulate consumer needs with the aim of boosting domestic consumption. A number of marketing events were carried out in line with day-to-day consumer scenarios such as dining, shopping, and travel to stoke the economic recovery. The customer base management became more fine-grained to provide differentiated services and holder benefits products. New dynamic consumer scenarios were developed to create more value of financial services. Staying true to the original nature of consumer services and remaining customer-centric, the Company created the scenarios-based installment ecospheres to provide customers with a full range of multi-scenario consumer financial services offline and online.

Continuous improvements were made in self-service channels, including "Splendid Life" APP and WeChat banking. Oriented to customer needs, core features of self-service channels were improved to provide users with more intelligent, efficient and secure credit card services. The layout of ecosystem scenarios was continuously improved and the differentiated operation strategies were refined. The Weekly Gifts, Mobile Top-up Discount and other popular events were developed to enhance user experience. As of the end of the reporting period, 18,828,000 users were registered for the credit card "Splendid Life" APP, up 40.47% from the end of the previous year. The number of monthly active users (MAU) was 3,397,600, up 24.46% over the end of the previous year.

Adhering to a "prudent" risk appetite, the risk management methods were upgraded with a focus on "quality young customers" and "ecosystem scenario management". The risk management labels were refined, the frequency of risk monitoring was increased, the strategic framework was optimized, the models and algorithms were upgraded to enhance the capability of targeted ecosystem risk controls. Fine-grained management was furthered and the capability of collaborative risk management enhanced to safeguard the lifeline of high-quality credit card business development.

As at the end of the reporting period, the Company had issued a cumulative number of 39,477,400 credit cards, an increase of 12.33% over the end of the previous year, and recorded RMB184.097 billion in balance of credit card loans, a growth of 1.34% over the end of the previous year. There were 21,295,000 ending valid credit cards, a decrease of 1.71% over the previous year. The number of valid credit card holders was 18,860,500, up 4.18% year-on-year. During the reporting period, value of credit card-based transactions totaled RMB985.296 billion, representing a decrease of 2.24% year-on-year. The Company realized RMB17.693 billion income from credit card business, a growth of 13.90% over the previous year.

Box 2: Accelerating Ecosystem Scenarios-based Marketing, Promoting Transition of Credit Card Business

The Company actively implemented the CPC Central Committee's call for "expanding domestic demand, boosting consumption", unleashing the vital role of credit cards in tapping consumer potential and stoking consumption recovery. Efforts were made to accelerate integration of scenarios, strengthen scenario-based marketing and transform the credit card customer acquisition and activation to an ecosystem-based model.

May 2023 was a thrilling month of the "Huaxia Bank Miyun Ecological Marathon 2023" marathon race. The Huaxia UP Card kicked off scenario-based marketing with the theme of "Young, Dare to Be Different" targeting the sporty, energetic marathon runners, marking a preclude to ecosystem-based marketing. In July, the Hua Xia-Luckin co-branded credit card was issued for the youth market segment. Built on the coffee ecosystem, the product offered "up to 100 cups of coffee for free" with the keywords of "joy, fun and beauty". The shaped "small blue cup" and customized card number services were provided to attract dynamic young people. The promotional event of "free coffee for any week of transaction" was carried out to encourage credit card transactions, creating close ties with young customers. The "financial services + coffees" combination gave a boost to the integrated, ecosystem-based model of development. As a Beijing-based bank, the Company issued the Hua Xia Midas Stone credit card answering the policy call of Shijingshan District, Beijing Municipality. As of the end of the reporting period, about 1.16 million new cards were issued through ecosystem-based customer acquisition.

The Company will continue to diversify the cooperative ecosystem scenarios, acquire and activate customers through high-quality scenarios, shift from stand-alone customers to ecosystem-based customers, build a full-link digital monitoring system, comprehensively improve the fine-grained management and comprehensive service efficiency and promote the high-quality development of credit card business.

Transformation of retail business towards digital operation

A omni-channel digital marketing service matrix was developed. A four-in-one online mobile marketing service matrix was built, integrating “mobile banking, corporate WeChat, account manager APP and cloud studio”. The Company also introduced new channels including AI outbound call service and remote banking, and gradually improved the digital marketing service matrix of “Smart Brain + Omni-channel Reach” to shape a multi-channel, multi-dimensional collaborative marketing model.

Intelligent retail network service channels were developed. The product matrix was iteratively improved based on the personal online banking and mobile banking APP, so as to expand service features, improve customer experience and provide customers with intelligent and online services. The functions of personal online banking accounts were fully reengineered and upgraded with a focus on being “simple, convenient, lightweight, and secure”. The “Yue Xiang • Account Plus”, “Yue Ying • Wealth Plus” and “Yue Su• Transfer Plus” service brands were launched to boost the personal online banking services. A mobile banking management system was built. The activity and assets of mobile banking customers were increased by enriching the everyday life scenarios, carrying out high-frequency and quick payment marketing events and improving the customer journey experience. The Company pushed for user integration and functional connectivity of the mobile banking and “Splendid Life” APPs, thereby building an ecosystem-based customer business chain of “attracting customers via scenarios, retaining customers with financial services”. As at the end of the reporting period, the Hua Xia Bank mobile banking APP had 26,940,500 registered users, a year-on-year growth of 7.90%. The number of monthly active users (MAU) was 4,287,600, a year-on-year increase of 6.18%.

Efforts were continued to build a scenario-based enterprise-level retail ecosphere. The Company moved forward with building an enterprise-level digital ecosphere platform. In collaboration with industrial digital finance, the platform aims to build a digital account system covering personal accounts, e-wallets and open benefits under everyday life scenarios including “housing, automobile, school, healthcare, travel and shopping”, so as to shape a closed loop of digital customer management and ecosystem-based customer acquisition. In response to the “15-minute Life Cycle” government policy, the Hua Xia Bank outlets worked to build their retail ecospheres with a radius of “three kilometers”, in an effort to develop digital ecosphere outlets that use smart and efficiency banking systems to provide a full range of convenient financial services across sectors, covering all aspects of everyday life.

3.12.3 Financial market business

During the reporting period, the Company continued to promote financial market business transformation based on effective risk control, made in-depth analysis on the economic situations at home and abroad and the monetary and fiscal policies of major economies, strengthened market researches and forecasts, increased investment and trading, cemented the customer base and enhanced the business efficiency and user experience through digital transition. Huaxia Wealth Management strengthened product innovation to enhance its customer service capacity and market influence. With the custody business structure improved and customer chains developed, the financial market business segment effectively boosted the ability to create the overall market value.

Financial market business

During the reporting period, the world’s major economies continued to tighten their policies to tame inflation. The global financial market was divided amid high interest rates and escalating geopolitical conflicts. International capital flew to the US and European markets in an interest rate hike cycle, fueling the stock bull run in these markets where bond prices dropped significantly. The prices of petroleum, grains and other commodities fell to varying degrees amid expected slowdown in world economy, triggering a substantial rise in gold prices. China’s bond market expanded steadily, with the yields on Chinese Government Bonds (CGB) on a bumpy decline. The Company strengthened forecasts on market developments and continued to promote the capital-light transformation of the financial market business to fortify the customer base. The treasury operations saw dynamic adjustments to the trading strategies, meeting customer needs through flexible swing trading and increased trading volume and offering a wider range of investment and financing instruments. On the interbank liability front, the negotiated interbank products were created to improve the business structure and market competitiveness. The interbank investment further increased standard, online and open product offerings while maintaining compliance and increased the proportion of standard investments. The financial institution customer management system was deepened. In an all-out effort to expand the base of investors and counterparties, the “Hua Xia e Home” interbank customer service platform was launched to further enhance the selling capacity and customer stickiness. The bills trading volume hit a new record high, marking a higher activity level of the Company in the national bills market. The quick bills discounting service was launched to enable nationwide use of a credit facility and allow bills to be discounted just in “seconds”.

During the reporting period, the Company conducted 85,441 unsecured inter-bank lending and pledge-style repurchase transactions totaling RMB68,041.687 billion, up 25.93% from the previous year. The RMB and foreign-currency treasury transactions totaled RMB84,927.57 billion, up 33.48% from the previous year. Specifically, the Company’s derivatives trading volume reached RMB5,569.202 billion cumulatively.

Box 3: The “Hua Xia e Home” Interbank Customer Service Platform Provided Efficient and Quality Services

During the reporting period, the Company continued to digitally transform the “products, marketing, trading and services” in the financial market business segment. The “Hua Xia e Home” interbank customer service platform was launched in July 2023, with the aim of comprehensively enhancing the data management capacity, selling capacity and financial institution customer services. With this comprehensive service platform integrating “funds, assets, information and trading” in place, the Company can provide customers with such financial services as information exchange, financing, product sales, asset trading, consulting, ESG data and evaluation and become a “connector” with other financial institutions. Since its launch, “Hua Xia e Home” has provided efficient and quality services for its financial institution customers. As of the end of the reporting period, the “Hua Xia e Home” interbank customer service platform had 172 registered users, interfaced with 51 fund companies and finished joint system testing with 39 fund companies. A total of 578 fund products were approved for distribution on the platform, where RMB10.12 billion of mutual funds were distributed among financial institution customers.

Asset management services

Huaxia Wealth Management further consolidated the foundation for high-quality development. The Company strengthened product innovation and iteratively upgraded the product system. A nine-cell matrix of products with “high, medium and low volatility levels” and “long, medium and short terms” was developed to clarifying 21 product labels. The Company introduced the first Tiangong series index products in the industry, making breakthroughs in relative yield target products. The Company continued to develop an omni-channel marketing system, enhanced the intra-Group collaborative marketing and further tapped the potential of external distributors. At the end of the 2023, the Company had 112 external distributors, an increase of 72 compared with the beginning of the year. Efforts were made to improve the customer service capabilities and build a dual service platform targeting both sales channels and end customers. The Customer Experience Department was set up. A whole-process service system integrating the service platform, service contents and data use was created and operated. The Company strengthened the investment research support, enriched the investment strategy matrix, gave full play to asset creation, broadened the capability of allocating assets across classes seized the opportunities of asset allocations. The Company’s risk governance structure was improved by enhancing the risk control compliance management, integrating the risk control compliance resources and data and embedding the work into earlier stages and processes of business. With continued efforts to deepen ESG investment practices, the Company led the industry in taking inventory of carbon footprint its own operations and asset portfolios.

At the end of the reporting period, there were 697 existing wealth management products with a balance of RMB591.948 billion, up 15.30% over the end of the previous year. The Company realized RMB1.386 billion of fee-based income from wealth management, down 58.82% from the previous year, due to greater market volatility, intense competition from peers, changing customer needs and generally lowered fee rates.

Asset custody services

The Company adhered to high-quality development, promoted structural optimization, strengthened intra-Group collaboration and focused efforts on the marketing of key products. The custody size of mutual funds saw rapid growth. The industry’s first ever photovoltaic REITs in the custody of the Company, China Aviation Jingneng Photovoltaic Closed-end Infrastructure Securities Investment Fund, was successfully listed. A working mechanism was created for chain-like development of custody customers. The chain-like marketing and ecosystem-based customer acquisition were promoted across the board. The asset custody services made significantly greater contributions to the Bank’s overall performance. The innovation in custody products was sped up to expand the new growth poles of custody services. For further digital transition of custody services, the smart management platform and the smart customer service platform were put online. Efforts were stepped up to build the capacity of professional operations and provide customers with convenient, efficient, safe and reliable services. The compliance of asset custody development was enhanced to improve the overall capability of asset custody risk prevention and control.

During the reporting period, the Company moved faster forward in the custody of securities investment funds, insurance funds and trust assets. A total of 157 mutual funds under custody amounted to RMB327.466 billion, up 28.02% from the end of the previous year. They generated RMB233 million of fee-based income, down 1.23% year-on-year. The insurance funds under custody totaled RMB218.222 billion, up 37.86% from the end of the previous year. The Company registered 9,766 products under custody, covering securities investment funds, securities dealers’ asset management plans, banks’ wealth management, insurance-related asset management schemes, asset-backed special plans, and equity investment funds. Under the combined effects of a volatile and lackluster capital market and custody business rebalancing and lowered custody rates of mutual funds, the assets under custody reached RMB3,367.036 billion, down 3.07% year-on-year, and custody fee income was RMB815 million, down 2.79% year-on-year.

Box 4: Accelerating Transition to Mega Custody and Collaborative Marketing Focused on Growth of Core Customers

During the reporting period, the asset custody services promoted value chain-based marketing and ecosystem-based customer acquisition across the board toward the goal of expanding the core customer base, so as to strengthen the value chain-based development of asset custody services. With a focus on six categories of key custody products, including private equity investment funds and public REITs, the working mechanisms were developed for information transmission, training and publicity, coordination and incentives in relation to value-chain-based development. For upstream and downstream customers of our custody clients, comprehensive financial services including corporate banking, investment banking, financial market and inclusive finance were provided through the four stages of fund raising, investment, management and exit. A total of 162 customers were recommended to business lines and value-chain-based development was realized for 89 customers, with 356 core custody customers added in the year. A marketing promotion meeting for value-chain-based development of strategic customers was held, with strategic cooperation agreements signed to establish a model case of value-chain-based development of strategic customers. By establishing the value-chain-based development of custody customers, a custody customer ecosphere was created as a new growth pole of profits in asset custody. The Company has been shifting faster to mega custody and collaborative marketing to enhance the capability of creating overall value of asset custody.

3.12.4 Digital technology

During the reporting period, the Company continued with digital transition toward the goal of a "first-class smart eco-bank". Efforts were intensified to implement the digital transition strategy persistently and improve the digital operations and management, giving full play to data and technology in improving services, innovating models and enhancing efficiency. The Company enhanced its ability to serve the real economy through high-quality financial development.

Digital transition was sped up across the board to tackle daunting challenges. The action plans for digital transition of 22 business lines were further implemented under the master plan. The Company showed marked progress in and sound momentum for the transition to digital operations. A digital capability evaluation system was created to encourage transition, enhance capabilities and stimulate collaborative innovation. The self-driving force of transition was strengthened, putting the Bank on fast track for digital transition. With value creation as the core, the Company accelerated the innovation and reshaping of the business, organizational, business and management models, conducted broad-based discussions and researches on digital transition and pooled resources of the Bank to drive the main business lines in well-defined directions. The potential in digital innovation was further unleashed by organizing the Bank-wide digital innovation competition, so as to stimulate creativity in key fields and facilitate the innovative incubation of quality projects. The digital talent competency criteria were established, covering 62 competency items and 172 competency elements. The relevant training and certification system was improved, with nearly 5,000 people at the Bank certified for their digital skills. A talent selection and use mechanism was created to ensure accurate matching between digital staff and digital needs across the Bank, and the talent distribution landscape was also optimized.

Digital finance functioned effectively on various fronts. The Hua Xia Treasury Cloud brand offering "financial ease at your fingertip" was built. The Hua Xia Treasury Cloud platform allows dynamic information collection and see-through monitoring of domestic enterprises' bank accounts and fund flows. It has helped expand the customer coverage and effectively enhanced the treasury management capability. As of the end of the reporting period, Hua Xia Treasury Cloud had 7,928 customers with RMB542.694 billion in transactions. The Company fully embarked on building an enterprise-level product management platform, established a product monitoring and analysis and performance evaluation system and explored flexible product allocation in key areas. The enterprise-level digital customer management platform was put into operation to enable digital closed-loop management of customers. Mobile banking, AI outbound call services and other channels were coordinated to shape a digital customer service system featuring "Smart Brain + Omni-channel Reach". An enterprise-level remote banking platform was developed and remote video-based service scenarios were created to shape a diverse service matrix integrating the textual, audio, video and SMS formats. An enterprise-level knowledge management platform was launched to enable knowledge lifecycle management and sharing, deepen the accurate acquisition of knowledge and centralize the knowledge management. Outlets were further transformed digitally by expanding the business scenarios of the intelligent lobby system, including information release and customer identification. More than 95% of the high-frequency lobby-based personal transactions were turned to be self-service.

The full-stack industrial digital finance saw innovative development. Three business directions were established, namely movables, trading and logistics. Digital financing products were created and applied to more than 20 industries such as high-end manufacturing, energy, warehousing, agriculture and animal husbandry. 651 ecosystem-based customers were acquired along industrial chains with total financing of RMB2.678 billion. The industrial digital finance credit platform and the credit monitoring and operation platform were launched to enhance the whole-process management capacity for industrial digital finance. A 12-cell matrix of risk control models for industrial digital finance was developed, with quantitative models used to predict risks and stability in the ecosystem-based transactions, breaking the ice in digital decision breaking. The digital settlement business grew steadily. The "Clearing Express" service for commodities registered 215 new customers, with the cumulative bilateral settlements amounting to around RMB100.415 billion. The Platform Link recorded 34 new customers with an annual trading volume of about RMB208.995 billion in aggregate.

The digital and intelligent transition of risk control was advanced in a coordinated manner. The "Dragon Shield" big data-based risk identification and early warning system was iteratively upgraded. The enterprise risk information base was expanded. The Dragon Shield APP was launched to standardize early warnings. The Dragon Shield was further applied throughout the corporate credit process, thereby enhancing the standard, mobile and intelligent level of corporate credit risk control. The Company kicked off the development of an enterprise-level special assets management system. With the aim of applying lifecycle management to all special assets, the system provides standard and intelligent collection and disposal processes, enables fine-grained and smart operations and provides strong support for the management of special assets. The compliance rule base and compliance graph system were put into production, graphically displaying the knowledge and information relations and enabling label-based, precise retrieval of compliance information. The new internal and external rules were automatically monitored and their similarity was identified by constructing NLP models with tens of millions of parameters. An automatic management mechanism for internalization of external regulations was established, providing the Bank with advanced compliance rule information services.

The data management capability was consolidated. The King Yu Program wrapped up all its key tasks. Making a foray into key fields of data management, the Company set up the Data Information Department, consolidated the pyramid-shaped organizational structure for data management, enriched the data lifecycle management functions and coordinated the efforts on Bank-wide data governance. The data standards system was further built to set up a mechanism for standard conformance management through the project lifecycle. The data dictionaries for major application systems of the Bank were centrally managed, covering all the important systems. Mechanisms and processes ranging from data assets to data use were established. An enterprise-level data analysis model management system was built to build the model management platform. The Company was certified for Level 4 data management capacity maturity (quantitative management), ranking among the top tier of banks.

The FinTech capacity was steadily enhanced. During the reporting period, the Group's IT investment reached RMB4.048 billion, representing a year-on-year increase of 4.79%, accounting for 4.34% of operating income. The architectural guidance was strengthened by releasing a enterprise-level architecture blueprint and strengthening enterprise-level architecture control. The digital finance infrastructures were gradually improved. A new-generation agile data delivery system was built on the enterprise-level data base composed of "two data lakes and two data warehouses", the middle office for data and information and the data service platform. The *White Paper on Basic Capabilities of Digital Technology* was published. New technologies such as metaverse and big models were applied to accelerate the utilization of digital technology outputs. The Company built solid security protection system and put in place an enterprise-level comprehensive defense framework with three centers in two cities. Four lines of defense-in-depth were established from the boundary to the core, effectively safeguarding all systems of the Bank. A cloud-native Bank-wide security platform was developed to enable integrated management of development, operation and security, lower the risk of using new architecture and improve the capability of supply chain security management. A domestically leading antivirus software system was deployed to enable testing at the point, cloud, and network levels, greatly improving the cyber-security capability.

Box 5: Digital Ecosystem Management Accelerated the Transformation of Business Development Models

The Company stepped up the ecosystem-based transition of customer acquisition, shifting customer acquisition from a stand-alone model to ecosystem-based bulk acquisition, and upgrading customer services from offline channels to integrated offline and online channels.

The integrated financial service capacity was enhanced. The core customer base was developed with a focus on the industrial, funding, platform-based and park-based ecosystems, enabling "1+N+N" bulk customer acquisition along their industrial, equity and funding chains. The organizational structure for industrial digital finance was reshaped, an agile marketing team was built and a hierarchical authorization mechanism was established. Scenario-based marketing was consolidated to enhance ecosystem-based customer management. The Hua Xia-Luckin co-branded credit card was issued for the youth market segment, realizing "online + offline" dual output in the Luckin ecosystem, enabling fine-grained management of ecosystem data and empowering bulk acquisition of quality customers. The ecosphere customer transaction data was accumulated and the customer service and risk control models were reengineered, so as to continuously improve the capability of ongoing follow-up services for customers' fund transactions and the ability to cover all customers' business opportunities.

Technology empowered ecosystem-based customer acquisition. An enterprise-level industrial ecosystem map platform was built with holographic industry views and enterprise views. As of the end of the reporting period, the platform was used by 43 tier one branches and 981 sub-branches of the Company, with 1,485 accounts opened and 4.11 million pieces of marketing and business opportunity messages sent automatically. The total number of system visits reached 122,538. A Treasury Cloud platform was established, integrating its settlement functions with the ecosystem customers' business scenarios and turning their settlement funds into deposits. The GBC integrated digital retail ecosphere platform was built to provide ecosystem-based customer acquisition and digital customer lifecycle management services. The Company pushed for user data integration and functional connectivity of the mobile banking and "Splendid Life" APPs, shaping a closed loop of "attracting customers via scenarios, retaining customers with financial services".

The Company worked with ecosystem partners to create shared value. An ecosystem partners system was created for government, industrial and financial scenarios. The Company established a lifecycle management mechanism, launched partner management tools and initially built an ecosystem resource pool. A value contribution-based partner classification system was shaped, so as to promote effective allocation of resources and sustainable development of the ecosystem. Now the Company has established a relationship with partners in such scenarios as big models, industrial ecosystem map and the Gongqingcheng Private Fund Town's private equity system. The First Ecosystem Partners Conference was successfully held. The "Geese Initiative" partner brand was launched and the first group of 62 ecosystem partners were introduced. The Company worked with partners to develop business models based on ecosystem scenarios.

Box 6: New Technology Research, Development and Application Have Developed a New Competitive Edge

The Company made breakthroughs in research and development of new technologies, becoming a leader in quantum finance application research in China. The "Quantum FinTech" methodology was introduced to integrating the quantum technology into FinTech. A series of quantum finance algorithm models were built and validated for typical financial scenarios. With the photon quantum computer (PQC), the Company worked with partners to establish the quantum advantage for the first time in the investment portfolio optimization in the financial sector, with relevant achievements included in the "Ten Financial Informatization Events 2023" published by the Financial Computerizing magazine of the People's Bank of China. In cooperation with the Beijing Academy of Quantum Information Sciences and Tsinghua University, the Company applied the quantum secure direct communication (QSDC) to commercial banking for the first time worldwide, providing the financial sector with a theoretically proven information security solution protected by the laws of physics.

Momentum was gathered to apply new technologies and enhance the leading role in innovation. The smart financial service platform was built. The intelligent infrastructure, intelligent model service and intelligent application output platform capabilities were improved to make smarter services available. OCR, NLP and biometrics technologies were further applied to enhance the capability of smart operations. Metaverse and other emerging technologies were actively explored, with the metaverse space program kicked off to strengthen in-depth integration of technology and scenarios. Nearly 300 scenarios of intelligent inbound call and outbound call were added. As of the end of the reporting period, a total of over 10 million intelligent outbound calls were made. The virtual digital man platform was built with a number of in-house application scenarios developed. A knowledge management platform was launched to enable knowledge lifecycle management and sharing, deepen the accurate acquisition of knowledge and centralize the knowledge management. The intelligent anti-fraud platform was used to develop intelligent decision-making scenarios. As of the end of the reporting period, a total of 7.87 million high-risk transactions were blocked. The compliance rule base and compliance graph system were established to shape an integrated internal and external compliance knowledge system. NLP models with tens of millions of parameters were constructed to enhance the Bank's information service capability regarding compliance rules. Using the ChainMaker blockchain services, the Company developed the "Long Xin" digital credit debt obligations to enable data sharing and authentication in industrial chain finance. The Long Xin Chain platform was included in the list of the fourth batch of application scenario development projects for technological innovation published by the State-owned Assets Supervision and Administration Commission of Beijing.

3.13 RISKS AND RISK MANAGEMENT

During the reporting period, the Company fully implemented the decisions and plans of the State, coordinated the efforts to support the real economy, serve the people's livelihood and forestall and defuse financial risks. The comprehensive risk management system was further improved, the risk appetite transmission was strengthened and the asset lifecycle management was implemented in depth, leading to stable improvements in the asset quality. The New Capital Regulation was implemented earnestly and all the risk control mechanisms were refined to ensure effective response and prevention and maintain sound operations of the Company.

3.13.1 Credit risk status

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to the Company, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the

Company mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee.

3.13.1.1 Organizational framework and division of responsibilities of credit risk management

The Company has established a credit risk management organizational framework with reasonable duty division and definite responsibilities. Established under the Board of Directors, the Related Party Transactions Control Committee is responsible for managing related party transactions and the Risk Compliance and Consumer Protection Committee is responsible for formulating risk management policies and supervising the management of various risks by the senior management. Established under the senior management, the Credit Investment and Financing Policy Committee of the Head Office is responsible for managing the credit and non-credit investment and financing policies of the Bank; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; the Asset Risk Disposal Committee is responsible for researching and approving matters on asset risk handling; the risk management departments of the Head Office and branches are responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval and authorization approval of important industries and businesses; the Company strengthens functions of each link of credit business, and sets up positions with definite responsibilities and smooth operation.

3.13.1.2. Risk classification procedures and methods

In accordance with the *Rules on Risk Classification of Financial Assets of Commercial Banks* issued by regulators, the Company conducted risk classification of assets using a "preliminary classification, final classification and approval" process, taking into account the borrowers' financial position, willingness to pay and track record of debt service as well as a number of financial and non-financial factors, including the overdue days of financial assets and guarantees.

3.13.1.3 Credit risk profile

Credit exposures: At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on- and off-balance-sheet credit exposures of the Group amounted to RMB4,906.617 billion, including on-balance sheet business exposure of RMB3,942.094 billion, representing 80.38% of the total, and off-balance sheet business exposure of RMB962.523 billion, representing 19.62% of the total.

Large-value risk exposure management. Pursuant to the *Administrative Measures for Large Risk Exposures of Commercial Banks*, the Company carried out large risk exposure management, monitored and reported large risk exposures on a quarterly basis, proceeded with building of the large risk exposure system and kept enhancing large client risk control at the Head Office and branches. At the end of the reporting period, the Company and the Group saw all their non-banking single customers, non-banking related customers, interbank single customers and interbank group customers meeting the regulatory requirements.

For further details of credit risk management of the Company, please refer to "3.14.1 Loan quality management".

3.13.2 Liquidity Risk status

Liquidity risk is the risk that the Company may be potentially unable to meet the asset growth and debt obligations when due at a reasonable cost. Main factors affecting the liquidity risk include: sudden tightening of market liquidity, substantial deposit runoff and the debtor's default and weakening financing capacity.

The Company's goal of liquidity risk management is to maintain sufficient funds in either normal or stressed business environment to accommodate asset growth and debt service, so as to harmonize "liquidity, safety and efficiency". The Company has in place a sound system of liquidity risk management. First, the governance framework was improved. The decision-making system consists of the Board of Directors and its special committees as well as the Asset and Liability Management Committee of the Head Office. The Board of Supervisors supervises and evaluates the performance of the Board of Directors and senior management in liquidity risk management. The execution system consists of the Budget and Finance Department and other specialized management departments of the Head Office and branches. Each of these systems performs corresponding decision making, supervision and execution functions according to division of responsibilities. Second, the system of policies and procedures have been refined. The Company has in place a complete set of liquidity risk appetite, strategy, procedures, and measures, and introduced specific management responsibilities, flows and methods. Third, management measures have been optimized. The Company set a system of liquidity risk monitoring indicators, conducted stress tests and emergency drills, created a liquidity risk assessment mechanism, established an information management system and effectively managed the identification, measurement, monitoring and control of liquidity risk.

During the reporting period, the Company followed a prudent liquidity risk appetite, continued to improve the liquidity risk management mechanism, kept improving the structure of assets and liabilities and managed to keep liquidity stable mainly by taking the following measures: First, a liquidity risk appetite transmission system was created. The Company set up a liquidity indicator system. According to different risk appetite attitudes, the liquidity indicators were broken down into transmission indicators at three levels, namely, business lines, branches and subsidiaries, to ensure top-down consistency of the risk appetite and refine the granularity of management. Third, multiple sources of funding were used to boost the stability of liabilities. The Company improved the deposit structure, consolidated the deposit base and stepped up bond issuance to effectively expand medium- and long-term funding sources, and continued to strengthen the development of funding channels from the central bank and other commercial banks. Third, asset and liability matching was strengthened. The Company defined the objectives of the loan-to-deposit ratio management, strengthen the monitoring, analysis and guidance, set short – and medium-term mismatch limits and strengthened the management of maturity mismatches. Fourth, emergency management was enhanced. The Company formulated a multi-scenario drill plan, developed standardized emergency drills and crisis response processes and organized special stress tests and emergency drills to improve the crisis response capabilities. Fifth, the Group's liquidity risk management was strengthened. The mechanism for subsidiaries' liquidity risk management was improved, and the intra-Group mutual liquidity assistance mechanism was improved. Sixth, intraday liquidity management was strengthened to boost the efficiency of fund use. During the reporting period, the Company underwent to payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards. At the end of 2023, liquidity coverage ratio was 129.43% and net stable funding ratio was 105.14%.

Information on liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2023
Stock of high-quality liquid assets	472,869
Net cash outflows over a 30-day time period	365,346
Liquidity coverage ratio (%)	129.43

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2023 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2022] No. 34) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No. 3 Decree in 2018).

Information on net stable funding ratio

(Unit: RMB1 million)

Item	31 December 2023	30 September 2023
Available stable funding	2,267,283	2,189,052
Required stable funding	2,156,481	2,113,630
Net stable funding ratio (%)	105.14	103.57

Note: The above are consolidated data calculated according to the *Notice of CBIRC on 2023 Offsite Regulatory Statements Preparation and Reporting* (Y.B.J.F. [2022] No. 34) and the *Liquidity Risk Management Measures of Commercial Banks* (CBIRC No. 3 Decree in 2018).

3.13.3 Market risk status

Market risk is defined as the risk of loss to the Company's on- and off-balance sheet activities caused by adverse movements in market rates (including interest rates, exchange rates, stock prices and commodity prices). The main market risk confronting the Company includes interest rate risk, exchange rate risk and commodity risk. The Company established a sound market risk management system appropriate for the Company's business nature, size and complexity and spanning the entire process of identification, measurement, monitoring and control.

The year 2023 saw the ongoing Russia-Ukraine war, turbulence in the Middle East, eased global inflation and the US Federal Reserve's interest rate hike coming to an end. The Chinese economy recovered slowly under a generally prudent monetary policy tilting toward easing, with the RMB fluctuating and weakening against US dollars and the market interest rate staying low. In view of the macro-economic and financial complexities at home and abroad, the Company executed the market risk appetite and strategy and flexibly used the limit, stress testing, risk alert and other management tools to further implement the New Capital Regulation for the market risk. During the reporting period, the Company managed market risk well, keeping all market risk limits within the appetite range and the market risk at a controlled level.

3.13.3.1 Exchange rate risk management

As for the trading book, the Company set limit indicators for interest rate trading instruments such as bonds, funds and interest rate swaps in line with the market risk appetite and risk management strategy, including exposure, stop loss, interest rate sensitivity and value at risk (VaR) and strengthened monitoring of limits, ensuring the stability of business on every front. With close attention to the Federal Reserve's interest rate hike and other major events, stress testing was conducted in response to market changes. During the reporting period, all the Company's interest rate-related transactions in the trading book fell within the market risk appetite and limit and the interest rate risk in the trading book remained under control.

In the banking book, the Company adhered to a prudent interest rate risk appetite, strengthened interest rate expectations management and enhanced internal coordination to manage interest rate risks more effectively across the board. The management toolkit was enriched. The gap analysis, duration analysis, sensitivity analysis, scenario simulation and stress testing were used to strengthen the assessment of customer behavior changes, and regularly measure and analyze the impact of interest rate changes on net interest income and economic value indicators. During the reporting period, the Company maintained stability in all monitoring indicators and the IRRBB was basically kept under control.

3.13.3.2 Exchange rate risk management

In the trading book, such limit indicators as exposure, stop-loss and VaR were set to control exchange rate risk. Limit monitoring and transaction alert were strengthened to manage exchange rate risk actively. The foreign exchange business system was improved to reinforce the foreign exchange business process management. Stress test scenarios were enriched in line with the risk characteristics of foreign exchange derivatives, increasingly enhancing the measurement capability. During the reporting period, all the Company's foreign exchange-related transactions in the trading book fell within the market risk appetite and the exchange rate risk in the trading book remained under control.

In the banking book, the Company reasonably matched assets and liabilities in RMB and foreign currencies and controlled the currency mismatches through such methods as scenario analysis and stress testing. During the reporting period, the Company's banking-book currency mismatch was mild and the overall foreign exchange exposure was low, so exchange rate changes had a controlled adverse effect on the Company.

3.13.4 Operational Risk status

Operational risk is defined as the risk of loss resulting from problematic internal processes, employees and IT systems or from external events, including legal risk, but excluding strategic and reputational risk.

During the reporting period, the Company actively strengthened operational risk control and kept boosting the effectiveness of risk identification, monitoring, assessment, control, measurement and reporting. First, the Company effectively used a variety of operational risk management tools to strengthen operational risk identification, prevented and controlled operational risk at the source, improved the self-assessment mechanism, strengthened the closed-loop management of operational risk and kept enhancing the quality and efficiency of operational risk and control self-assessment. It optimized and adjusted key risk indicators and improved the real-time operational risk monitoring capability and issued early risk warnings. The Company established a mechanism for vertical risk appetite transmission to branches, collected and monitoring operational risk events and loss data in a timely manner and enhanced the analysis and notification of typical incidents. Second, the Company strengthened risk prevention and control in key fields, released timely inter-bank risk information, analyzed and notified major points of operational risks based on implementation of operational risk management tools and caused prominent operational risk issues to be solved. Third, preparatory work was well done for implementation of the new standardized approach to operational risk. Policy revision and system upgrading were carried out at the same time in accordance with regulatory rules. The special campaign on loss data management and the loss data collection process and management mechanism were improved to comprehensively improve data quality. Fourth, the Company strengthened the development of operational risk culture, organized self-assessment of employee conduct management, stressed problem analysis and correction, provided multi-level training on management of operational risk and employee behaviors and guided all at the Bank to maintain professional integrity. During the reporting period, the operational risk management system of the Company enjoyed stable operation, placing operational risk under control in the overall sense.

3.13.5 Explanation on status of other risks

Compliance risk status

Compliance risk is the risk of legal sanction, regulatory punishment, material financial losses or reputational damage arising from the failure to comply with laws, rules and standards.

The Company has in place an organizational structure for compliance management commensurate with its scope of business, organizational framework and business scale. The Board of Directors is ultimately responsible for the compliance of business operations. The Board of Supervisors supervises the performance of compliance management duties by the Board of Supervisors and the Senior Management. The senior management effectively managed compliance risk. The compliance chief is responsible for organizing the management of compliance risk across the board and supervising the duty performance of the compliance management department according to the annual compliance work arrangements. The compliance management department, led by the compliance chief, is responsible for assisting the Senior Management in effectively managing compliance risks facing the Company. The head of a business line, branch or subsidiary is primarily responsible for the compliance of the business activities of the business line, branch or subsidiary.

During the reporting period, the Company operated in accordance with laws and regulations to ensure full compliance. It took a number of effective steps to enhance the compliance awareness across the Bank, foster a sound compliance culture atmosphere and fortify the foundation for risk prevention. First, the Company started to review and reengineer the compliance management system, made every effort to implement the compliance system platform project worked to raise compliance to a higher standard. Second, the Company kept up the pressure against non-compliances, conducted special screening of non-compliance risks in key areas and strengthened the management of abnormal behaviors. Third, supervisory review was enhanced. The Company conducted stringent off-site special examinations, evaluated professional inspections and direct compliance checks of the Head Office and branches and strengthened coordination of inspections. Fourth, the working mechanism for rectification was improved and the rectification procedures were refined to improve the quality and efficiency of rectification. Fifth, the due diligence process was standardized to provide all credit staff with standards to follow in their work to regulate operations and prevent risks. Sixth, the money laundering risk assessment management system was improved, the assessment methods and indicators were refined and the models and parameters were enriched to improve the accuracy of money risk assessment results. Seventh, compliance culture was built with vigor. The professional skills competition with the theme of "Compliance First to Boost Development". The "Legal & Compliance Lectures" series training was carried out. These events raised employees' awareness of compliance, cemented the foundation for compliance and fostered a sound compliance atmosphere.

IT risk status

IT risk means operational, legal and reputational risk arising from natural factors, man-made factors, technical vulnerabilities or management deficiencies in the use of information technology by the Company. During the reporting period, the Company continued to strengthen the ability to prevent and control IT risk. Smart operation and security management were intensified. The switchover and takeover of real business operations of the local disaster recovery center were completed, providing effective protection for continuity of business systems. The cyber-security defense-in-depth system was further fortified to enhance operational security management. The screening and rectification of security vulnerabilities were enhanced. Cyber-security was assured for special periods such as the Chengdu Universiade, Hangzhou Asian Games and the Belt and Road Forum for International Cooperation. The ability to prevent and control cyber-security risks was increasingly boosted. During the reporting period, the Company kept its information systems running stably and maintained a 100% overall availability of important information systems. The IT risk was kept under control overall.

Reputational risk status

Reputation risk refers to the risk of negative assessment or comments on Company from stakeholders, the public and media as a result of the Company's behavior, employee behavior or external events, thus undermining its brand value, adversely affecting its normal operation and even affecting the market stability and social stability. During the reporting period, the Company always adhered to the leadership of the Party in its reputational risk management, fully implemented the regulatory requirements, earnestly followed the principles of forward-looking, matching, full coverage and effectiveness and improved the reputational risk management system covering pre-event assessment, risk monitoring, information reporting, classification and assessment, response and disposal, review and accountability. The Company insisted on integrating reputation risk management into corporate governance and the comprehensive risk management system and strengthened the collaboration between reputational risk management, business development and consumer protection with a focus on key operating activities. Remaining problem-oriented, the Company continued to optimize products, service processes and management policies to enhance financial service capabilities and internal management. Ongoing training on reputational risk management was conducted to enhance employees' reputational risk awareness and foster the reputational risk management culture. The Company strengthened positive publicity and brand building, actively conveyed professional, rational, objective and positive voice and adequately built up reputation capital, safeguarding the brand and social images of the Company.

Country risk status

Country risk is the risk of losses incurred in certain countries or regions due to local economic, political and social changes or local borrowers' inability and unwillingness to repay debts arising therefrom. During the reporting period, the Company kept strengthening the management of country risk limit, paid timely and due attention to the sovereign credit ratings of relevant countries and regions published by external rating agencies, kept a close eye on the country risk and allocated sufficient country risk reserves. The Company's country risk exposure accounted for a low proportion of the on-balance-sheet assets. So the country risk remained under control on the whole.

3.14 KEY CONCERNS IN OPERATION

3.14.1 Loan quality management

At the end of the reporting period, the Group recorded 2.74% and 1.67% in ratio of special mention loans and NPLs respectively, down 0.04 and 0.08 percentage points from the end of the previous year, respectively. The loans overdue for more than 90 days and NPLs accounted for 86.45% of total overdue loans, staying within 100% in compliance with regulatory requirements.

During the reporting period, the Company firmly implemented decisions and plans of the State, gained an accurate understanding of the requirements on high-quality financial development and adhered to the original aspiration of financially serving the real economy. The Company meet difficulties head-on, pursued progress while ensuring stability, focused on asset lifecycle management, effectively responded to and prevented credit risks and managed to improve asset quality and management capabilities.

First, the policy guidance and transmission were strengthened. The risk appetite fully played its vital role and ran through the management of all risks. The early warning and correction mechanism was applied to accurately identify and promptly correct problems, so as to ensure the overall risk level was kept in check. The Company strengthened the fine-grained and differentiated level of credit, investment and financing policies, deepened and refined regional and industrial researches and strengthened the alignment between credit approval guidelines and regional credit strategies. Stronger guidance was provided on customer development, targeted support was provided for capturing business opportunities and access was strictly controlled to enhance branches' operation and development capacity.

Second, the risk processes were effectively controlled. New asset allocations and customer acceptance and exit management were properly managed in business operations. The Company improved the risk monitoring system, strengthened the post-investment and post-lending management, enhanced direct inspection and off-site spot checks after investment and lending and strengthened real-time monitoring and process intervention, so as to ensure risks were timely identified and effectively controlled, comprehensively improve the quality and efficiency of process management and strictly prevent performing assets from deteriorating.

Third, risk control was intensified in key areas. The Company continued to implement differentiated concentration control, strictly conducted eligibility management and monitoring in key areas and kept reducing the credit exposures with high risks. With due attention to market developments, efforts were strengthened to prevent and control risks while meeting reasonable financing needs in accordance with laws and regulations. The quality of credit investigation was enhanced, with a focus on key businesses and key areas. Post-lending management was enhanced to effectively prevent and control new risks.

Fourth, the handling of existing risks was accelerated. The Company comprehensively enhanced the capability of coordinated, intensive and professional handling of risk assets, focused on value contribution, strengthened professional organizational push and process management and continued to improve our fine-grained management capabilities and the disposal quality and efficiency of non-performing assets. During the reporting period, RMB47.902 billion of NPAs were recovered or disposed of, including RMB12.17 billion of cash collection, RMB33.802 billion of bad debt write-offs and RMB1.93 billion of repossessed assets.

Fifth, the digital risk control project was accelerated. The enterprise-level big data-based risk identification and warning system was iteratively upgraded to enhance the capability of early earning. For the internal ratings-based models, the measurement tools were optimized and upgraded and the model parameters and master scale were fully calibrated to boost the accuracy and reasonableness of customer ratings. The Company began to build a special assets management system and continued to improve the functions of the risk management system.

Sixth, the risk culture development was strengthened. Upholding the "prudent yet enterprising" risk culture, the Company refined the professional risk evaluation system, gave play to the guiding role of the risk evaluation mechanism and continued to carry out professional training on risk compliance management to enhance all employees' of awareness of risk control and professional skills and ensure steady and prudent operation.

The Company will maintain stable operation in compliance with laws and regulations, deepen fine-grained management, adhere to the dual task of serving the real economy while forestalling and defusing risks, improve the risk management system, make solid progress in risk management work, effectively respond to and prevent credit risks, improve asset quality and management capabilities and continue to promote high-quality business development.

3.14.2 Net interest margin

During the reporting period, the Group's net interest margin (NIM) was 1.82%, a decrease of 28 bps from the previous year. The Company actively implemented the requirement of financially serving high-quality development of the real economy and provided stronger support for the real economy, resulting in a decrease in the return on assets. The costs of liabilities increased due to the expanding proportions of time deposits and longer-term deposits and the rising market interest rates. NIM generally remained reasonable.

The Company attached great importance to NIM management, focused on value creation, improved the structure of assets and liabilities to deliver benefits and continued to tap internal potential and pursue external expansion in a bid to keep NIM reasonable. On the asset side, efforts were focused on making structural adjustments and raising the overall customer value to soften the decline in yields. Financial support was increased for major strategies, key fields and weaker links, integrating branches into the mainstream of the local economy at a faster pace. Business transformation was furthered to increase the contribution of retail loans and accelerate the income creation and growth in the financial market business. The overall pricing management of customers was deepened, so as to enhance quality and efficiency by strengthening the integrated financial services for customers. The liability side focused on structural optimization to maintain the edge in cost effectiveness. Basic work on customers, products and services was fully intensified and the assessment and incentives for lower-cost funds were strengthened. The size and price of high-costs deposits were strictly controlled to promote coordinated growth of deposits, giving priority to profitability. The Company strengthened the comparison of funding costs and seized the time windows of market interest rates to replenish the funding sources from various channels, so as to improve the liability structure and stabilize the liability costs.

Despite the complicated and volatile external environment, China saw no changes in the fundamentals sustaining its sound economic growth in the long run, yet still in a critical stage of economic recovery, transformation and upgrading. The Company will adhere to the principles of pursuing progress while ensuring stability, value creation and lightweight operation, strengthen fine-grained pricing management, accelerate business transformation, effectively enhance the quality and efficiency of development and keep NIM at reasonable levels.

3.14.3 Inclusive finance

2023 was a major milestone for the national strategy of inclusive finance launched ten years ago. The Company followed the policy guidance from the CPC Central Committee and regulatory authorities, maintained strategic consistency and kept improving its ability to serve the real economy. We were dedicated to becoming the best partner of small and medium-sized enterprises in their course of growth, adding luster to the brand of "SME financial service provider".

First, the Company stayed true to the customer-centric development philosophy to better meet the financial needs posed by high-quality development of the real economy. As at the end of the reporting period, the Bank's balance of micro and small business (MSB) loans recorded RMB584.973 billion, an increase of RMB19.503 billion or 3.45% over the end of the previous year. The balance of MSB loans within the scope of "two no-less-than" stood at RMB175.011 billion, up RMB14.106 billion or 8.77% over the end of the previous year, 6.54 percentage points above the growth rate of total domestic loans. During the reporting period, the mix of MSB customers was improved to substantially reduce the customers with small and ineffective transactions. As at the end of the reporting period, a total of 560,868 MSB had outstanding loans with the Company, down 228,252 or 28.92% from the end of the previous year. A total of 351,790 customers had "two no-less-than" loans with the Company, down 318,350 or 47.50% from the end of the previous year. In addition, the Company implemented the regulatory requirement of "pushing for lower financing costs and encouraging interest concessions to micro and small businesses" and adjusted lending rates in line with the LPR. The "two no-less-than" MSB loan rate was 5.15% on an annualized basis, down 69 bps. The "two no-less-than" MSB loans had a non-performing ratio of 1.56%, showing a stable and controlled overall risk.

Second, the allocation of resources was strengthened to continuously improve the "Head Office – branches – sub-branches" MSB service system. A long-term mechanism was created to encourage and support MSB lending. The internal drivers of MSB financial services were strengthened by improving the MSB assessment policies, separate credit plans for MSBs and providing 100% support in terms of credit resources. As of the end of the reporting period, the Company has set up the Inclusive Finance Departments at the Head Office and 43 tier one branches. The three sub-branches in Shaoxing, Changzhou and Wenzhou played a prominent demonstration role in inclusive finance. In addition, sub-branches were encouraged to appoint a reasonable number of MSB customer managers in line with the development of the MSB credit business volume.

Third, process reengineering was accelerated in the push for digital inclusive finance. To strengthen the empowerment of ecosystem scenarios, the Company launched four series of products focused on digital inclusive finance, key fields, ecosphere and chain scenarios and regional characteristics. A credit approval decision matrix was created and the online post-lending automation system was launched to enhance smart risk control.

Fourth, more financial resources were allocated to Beijing to support the capital city' s "Shopping Baskets" program. In strategic cooperation with the Beijing Xinfadi Market, the Company launched the "Shopping Basket Security Loan", a digital inclusive finance product. As of the end of the reporting period, the product served 1,000 customers with more than RMB1 billion in credit lines granted and over RMB600 million in loans issued, giving an impetus to development of the "Beautiful Countryside Plus" new industries and new forms of business.

3.14.4 "Three Regions" development strategy

The Three Regions development strategy represented a move to implement the State's major regional development strategies launched by the CPC Central Committee and the State Council to pursue the coordinated development of the Beijing-Tianjin-Hebei Region, integrated regional development of the Yangtze River Delta and development of the Guangdong-Hong Kong-Macao Greater Bay Area. Following the principle of concentrating resources in development of key regions, the Company formulated special plans, intensified policy support and deepened differentiated management in a bid to develop branches in the "Three Regions" into the experimental fields for financial innovation, the bellwethers for business transformation and the main contributors to earnings. At the end of the reporting period, the Company's outstanding loans at branches in the Three Regions amounted to RMB1,504.477 billion, up 2.70% year-on-year, with a balance of deposits of RMB1,369.551 billion, up 2.70% year-on-year.

The Beijing-Tianjin-Hebei Region Branch actively integrated itself into the local mainstream through business transformation in an ongoing effort to build "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially". In support of the relocation of non-capital functions away from Beijing and with a focus on serving the "One Core and Two Wings", the branch grasped the economic characteristics and industrial upgrading trends of the Beijing-Tianjin-Hebei Region, and continued to step up investment and financing support in line with the local mainstream economy, especially for key regions, key enterprises, and major projects. Vigorous support was provided for green development, infrastructure construction, rail transit construction and major public wellbeing projects in the Beijing-Tianjin-Hebei Region. With the innovative digital finance products introduced and the comprehensive financial services improved, the Company helped create a synergy in technological innovation and collaborative industrial layout in the Beijing-Tianjin-Hebei Region. During the reporting period, the Company provided RMB83.466 billion worth of investment and financing services for key projects of the coordinated development of the Beijing-Tianjin-Hebei Region.

The **Yangtze River Delta Branch** continued to upgrade the momentum for integrated development and high-quality development and further strengthened systems and mechanisms. The credit approval group for the Yangtze River Delta was established and a quick response mechanism for collaboration in overseas bond underwriting was set up to explore the "commercial banking + investment banking" cooperation mechanism. New models of financial services for sci-tech innovation were created to improve the sci-tech innovation financial services system and fully support the unsecured financing needs of local enterprises engaged in sci-tech innovation. To build a bridgehead for offshore business, the branch enhanced the facilitation level and market competitiveness of cross-border fund transfer and carried out the cross-border syndicated loan business under the free trade (FT) accounts. Digital transition was accelerated across the board to speed up the innovative development of industrial digital finance. The branch created full access to the consumer finance scenarios in the Yangtze River Delta, took the lead in making breakthroughs in wealth management, furthered the transformation of outlets to retail-oriented ones and took active part in building the Pillar 3 of the pension system. Shanghai Branch was assigned a higher position in the financial market business, in a bid to accelerate the development of financial market trading.

The **Guangdong-Hong Kong-Macao Greater Bay Area Branch** endeavored to build the region into a reform demonstration area for serving the real economy and a pilot area for in-depth cooperation between domestic and overseas branches. With a focus on four fields, namely, retail banking, trade finance, the branch sought to make breakthroughs in two sectors, namely, infrastructure and green finance, to deeply integrate itself into the new development pattern of the Greater Bay Area. A multi-level financial service system was created to stoke industrial upgrading in the Greater Bay Area. By a combination of loans, bills financing and debt financing, the branch pushed for upgrading of the real economy and integrated development of industrial chains in the region. The cross-border financial service system was upgraded. Hong Kong Branch was approved to become a member of the Bond Connect Northbound Link. Shenzhen Branch launched the facilitation service for foreign-currency payment of domestic freights on the cross-border financial service platform. New characteristics of green finance were developed. The Company closed its first ever carbon credits-backed financing transaction and helped enterprises issue their offshore RMB green bonds. As part of the effort to accelerate digital transition, the "industry + finance + digital" new model was adopted to serve the development of industrial chains. The "Guangdong Digital Tobacco Distributor Loan" was innovatively launched to address the financing difficulties facing tobacco distributors in Guangdong Province.

3.14.5 Management of real estate loans

During the reporting period, the Company resolutely implemented the national macro-control policies and regulatory requirements for the real estate industry. Differentiated credit policies were implemented with a focus on the four dimensions of "customers, regions, business forms and projects", with credit facilities granted in an orderly manner to meet the reasonable financing needs of real estate companies. In implementing the policy requirement of "encouraging both housing purchase and renting", the Company continued to carry out the rental housing business. The real estate merger and acquisition (M&A) services were prudently provided to meet the M&A demand of high-quality real estate companies. Credit resources were rationally allocated by further improving the structure of residential mortgages and actively supporting the loan demand of first-time homebuyers, owner-occupied property owners and home upgraders. At the end of the reporting period, the Company recorded RMB96.709 billion in balance of corporate loans to the real estate industry, with a NPL ratio of 4.21%, and registered RMB299.734 billion in balance of residential mortgages with a NPL ratio of 0.82%.

The Company will continue to implement the national macro-control policies on real estate finance and deeply implement the work requirements regarding urban real estate financing coordination mechanism. Under the principle of being market-oriented and law-based, the Company will cooperate with selected projects at controlled risks in a bid to improve the quality and efficiency of project implementation. Stronger financial support will be provided for the "three major projects", including affordable housing and redevelopment of urban villages, as well as the rental housing business, to help the real estate industry transition to a new development model. Also, the closed-loop management of real estate projects will be adequately carried out to ensure the ring-fencing of funds, so as to keep the Company's real estate business stable and healthy.

3.15 DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

3.15.1 Development trends, risks and challenges in the future banking sector

The development environment this year will continue to feature both strategic opportunities and challenges, with favorable conditions outweighing unfavorable ones. China has distinctive institutional strengths and the advantages of vast market demand. In addition, our country's capacity for sci-tech innovation continues to grow, new industries, new business models and new growth drivers are expanding at a faster pace, and the internal drivers for development are being built up. The underlying trend of economic recovery and long-term growth remains unchanged. China will intensify counter – and cross-cyclical adjustments through macro policies, accelerate the development of new quality productive forces, expand domestic demand, deepen the critical reform tasks in key areas and at crucial links, pursue higher-standard opening up, effectively forestall and defuse risks in key areas, take solid steps to revitalize rural areas across the board, advance coordinated development between regions and enhance ecological conservation, which brings new opportunities and gather fresh momentum for the development of the banking sector. Meanwhile, the world sees political disputes and military conflicts arising in multiple regions, the global economy lacks steam and the foundation for China's sustained economic recovery and growth is not yet solid. The banking sector is in fierce competition, experiencing continued narrowing in the net interest margin and feeling pressure on revenue growth and profitability. Banks face a complicated and grim situation of forestalling and defusing risks.

3.15.2 Operating plan and measures

In 2024, the Company will thoroughly implement the guiding principles from the 20th CPC National Congress, the Second Plenary Session of the 20th CPC Central Committee, the Central Economic Work Conference and the Central Financial Work Conference. The Company will act on the general principle of "pursuing progress while ensuring stability", fully and faithfully apply the new development philosophy on all fronts and actively integrate itself into the new development pattern and the local mainstream socio-economic development in all regions in a proactive manner. With the main task of serving the real economy and a focus on deepening strategy implementation and promoting structural adjustments, we will take solid steps forward to promote high-quality development while forestalling and defusing risks.

3.15.2.1 Comprehensively deepening the implementation of strategies

Digital technology will deliver greater performance. More resources will be allocated to support the innovative business of industrial digital finance, establish more flexible mechanisms and systems, unleash new momentum through innovation and achieve faster growth in the customer base and business scale.

Retail banking will deliver large-scale output. With a focus on customer value management, the Company will improve integrated planning and agile operation capabilities, innovate the customer service models, scenarios and approaches and keep increasing retail banking's share in profits.

Corporate banking will gain pace. Corporate banking will enhance the ability to integrate financial resources, the industry-specific professional skills, the corporate product service capacity and the corporate customer marketing capacity. Efforts will be made to strengthen the comprehensive financial services, increase the overall customer value and eventually increase the enterprise value of the Company. Stronger financial support will be provided for new technologies, new racetracks and new markets, thereby fostering new growth drivers and strengths at a faster pace.

The financial market business will expand the trading activity. The Company will expand the trading activity and improve active investment, accelerate improvements in the multi-level system of products, assets and services for financial institution customers and continue to develop new growth poles of revenue.

3.15.2.2 Comprehensively deepening coordinated regional development

The Company adhere to the positioning of a "Beijing-based bank". The Company will remain steadfast in supporting Beijing's socio-economic development and maintain financial stability in the capital city. The Company will continue to build itself into "a lead bank serving the coordinated development of the Beijing-Tianjin-Hebei Region financially", serve the "Four Centers" drive of Beijing, deeply integrate into the "five key projects" and provide stronger financial support for key geographical areas.

The Company will accelerate its integration into the mainstream of the regional economy. Branches in the Three Regions will increase their market shares, enhance their innovation ability, play a pilot and model role in innovation and capacity building in products, services and models and enhance their vitality and leading role in high-quality development. "Two Lines" and "Multiple Points" branches will develop their specialty business, streamline service processes and innovate service modes with a focus on expanding the radius of financial services, integrating into the industrial ecosphere and serving the everyday life of local people, so as to achieve differentiated development with their own characteristics.

3.15.2.3 Comprehensively deepening structural adjustments

The liability structure will be improved. With deposits maintained at the heart of the Bank, the Company will substitute deposits for market-based funds and replace high-cost deposits with basic deposits and demand deposits, so as to expand the scale of deposits while ensuring a decline in costs. The mainstay role of basic deposits will be consolidated, with stronger effort to take demand deposits and settlement-related interbank deposits.

The profit structure will be improved. The Company will keep managing interest rate spreads and manage pricing in a precise and sophisticated manner to ensure overall stability of the revenue base. Every effort will be made to expand the fee-based income and significantly increased its share, providing a strong backing for profitability. The income growth objectives will be broken down, weaker links in product types and business volumes will be strengthened at a faster pace and products with a sharp edge will be sped up to ensure breakthroughs are made on all fronts.

The asset mix will be improved. Asset allocations will be focused on implementing the national strategies down the road and following the New Capital Regulation to step up capital-light and asset-light operation. With a firm grip on the "Three Key Points", the Company will step up efforts to put idle assets to good use, rationalize the mix of new assets and lay greater emphasis on asset flows.

Cost control will be intensified. The Company will firmly uphold the idea of "keeping our belts tightened" and take a number of steps of cut costs and increase efficiency. The cost of deposits will be strictly controlled to ensure a cost advantage. The credit risk cost will be strictly controlled to effectively keep the risk costs in check. Expenses will be strictly managed to ensure stringent control over large expenditure items. The financial discipline will be strictly followed to promote thrifty.

3.15.2.4 Deepening risk prevention and control across the board

Compliance was ensured in operation. Regarding compliance as the precondition and foundation for development, the Company will take proper action to correct problems found in internal and external inspections. The compliance system will be reengineered and the compliance system platform will be built so that compliance risks will be controlled in earlier stages. The supervisory role of internal control audit will be underscored to make supervision increasingly effective.

Risk lifecycle management will be strengthened. The Company will strengthen risk pre-guidance, unleash the critical role of risk appetite transmission and strengthen the application of the early warning and correction mechanisms. The risk process will be effectively controlled by strengthening the responsibility taken by the "first line of defense" and properly managing new assets as well as customer acceptance and exit at the sources of business, so as to strictly prevent asset quality deterioration. The outstanding risks will be handled at a faster pace mainly through cash collection, so as to keep improving the value contribution.

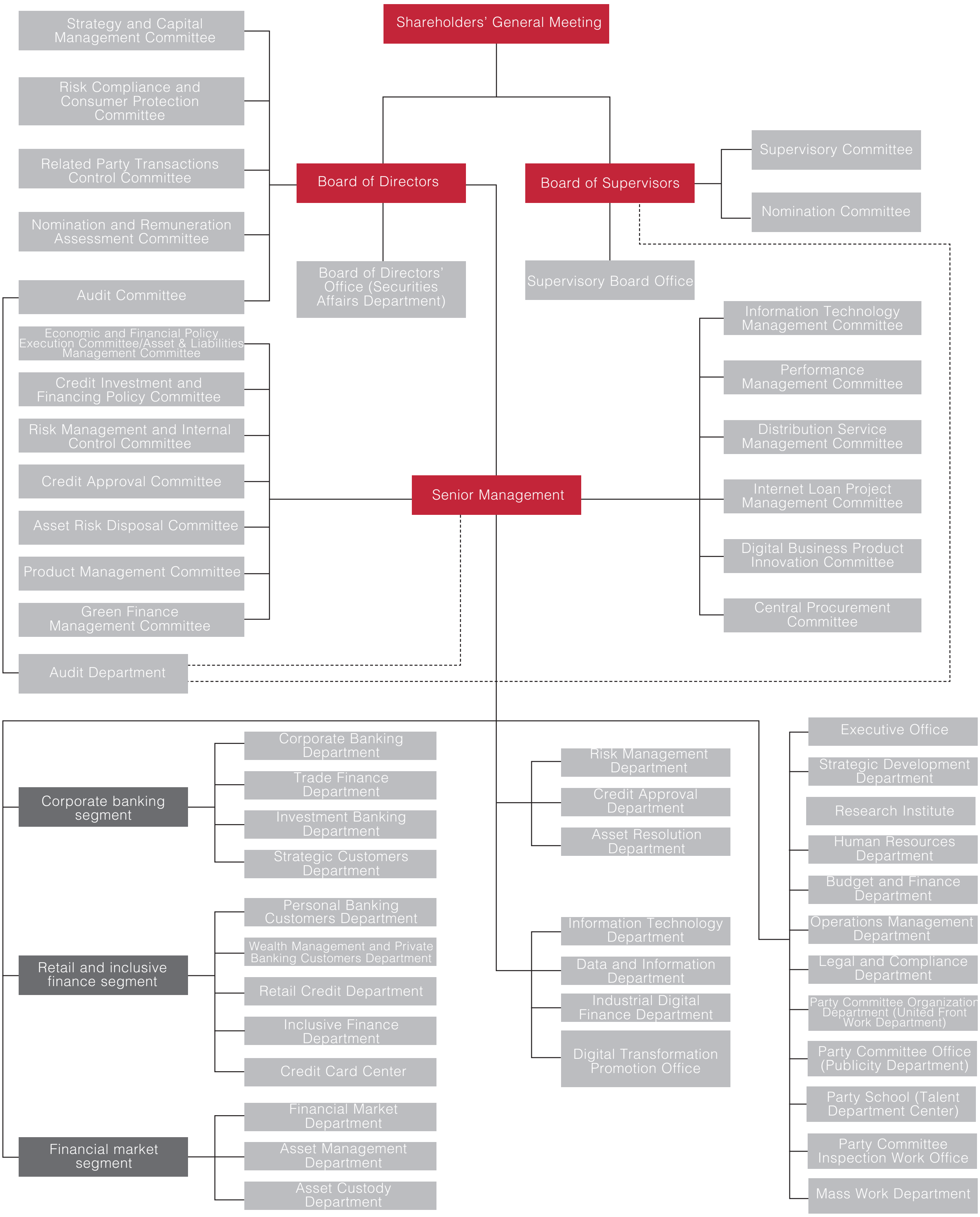
We will strengthen management in key fields. The Company will support the reasonable financing needs of real estate companies in line with the new situation of the property market, with a focus on affordable housing, redevelopment of urban villages and dual-use public infrastructure that can accommodate emergency needs. The Company will implement the guiding principles from the CPC Central Committee on forestalling and defusing local government debt risks, cooperate with local governments in steadily reducing outstanding debts and strictly controlling new debts and meet the financing needs of high-quality assets in accordance with law and regulations.

SECTION IV

CORPORATE GOVERNANCE

SECTION IV CORPORATE GOVERNANCE

4.1 CORPORATE STRUCTURE



4.2 CORPORATE GOVERNANCE PRACTICE

During the reporting period, the Company earnestly implements the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Code of Corporate Governance for Listed Companies*, the *Code of Corporate Governance for Banking and Insurance Institutions*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The Company always adhered to the integration of the Party leadership and corporate governance to establish the statutory role of Party organizations in the corporate governance framework. Ongoing improvements were made to the organizational structure for corporate governance composed of the Shareholders' General Meeting, the Board of Supervisors, the Board of Supervisors and the Senior Management. The Party Committee and these corporate governance bodies, with well-defined roles and responsibilities, functioned properly in a well-coordinated manner and had checks as balances on each other. The Company has demonstrated improved capacity, resilience and quality of development. Toward the goal of "improving the governance system and governance capacity unremittingly", the Company continued to explore the best practices of corporate governance, manifesting ongoing improvements in corporate governance standard and capacity. The actual condition of corporate governance has no material discrepancies with the laws, regulations and the CSRC rules for governance of listed companies.

The Party Committee plays its leading role of charting the course, crafting overall plans and ensuring their implementation, with a focus on political direction, leadership team, basic policies, major decisions and Party building. The Party Committee assumes the duty of strict Party self-governance and conducts early research and discussion before any major operation and management issues are put into action. The Shareholders' General Meetings effectively functions as the ultimate power in the Company. The Company has a clear and stable shareholding structure, with the conduct of shareholders increasingly improved. Substantial shareholders actively support the Company's business development and performs their shareholder's duties and obligations in accordance with laws and regulations. Small and medium-sized shareholders take part in decision making by attending general meetings to maintain stable foundation for the Company's development. The Board of Directors mainly sets strategies, makes decisions and prevents risks. It keeps playing the role of providing strategic guidance and making scientific decisions, has in place an effective risk control mechanism and a reasonable incentives and accountability mechanism, actively performs social responsibility and protects the legitimate rights and interests of stakeholders. The Board of Supervisors actively performs its supervisory function and conducts supervisory inspections focused on strategy management, financial activity, risk management, internal control and duty performance of the Board of Directors, the Board of Supervisors, the senior management and their members in line with regulatory orientation and the bank's business activity. It effectively performs its statutory supervisory duties in an objective, impartial and scientific manner in compliance with laws and regulations and effectively acts in the best interests of the Company and all its shareholders and protects the legitimate rights and interests of stakeholders. The Senior Management mainly plans operation, works hard on implementation and strengthens management. It carries out operation management activities in accordance with the Articles of Association and upon authorization by the Board of Directors. It earnestly implements resolutions adopted by the Shareholders' General Meeting and the Board of Directors, accepts supervision by the Board of Supervisors and unites and lead all employees of the Company to fully accomplish annual operation and development tasks for the year.

4.3 STATEMENT ON INDEPENDENCE FROM THE LARGEST SHAREHOLDER

The Company has no controlling shareholder or de facto controller. The Company is fully independent from the largest shareholder in terms of business, personnel, assets, institutional set-up and financials and is capable of independent business operation.

4.4 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

4.4.1 Changes in shares held by directors, supervisors and senior management members and their remunerations

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Minji	Chairman of the Board of Directors, Executive Director	Male	1965	14 April 2017 to expiration of the Eighth Board of Directors	0	0	0	75.16	None	No
Wang Hongjun	Vice Chairman of the Board of Directors Non-executive Director	Male	1969	26 December 2019 to expiration of the Eighth Board of Directors 30 November 2016 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zhu Min	Vice Chairman of the Board of Directors Non-executive Director	Female	1964	11 March 2024 to expiration of the Eighth Board of Directors	–	–	–	–	–	Yes
Song Jiqing	Executive Director Secretary to the Board	Male	1965	8 September 2020 to expiration of the Eighth Board of Directors 2 November 2019 to expiration of the Eighth Board of Directors	0	0	0	260.10	None	No
Cai Zhiwei	Non-executive Director	Male	1975	20 July 2022 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Ma Xiaoyan	Non-executive Director	Female	1969	18 September 2019 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zeng Beichuan	Non-executive Director	Male	1963	29 November 2021 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Guan Jifa	Non-executive Director	Male	1965	8 October 2022 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Zou Libin	Non-executive Director	Male	1967	19 June 2014 to expiration of the Eighth Board of Directors	0	0	0	0	None	Yes
Ding Yi	Independent Director	Female	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	38.40	None	No
Zhao Hong	Independent Director	Female	1963	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	39.60	None	No
Guo Qingwang	Independent Director	Male	1964	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	38.40	None	No
Gong Zhiqiang	Independent Director	Male	1972	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	38.40	None	No

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Lv Wendong	Independent Director	Male	1967	9 September 2020 to expiration of the Eighth Board of Directors	0	0	0	39.60	None	No
Chen Shenghua	Independent Director	Male	1970	2 September 2022 to expiration of the Eighth Board of Directors	0	0	0	38.40	None	No
Cheng Xinsheng	Independent Director	Male	1963	2 September 2022 to expiration of the Eighth Board of Directors	0	0	0	39.60	None	No
Guo Peng	Chairman of Board of Supervisors Employee Supervisor	Male	1976	5 March 2024 to expiration of the Eighth Board of Supervisors 4 March 2024 to expiration of the Eighth Board of Supervisors	–	–	–	–	–	No
Deng Kang	Supervisor Representing Shareholder	Male	1985	31 March 2022 to expiration of the Eighth Board of Supervisors	0	0	0	0	None	Yes
Ding Zhaohua	Supervisor Representing Shareholder	Male	1973	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	15.60	None	Yes
Zhu Xiaofang	External Supervisor	Female	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	33.60	None	No
Zhao Xijun	External Supervisor	Male	1963	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	31.20	None	No
Guo Tianyong	External Supervisor	Male	1968	31 March 2022 to expiration of the Eighth Board of Supervisors	0	0	0	33.60	None	No
Zhang Hong	External Supervisor	Female	1965	31 March 2022 to expiration of the Eighth Board of Supervisors	0	0	0	34.80	None	No
Zhu Jiang	Employee Supervisor	Male	1968	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	201.20	None	No
Xu Xinming	Employee Supervisor	Male	1969	21 April 2020 to expiration of the Eighth Board of Supervisors	0	0	0	178.12	None	No
Yang Wei	Vice President	Male	1966	12 February 2019 to expiration of the Eighth Board of Directors	0	0	0	68.81	None	No
Liu Ruijia	Vice President	Male	1966	29 December 2022 to expiration of the Eighth Board of Directors	0	0	0	68.67	None	No
Gao Bo	Vice President	Female	1970	30 August 2023 to expiration of the Eighth Board of Directors	0	0	0	38.90	None	No
Wang Xingguo	Principal of Financial Affairs Chief Financial Officer	Male	1964	25 November 2022 to expiration of the Eighth Board of Directors Since 26 October 2022	0	0	0	238.98	None	No

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Guan Wenjie	Former Executive Director Former President Former Vice President	Male	1970	8 September 2020 to 12 January 2024 21 April 2023 to 12 January 2024 24 January 2017 to 21 April 2023	0	0	0	73.15	None	No
Wang Minglan	Former Chairman of Board of Supervisors Former Employee Supervisor	Female	1963	5 January 2021 to 19 February 2024 31 December 2020 to 4 March 2024	0	0	0	66.92	None	No
Wang Yiping	Former Executive Director Former Vice President	Male	1963	8 September 2020 to 26 September 2023 24 January 2017 to 26 September 2023	0	0	0	54.30	None	No
Total	/	/	/	/	0	0	0	1,745.51	/	/

Notes:

1. Remunerations of the Chairman of the Board of Directors, President and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.

2. Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving the Company in 2023 include the contribution by the Company to social insurance, enterprise annuity, additional medical insurance and housing provident fund.

3. Pre-tax remunerations of the Chairman of the Board of Directors, President, employee supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.

4. The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company during the reporting period was determined according to the Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and the Regulations of Hua Xia Bank Co., Limited on Allowance of Supervisors.

5. Non-executive directors Mr. Wang Hongjun, Mr. Cai Zhiwei, Ms. Ma Xiaoyan, Mr. Zeng Beichuan, Mr. Guan Jifa and Mr. Zou Libin and Supervisor Representing Shareholder Mr. Deng Kang received no allowance from the Company.

The rest-part remuneration of company officers in 2022 approved and verified by the competent authorities is disclosed as below:

Name	The rest part of pre-tax remunerations for 2022 (RMB10,000)
Li Minji	39.77
Wang Minglan	31.39
Wang Yiping	31.39
Yang Wei	29.63
Liu Ruijia	70.25
Guan Wenjie	34.65

Note: Starting from May 2022, the remunerations of Vice President Mr. Liu Ruijia are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises. The above amount is the total compensation for his service as a SOE executive.

The rest part of remunerations for others:

Name	The rest part of pre-tax remunerations for 2022 (RMB10,000)
Song Jiqing	86.32
Wang Xingguo	75.87
Zhu Jiang	70.66
Xu Xinming	60.86

Note: Part of remunerations paid to the Secretary to the Board, Principal of Financial Affairs and employee supervisors during the reporting period have been disclosed in the Annual Report 2022, and the rest part of pre-tax remunerations for such personnel in 2022 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2022 is RMB3,347,000 and is not paid to those individuals yet.

4.4.2 Changes in directors, supervisors and senior management members of the Company

4.4.2.1 Directors

On 26 September 2023, Mr. Wang Yiping resigned from the posts of executive director, member of relevant committees of the Board of Directors and Vice President of the Company due to retirement.

On 12 January 2024, Mr. Guan Wenjie resigned from the posts of executive director, President and member of relevant committees of the Board of Directors of the Company due to work engagement.

On 11 March 2024, Ms. Zhu Min was approved by the National Financial Regulatory Administration (NFRA) to serve as non-executive director and Vice Chairman of the Board of Directors of the Company, with the tenure starting on 11 March 2024 and end upon expiration of the Eighth Board of Directors of the Company.

On 28 March 2024, Mr. Qu Gang was added as a candidate for executive director at 41st Meeting of the Eighth Board of Directors of the Company. After being elected as executive director at the Shareholders' General Meeting, Mr. Qu Gang is subject to approval of his directorship eligibility by the NFRA.

4.4.2.2 Supervisors

On 19 February 2024, Ms. Wang Minglan resigned from the posts of the Chairman of the Board of Supervisors, employee supervisor and member of relevant committees of the Board of Supervisors of the Company due to retirement.

On 4 March 2024, the Company held the First Employees' Congress of 2024. Mr. Guo Peng was elected employee supervisor. His tenure started on 4 March 2024 and will end upon expiration of the Eighth Board of Supervisors.

On 5 March 2024, the Company held the 26th Meeting of the Eighth Board of Supervisors. Mr. Guo Peng was elected Chairman of Board of Supervisors. His tenure started on 5 March 2024 and will end upon expiration of the Eighth Board of Supervisors.

4.4.2.3 Senior managers

On 13 June 2023, the Eighth Board of Directors of the Company held the 34th meeting and appointed Ms. Gao Bo as Vice President. Ms. Gao Bo was approved by NFRA to serve as Vice President of the Company, with the tenure starting on 30 August 2023 and ending upon expiration of the Eighth Board of Directors.

On 26 September 2023, Mr. Wang Yiping resigned from the posts of executive director, member of relevant committees of the Board of Directors and Vice President of the Company due to retirement.

On 12 January 2024, Mr. Guan Wenjie resigned from the posts of executive director, President and member of relevant committees of the Board of Directors of the Company due to work engagement.

On 23 February 2024, the Eighth Board of Directors of the Company held the 40th meeting and appointed Mr. Han Jianhong and Mr. Tang Yiming as Vice Presidents, whose eligibility is pending approval by the NFRA.

On 28 March 2024, the Eighth Board of Directors of the Company held the 41st meeting and appointed Mr. Qu Gang as President, whose eligibility is pending approval by the NFRA.

4.4.3 Main work experiences and current or concurrent jobs of directors, supervisors and senior management members

Li Minji, Chairman and Executive Director, male, was born in January 1965, and holds the title of senior economist. He majored in Finance in Renmin University of China and graduated with a Master's Degree in Economics. He majored in Business Administration in Huazhong University of Science and Technology and graduated with a PhD in Management. He ever held such positions as Member of the Party Committee, Director and Executive Deputy General Manager at Beijing State-owned Assets Management Co., Ltd.; Party Committee Secretary and Chairman of Beijing International Trust Co., Ltd.; and Deputy President of China Trustee Association and Member of China Trust Protection Fund Council concurrently. He now serves as a Member of the 14th CPPCC National Committee, Member of the 13th CPC Beijing Municipal Committee and Member of the 13th CPPCC Beijing Municipal Committee; and Party Committee Secretary, Chairman and Executive Director of Hua Xia Bank.

Wang Hongjun, Vice Chairman, Non-executive Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation and CFO of Shougang Group. He currently serves as Chief Accountant of Shougang Group.

Zhu Min, Vice Chairman, Non-executive Director, female, was born in October 1964. She holds a doctoral degree and is a senior accountant. Previously she was General Manager of the Financial Department and Deputy Financial Chief of China Telecom (Hong Kong) Limited; Deputy Financial Chief and General Manager of the Financial Department of China Mobile Hong Kong Co., Ltd.; Head of the Financial Department of China Mobile Communications Corporation; Deputy Financial Chief and General Manager of the Financial Department of China Mobile Limited; Vice Chairman and Chairman of China Mobile Group Finance Co., Ltd.; Deputy Chief Accountant and General Manager of the Financial Department of China Mobile Communications Corporation; Chief Accountant and Party Branch member of China Telecommunications Corporation, and Chairman of China Telecom Group Finance Co., Ltd. She currently serves as Chief Accountant and Party Branch member of State Grid Corporation of China.

Song Jiqing, Executive Director and Secretary to the Board, male, was born in January 1965. He holds a PhD and is a senior economist. He once served as a Consultant (deputy director level) of Beijing Municipal Finance Bureau, Member of the Party Leading Group and Deputy Director General of the Local Taxation Bureau of Beijing Mentougou District, Deputy Secretary of the Party Leading Group and Director General of the Beijing Mentougou District Bureau of Finance & Secretary of the Party Leading Group and Director General of the Local Taxation Bureau of Beijing Mentougou District & Director General of the State-Owned Assets Administration Bureau of Beijing Mentougou District; Member of the Party Leading Group and Deputy Head of the Government of Beijing Mentougou District; Deputy Director of Fund Finance Department, Deputy Director of General Office, Director of General Office and Director of Information Research Department of the National Council for Social Security Fund; Deputy Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Planning and Finance Department of Hua Xia Bank; Principal of Financial Affairs, Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Chief Financial Officer and General Manager of Development Research Department of Hua Xia Bank; Director of Marketing and General Manager of Strategic Development Department of Hua Xia Bank; Director of Marketing and Director of Executive Office of Hua Xia Bank; Secretary to the Board and Director of Executive Office of Hua Xia Bank. He currently serves as Party Committee Member, Executive Director and Secretary to the Board of Directors of Hua Xia Bank.

Cai Zhiwei, Non-Executive Director, male, was born in November 1975. He holds a master's degree. Previously, he was Section-Chief Officer of the International Business Loan Division, International Finance Bureau, China Development Bank; Associate Director of Financing Department, Cushman & Wakefield Corporate Finance (HK) Limited; Member of Executive Committee and Director of Investment Support Department, Director of Real Estate Investment Department, China Investment Corporation. Now he is Vice President and Party Committee Member of People's Insurance Company (Group) of China Limited; Non-executive Director and Chairman of PICC Capital Insurance Asset Management Co., Ltd.; Non-executive Director and Chairman of PICC Investment Holding Co., Ltd.; and Non-executive Director and Vice Chairman of PICC Asset Management Company Limited.

Ma Xiaoyan, Non-executive Director, female, was born in July 1969. She holds a bachelor's degree and is a senior accountant. She once served as Deputy Director of the Audit Department of Henan Electric Power Company; Chief Accountant and Member of the Party Leading Group of Chang'an Insurance Broker Co., Ltd.; Head of the Financial Assets Division of the Financial Asset Management Department of State Grid Corporation of China (State Grid Asset Management Co., Ltd.); Chief Accountant and Member of the Party Committee of State Grid Yingda International Holdings Group Ltd. Now, she is Party Committee Member of State Grid Yingda International Holdings Group Ltd.; General Manager and Deputy Party Secretary of State Grid Yingda Co., Ltd.

Zeng Beichuan, Non-executive Director, male, was born in March 1963. He holds a PhD and is a senior engineer. He initially held positions in China Rural Development Corporation under the Ministry of Construction, China Construction Bank and China Development Bank. He once served as Deputy General Manager (acting as principal) of Beijing Administrative Department of Hua Xia Bank; Deputy General Manager of Banking Department, Deputy Secretary of the Party Leading Group (equivalent to branch head) and General Manager of Audit Department at the Head Office of Hua Xia Bank; General Manager of Marketing Department of China Life Insurance Co., Ltd.; Member of the Preparation Group for PICC Financial Holding; Party Secretary, Director, President of China Huawen Investment Holding Co., Ltd. (Shanghai New Huawen Investment Co., Ltd.); Chairman of Zhongtai Trust Co., Ltd., Party Committee Member and Vice President of PICC Investment Holding Co., Ltd.; Member of Standing Committee of the Municipal CPC and Deputy Mayor (seconded) of Liuzhou, Guangxi; Party Committee Secretary, Director and President of PICC Capital Investment Management Co., Ltd.; and Party Secretary and President of PICC Asset Management Company Limited.

Guan Jifa, Non-executive Director, male, was born in May 1965. He holds a PhD and is a senior economist and senior engineer. He was Deputy General Manager of Beijing Urban No. 3. Construction Development Co., Ltd.; Deputy General Manager and General Manager of Beijing Subway Construction Co., Ltd.; Chairman of Beijing Capital Investment Co., Ltd.; General Manager of Land Development Department of Beijing Infrastructure Investment Co., Ltd. and Assistant to General Manager of Beijing Infrastructure Investment Co., Ltd. Now, he is Deputy General Manager of Beijing Infrastructure Investment Co., Ltd.

Zou Libin, Non-Executive Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of Overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, and Assistant to Head and Head of Capital Operation Department, Head of Investment Management Department, and Head of Planning and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Group.

Ding Yi, Independent Director, female, was born in May 1964. She holds a PhD and is a senior economist. She previously was a Lecturer at the School of Finance Renmin University of China, Deputy General Manager of the Investment Management Department of the People's Insurance Company of China, Assistant to President of PICC Asset Management Company Ltd.; General Manager and Chairman of Huaneng Capital Service Co., Ltd., Chairman of Huaneng Guicheng Trust Corporation Ltd., Chairman of China Great Wall Securities Co., Ltd. and Chairman of Invesco Great Wall Fund Management Co., Ltd.

Zhao Hong, Independent Director, female, was born in January 1963. She is a PhD and professor. She previously was Head of the Teaching-Research Section and Associate Dean of the Economics & Management School of Beijing University of Technology and Associate Dean of College of Economics and Management, University of Chinese Academy of Sciences and Dean of Sino-Danish College. Now, she is Professor of College of the Economics and Management and Professor of the Sino-Danish College, University of Chinese Academy of Sciences and Vice Chairman of the University of Chinese Academy of Sciences Education Foundation.

Guo Qingwang, Independent Director, male, was born in February 1964. He is a PhD and professor. He was the Vice Dean, Executive Vice Dean and Dean of the School of Finance of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Public Finance, School of Finance of Renmin University of China.

Gong Zhiqiang, Independent Director, male, was born in January 1972. He holds a master's degree. He previously was a Judge at the Economical Division of the Intermediate People's Court of Handan City, Hebei Province, a lawyer at Hylands Law Firm, and Deputy Director and Senior Partner at Sino-integrity Law Firm. Now, he is director and senior partner of S&P Law Firm.

Lv Wendong, Independent Director, male, was born in September 1967. He is a PhD and professor. He previously was a member of the Scientific and Technological Commission of Taiyuan City, Shanxi Province, a clerk at the Intellectual Property Affairs Center of the Ministry of Science and Technology and professor at the School of Insurance and Economics, University of International Business and Economics. Now, he is a professor at the Business School of University of International Business and Economics.

Chen Shenghua, Independent Director, male, was born in September 1970. He holds a master's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was an auditor at Beijing Xinghua Certified Public Accountants; and Principal Partner of Beijing Huaxia Zhengfeng Certified Public Accountants. Now he is Honorary Director of Management Committee and Senior Partner of Beijing Xinghua Certified Public Accountants (Special General Partnership).

Cheng Xinsheng, Independent Director, male, was born in February 1963. He is a PhD and professor. He was Teaching Assistant, Lecturer and Associate Professor of the Accounting Department and Director of Audit Department of Nankai Business School. Now, he is a professor and tutor to PhD students at the Accounting Department of Nankai Business School.

Guo Peng, Chairman of the Board of Supervisors and Employee Supervisor, male, was born in February 1976. He holds a master's degree and is a Senior Political Worker and Engineer. Previously he was Member of the Party Standing Committee, Head of the Organizational and Executives Division and Head of the Human Resources Department of Beijing Electronics Holding Co,. Ltd.; Deputy Chief Executive (Deputy Director General Level) of the Government of Miyun County, Beijing Municipality; Deputy Chief Executive of Miyun District, Beijing Municipality; Member of the Party Standing Committee and Secretary of Party Discipline Committee and Director of the Supervisory Committee of the Shijingshan District, Beijing Municipality; Member of the Party Discipline Committee of Beijing Municipality, Ombudsman of the Beijing Municipal Supervisory Committee Dispatched to the Beijing Organizing Committee for the 2022 Olympic and Paralympic Winter Games and Level 2 Supervisor. He currently serves as Deputy Party Committee Secretary, Chairman of Board of Supervisors and Employee Supervisor of Hua Xia Bank.

Deng Kang, Supervisor Representing Shareholder, male, was born in December 1985. He holds a master's degree and is an economist. Previously, he was Salesman for Yunnan Province, Salesman for Shandong Province and Salesman for Shandong Sub-center at Yunnan China Tobacco Industrial Co., Ltd. Marketing Center; Project Manager at the Financial Assets Department of Yunnan Hehe (Group) Co., Ltd. (seconded to Investment Banking Department of Hongta Securities Co., Ltd. as Deputy General manager during the term of office); and Senior Management Executive of Yunnan Hehe (Group) Co., Ltd. He currently serves as Deputy Head of Operations Management Department of Yunnan Hehe (Group) Co., Ltd.

Ding Zhaohua, Supervisor Representing Shareholder, male, was born in December 1973. He holds a master's degree and is a senior economist. He previously was Financial Manager, Regional Financial Director, Regional General Manager, Chief Financial Officer and director of Runhua Group Co., Ltd. Now he is Director and Chief Executive Officer of Highgo Software Co., Ltd.

Zhu Xiaofang, External Supervisor, female, was born in June 1963. She is a PhD and associate professor. She previously was an Assistant Researcher at the Chinese Academy of Fiscal Sciences, Project Manager of the World Bank On-lending Department of China Economic Development Trust and Investment Co., Ltd., Deputy General Manager of Direct Investment Department of China International Capital Corp. Ltd., Senior Investment Manager of Actis Capital LLP, Project Consultant of International Expert Group on China's Foreign Debts at Asian Development Bank, Chairman of Aureos China Investment Committee and Distinguished Chair Professor at Hanqing Advanced Institute of Economics and Finance, Renmin University of China. Now, she is a CFC Senior Lecturer.

Zhao Xijun, External Supervisor, male, was born in August 1963. He is a PhD and professor. He previously was an assistant and lecturer at the Finance Department of Renmin University of China, Head of the Finance Department of the School of Finance, Renmin University of China, Researcher at the Department of International Affairs of CSRC (seconded); Director of International Office of Renmin University of China, Deputy Dean of School of Finance, Renmin University of China. Now, he is Co-president of China Capital Market Research Institute at Renmin University of China.

Guo Tianyong, External Supervisor, male, was born in August 1968. He is a PhD and professor. Previously he was an officer at Yantai Branch of the People's Bank of China; a lecturer and associate professor at the School of Finance, Central University of Finance and Economics. Now, he is a professor and tutor to PhD students at the School of Finance, Central University of Finance and Economics.

Zhang Hong, External Supervisor, female, was born in April 1965. She is a PhD and professor. Previously she was a lecturer, associate professor and professor and MA student adviser at School of Economics, Shandong University. Now, she is an associate professor and tutor to PhD students at Shandong University.

Zhu Jiang, Employee Supervisor, male, was born in June 1968. He holds a master's degree and is an economist. He previously was Deputy General Manager of Special Assets Resolution Department, Deputy General Manager of the Special Assets Resolution Center of Credit Risk Management Department, Deputy Director of Executive Office, Deputy General Manager of Development Research Department (in charge of specific work), Director of Party Committee Office, Director of Party Committee Office (Publicity Department) and Director of Party Committee Office (Publicity Department and United Front Work Department) of Hua Xia Bank. Currently, he serves as Employee Supervisor of Hua Xia Bank and Director of the Party Committee Office (Publicity Department).

Xu Xinming, Employee Supervisor, male, was born in February 1969. He holds a master's degree and is a senior accountant. He previously was General Manager of Audit Department, Manager of Nanjing Audit Office and Deputy Director and Director of Shanghai Audit Division of Hua Xia Bank. She currently serves as Employee Supervisor and General Manager of Audit Department of Hua Xia Bank.

Yang Wei, Vice President, male, was born in January 1966. He holds a bachelor's degree and is an engineer. He once served as Head of Special Assets Resolution Division II, Assistant to General Manager and Deputy General Manager of the Special Assets Resolution Department of Hua Xia Bank; Member of the Party Committee and Deputy Head of Xi'an Branch of Hua Xia Bank, Member of the Party Committee and Deputy Head of Kunming Branch & Secretary of the Party General Branch and Head of Yuxi Sub-branch of Hua Xia Branch; Deputy Secretary of the Party Committee, Secretary of the Party Committee and Head of Kunming Branch of Hua Xia Bank; Secretary of the Party Committee and Head of Beijing Branch of Hua Xia Bank, and Secretary of the Party Committee and Head of Guangzhou Branch of Hua Xia Bank. Now, he is Member of the Party Standing Committee and Vice President of Hua Xia Bank.

Liu Ruijia, Vice President, male, was born in October 1966. He holds a bachelor's degree and is an economist. He once served as Member of the Party Committee and Deputy Head of Wuxi Sub-branch of Hua Xia Bank; Deputy General Manager of Human Resources Department and Director of Training Center of Hua Xia Bank; Member of the Party Committee of Hua Xia Bank Suzhou Branch; Chief Credit Risk Officer of Suzhou Credit Risk Management Department; Party Committee Secretary and Head of Hua Xia Bank Suzhou Branch; General manager of Financial Market Department of Hua Xia Bank; and Member of Party Committee and Chief Approval Officer of Hua Xia Bank. Now, he is Member of the Party Committee and Vice President of Hua Xia Bank.

Gao Bo, Vice President, female, was born in July 1970. She holds a bachelor's degree and is a Senior Economist and Accountant. Previously she was Member of the Party Committee of Changsha Branch and Head of Chenzhou Branch of Hua Xia Bank; Member of the Party Committee and Deputy Head of Wuhan Branch of Hua Xia Bank; Secretary of the Party Committee and President of Shaoxing Branch of Hua Xia Bank; General Manager of Personal Banking Department of Hua Xia Bank; General Manager of Personal Banking Department & General Manager of Wealth Management and Private Banking Department of Hua Xia Bank. Now, she is Vice President of Hua Xia Bank.

Wang Xingguo, Principal of Financial Affairs and CFO, male, was born in August 1964. He holds a master's degree and is a senior accountant. He served as Member of the Party Committee and Deputy Head of Hua Xia Bank Shenzhen Branch, Party Committee Secretary and Head of Hua Xia Bank Shenzhen Branch, and Member of the Party Committee and General Manager of Budget and Finance Department of Hua Xia Bank. Now, he is Member of the Party Committee, Principal of Financial Affairs, CFO and General Manager of Budget and Finance Department of Hua Xia Bank.

4.4.4 Positions or concurrent jobs of directors, supervisors and senior management members in shareholder entities or non-shareholder entities

Name	Shareholder entity	Position	Tenure
Wang Hongjun	Shougang Group	Chief Accountant	April 2020 to present
Ma Xiaoyan	State Grid Yingda International Holdings Group Ltd.	Party Committee Member	Since January 2019
Guan Jifa	Beijing Infrastructure Investment Co., Ltd.	Deputy General Manager	August 2015 to present
Zou Libin	Shougang Group	Head of Operation and Finance Department	November 2015 to present
Deng Kang	Yunnan Hehe (Group) Co., Ltd.	Deputy Head of Operations Management Department	April 2022 to present

Name	Position or concurrent position in other entities excluding shareholder entities
Zhu Min	Chief Accountant and Party Branch member of State Grid Corporation of China
Cai Zhiwei	Vice President and Party Committee Member of People's Insurance Company (Group) of China Limited; Non-executive Director and Chairman of PICC Capital Insurance Asset Management Co., Ltd.; Non-executive Director and Chairman of PICC Investment Holding Co., Ltd.; and Non-executive Director and Vice Chairman of PICC Asset Management Company Limited.
Ma Xiaoyan	General Manager and Deputy Party Secretary of State Grid Yingda Co., Ltd.; Director of State Grid Xiongan Financial Technology Group Co., Ltd.; Executive Director of CGN Industry Investment Fund Phase II Co., Ltd.
Guan Jifa	Chairman of Shanghai Orient Marine Engineering Technology Co. Ltd.; Chairman and Non-executive Director of BII Railway Transportation Technology Holdings Co,. Ltd.
Zou Libin	Director of Beijing West Fund Management Co., Ltd.; Director of Beijing Shougang Construction Investment Co., Ltd.; Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd.; Director of China Bond Insurance Corporation; Chairman of Shougang Group Finance Co., Ltd.; and director of Shougang Holding (Hong Kong) Limited.
Ding Yi	Director of Tongwei Co., Ltd., Independent Director of Huatai Asset Management Co., Ltd., Independent Director of Zhangjiakou Yuanshi Advanced Materials Co., Ltd. and Independent Director of S.F. Holding Co., Ltd.
Zhao Hong	Professor of College of the Economics and Management and Professor of the Sino-Danish College, University of Chinese Academy of Sciences and Vice Chairman of the University of Chinese Academy of Sciences Education Foundation; Director of China Marketing Association of University; Executive Director of the sixth Board of Directors of China Soft Science Research Association; Director of Jiangsu Nuo Beta Pharmaceutical Technology Co., Ltd.; Member of the Expert Steering Committee of the Higher Technical and Vocational Education Division of the Chinese Society for Technical and Vocational Education.
Guo Qingwang	Vice President of Society of Public Finance of China, Vice President of China International Taxation Research Institute and professor; Vice Chairman of China National Committee for MT Education; Vice Chairman of National College Finance Teaching and Research Association; and tutor to PhD students at Division of Public Finance, School of Finance of Renmin University of China.
Gong Zhiqiang	Director and senior partner of S&P Law Firm; and independent director of Capinfo Company Limited.
Lv Wendong	Professor at the Business School of University of International Business and Economics; Independent Director of Henan Yuguang Gold & Lead Co. Ltd., Independent Director of Henan Pinggao Electric Co., Ltd., Outside Director of Heilongjiang Transport Investment Group Co., Ltd. and President of the *Scientific Decision Making*.
Chen Shenghua	Honorary Director of Management Committee and Senior Partner of Beijing Xinghua Certified Public Accountants (Special General Partnership); member of the Governance Committee of the Beijing Institute of Certified Public Accountants; Visiting Tutor of the Accounting School of the School of Accounting, Central University of Finance and Economics; Independent Director of NAURA Technology Group Co., Ltd.; Independent Director of Tianjin Aisida Aerospace Technology Co. Ltd. and External Director of Beijing Drainage Group Co., Ltd.
Cheng Xinsheng	Professor and tutor to PhD students at the Accounting Department of Nankai Business School; Independent Supervisor of China Oilfield Services Limited; Independent Director of Tianjin Binhai Teda Logistics (Group) Corporation Limited; Independent Director of Peric Special Gases Co., Ltd.; and Director of Chinese Academy of Management.
Deng Kang	Director of Hongta Innovation Investment Co., Ltd.; Director of Jiangsu Tobacco Jinsili Financial Lease Co., Ltd.; Supervisor of KPC Pharmaceuticals, Inc.; Chairman of the Supervisory Board of Huatai Insurance Group Co., Ltd.; Director of Kunming Zhengji Real Estate Co. Ltd.; Vice Chairman of Yunnan Flower Industry Investment Management Co., Ltd.; Director of Zking Property & Casualty Insurance Co., Ltd.; and Director of Hongta Innovation (Qingdao) Equity Investment Management Co., Ltd.

Name	Position or concurrent position in other entities excluding shareholder entities
Ding Zhaohua	Director and Chief Executive Officer of Highgo Software Co., Ltd.; General Manager of Beijing Huading Highgo Data Technology Research Institute Co., Ltd.; Financial Chief of Highgo Holdings (Shandong) Limited; Director of Shandong Runhua Dingye Cultural and Tourism Development Co., Ltd.
Zhao Xijun	Co-president of China Capital Market Research Institute at Renmin University of China, Member/Secretory General of the National Supervisory Committee for Professional Degrees in Finance, Independent Director of China National Foreign Trade Financial & Leasing Co., Ltd., External Supervisor of China Construction Bank Corporation, Independent Director of Shenzhen Sunline Tech Co., Ltd., Independent Director of Kaishi Fund Management Co., Ltd. and Independent Director of iFLYTEK Co., Ltd.
Guo Tianyong	Professor and tutor to PhD students at the School of Finance, Central University of Finance and Economics; Independent Director of Kweichow Moutai Co., Ltd.; Independent Director of Ping An Healthcare And Technology Co. Ltd.
Zhang Hong	Associate Professor and tutor to PhD students at Shandong University; Independent Director of Sinotruk Jinan Truck Co., Ltd.; Independent Director of Sunvim Group Co., Ltd.; Independent Director of Shandong Hi-Speed Road & Bridge Co. Ltd.; External Supervisor of Shandong Chenming Paper Holdings Limited.
Gao Bo	Supervisor of China UnionPay Co., Ltd.

4.4.5 Establishment and implementation of performance evaluation and incentive mechanisms for directors, supervisors and senior management members

The total remuneration received by the directors and supervisors except for executive directors and employee supervisors from the Company was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors* and the *Regulations of Hua Xia Bank Co., Limited on Allowance of Supervisors* approved by the Shareholders' General Meeting. As to the executive directors, other senior management members and employee supervisors who are included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the management policies fit for the above-mentioned officers. As to the executive directors and other senior management members who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank.* As to the employee supervisors who are not included in the remuneration management scope of officers of SOEs governed by Beijing Municipal Government, their remuneration shall be determined as per the Company's related employee remuneration management measures. As at the end of the reporting period, the Company had not provided any share incentives to directors, supervisors or senior management members.

The Board of Directors of the Company assessed the performance of senior managers appointed by the Board of Directors in accordance with the *Performance Assessment Measures for Senior Management Members of Hua Xia Bank.* The annual duty performance of directors, supervisors and senior managers was evaluated by the Board of Supervisors according to the *Duty Performance Evaluation Measures for the Board Directors of Hua Xia Bank Co., Limited and Its Members,* the *Duty Performance Evaluation Measures for the Board of Supervisors of Hua Xia Bank Co., Limited and Its Members* and the *Duty Performance Evaluation Measures for the Senior Management of Hua Xia Bank Co., Limited and Its Members (Provisional)* and reported to the General Meeting of Shareholders and regulatory authorities.

The Nomination and Remuneration Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2023 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2023 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

During the reporting period, RMB17,455,100 (before tax) was actually paid to all of the directors, supervisors and senior management members.

4.4.6 Penalties imposed on directors, supervisors and senior management members by securities regulatory authority in the past three years

As far as the Company knows, there have been no penalties imposed on its directors, supervisors or senior management members, who remain in office now or were removed from office during the reporting period, by securities regulatory authorities in the recent three years.

4.5 BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

4.5.1 Duties of the Shareholders' General Meeting

The Shareholders' General Meeting holds the ultimate power of the Company. It is mainly responsible for: deciding on the Company's business policy and investment plan; electing and replacing directors and supervisors and deciding on the remuneration of directors and supervisors; hearing the Board of Supervisors' report on performance evaluation of directors and supervisors; reviewing and approving the reports of the Board of Directors and the Board of Supervisors; reviewing and approving the annual financial budget, final accounts plan, profit distribution plan and loss recovery plan of the Company; resolving on the Company's bond issuance, increase or decrease of registered capital, change of the purpose of raised funds, equity incentive plan, employment stock ownership plan, merger, split-up, spin-off, dissolution, liquidation or change of company form; amending the Articles of Association; engaging and disengaging accounting firm that conducts regular statutory auditing of the financial statements of the Company; reviewing the proposals of shareholders representing more than 3% of the total shares of the Company; reviewing the Company's purchase or sale of major assets or the guarantees within one year exceeding 30% of the latest audited total assets of the Company; deciding on or authorizing the Board of Directors to decide on matters related to the Company's issued preference shares; examining and approving the rules of procedure for the Shareholders' General Meeting, the Board of Directors and the Board of Supervisors; resolving on the acquisition of shares in the Company in accordance with the law; and reviewing other matters subject to decision making by the Shareholders' General Meeting under laws, regulations, supervisory rules and the Articles of Association.

4.5.2 Convening of Shareholders' General Meeting

Meeting	Date	Place	Attendance	Website designated for publishing resolution	Disclosure date	Resolutions
Annual General Meeting for 2022	19 May 2023	Beijing	1. 52 shareholders attended the meeting in person or by proxy, representing a total of 11,707,839,460 voting shares, accounting for 73.5651% of total voting shares in the Company. 2. Of the 17 directors of the Company, 9 directors were present, while Directors Wang Hongjun, Wang Yiping, Cai Zhiwei, Guan Jifa, Ma Xiaoyan, Zou Libin, Zeng Beichuan, and Independent Director Chen Shenghua were absent for business affairs. 3. Of the nine supervisors of the Company, seven supervisors were present, while Supervisor Deng Kang and External Supervisor Guo Tianyong were absent for business affairs. 4. Secretary to the Board Song Jiqing attended the meeting; some senior managers were present as non-voting attendees.	http://www.sse.com.cn	20 May 2023	Nine proposals were reviewed at the meeting, including the *2022 Work Report of the Board of Directors of Hua Xia Bank*. All of them were approved by more than one half of attending shareholders with voting rights.

4.6 DUTY PERFORMANCE OF THE DIRECTORS AND BOARD OF DIRECTORS

4.6.1 The Board of Directors

4.6.1.1 Duties and composition of the Board of Directors

The Board of Directors defines strategies, makes decisions and prevents risks. The Board of Directors is mainly responsible for: convening the Shareholders' General Meeting, reporting its work and implementing the resolutions of the Shareholders' General Meeting; deciding on the Company's business plan and investment plan; formulating the Company's annual financial budget, final accounts plan, profit distribution plan and loss compensation plan; formulating the Company's plans for increasing or decreasing registered capital, issuing bonds or other securities and listing; formulating the Company's risk tolerance and risk management policies; deciding on the Company's external investments, asset purchase, asset mortgage, external donations, related party transactions, data governance and other matters in accordance with laws, regulations, regulatory rules and the Company's Articles of Association or within the scope authorized by the Shareholders' General Meeting; developing the major acquisition plan of the Company; formulating the medium – and long-term development strategies of the Company and supervising the implementation of these strategies; deciding on the establishment of the working bodies of the Board of Directors, the internal management bodies of the Company and the unincorporated branches; formulating the standards for remuneration and allowances for directors of the Company, detailed articles of association and their amendments and rules of procedure of the Shareholders' General Meeting and their amendments; revising the rules of procedure of the Board of Directors; examining and approving the working rules of the special committees of the Board of Directors; formulating the basic management policies of the Company; deciding on the appointment or dismissal of President, Secretary to the Board and other senior manager and deciding on their remuneration, rewards and punishments; deciding on appointment or dismissal of Vice President, Principal of Financial Affairs and other senior management members of the Company according to the President's nominations, and deciding on their remuneration, rewards and punishments; hearing the work report of the President of the Company and checking the work of the President; taking the ultimate responsibility for the Company's comprehensive risk management, capital management, consolidated management, internal audit and other regulatory requirements; regularly evaluating and improving the Company's corporate governance; safeguarding the legitimate rights and interests of financial consumers and other stakeholders; assuming the responsibility for the management of shareholders' affairs; and reviewing the other matters that shall be decided on by the Board of Directors under laws, regulations, supervisory rules and the Articles of Association. The Board of Directors shall, before deciding on major issues of the Company, solicit opinions of the Party Committee of the Company. At the end of the reporting period, the Board of Directors of the Company was composed of 16 directors. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.6.1.2 Meetings of the Board of Directors

Meeting	Date	Resolutions
The 31st meeting of the Eighth Board of Directors	14 March 2023	For details, please see the Announcement on Resolutions of the 31st Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 16 March 2023.
The 32nd meeting of the Eighth Board of Directors	20 April 2023	For details, please see the Announcement on Resolutions of the 32nd Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 22 April 2023.
The 33rd meeting of the Eighth Board of Directors	26 April 2023	For details, please see the Announcement on Resolutions of the 33rd Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 28 April 2023.
The 34th meeting of the Eighth Board of Directors	13 June 2023	For details, please see the Announcement on Resolutions of the 34th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 14 June 2023.
The 35th meeting of the Eighth Board of Directors	17 July 2023	For details, please see the Announcement on Resolutions of the 35th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 19 July 2023.
The 36th meeting of the Eighth Board of Directors	24 August 2023	For details, please see the Announcement on Resolutions of the 36th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 26 August 2023.
The 37th meeting of the Eighth Board of Directors	26 October 2023	For details, please see the Announcement on Resolutions of the 37th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 28 October 2023.
The 38th meeting of the Eighth Board of Directors	22 December 2023	For details, please see the Announcement on Resolutions of the 38th Meeting of the Eighth Board of Directors of Hua Xia Bank disclosed by the Company on 26 December 2023.

4.6.2 Duty performance of directors

4.6.2.1 Duty performance of directors

Director	Independent Director (Yes/no)	Board meetings to be attended this year	Attendance at Board Meeting: Meetings attended in person	Meetings attended by circulation	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Attendance at Shareholders, General Meetings: Shareholders, General Meetings attended
Li Minji	No	8	8	5	0	0	No	1
Wang Hongjun	No	8	8	5	0	0	No	0
Song Jiqing	No	8	8	5	0	0	No	1
Cai Zhiwei	No	8	8	5	0	0	No	0
Ma Xiaoyan	No	8	8	5	0	0	No	0
Zeng Beichuan	No	8	8	5	0	0	No	0
Guan Jifa	No	8	8	5	0	0	No	0
Zou Libin	No	8	8	5	0	0	No	0
Ding Yi	Yes	8	8	5	0	0	No	1
Zhao Hong	Yes	8	8	5	0	0	No	1
Guo Qingwang	Yes	8	8	5	0	0	No	1
Gong Zhiqiang	Yes	8	8	5	0	0	No	1
Lv Wendong	Yes	8	8	5	0	0	No	1
Chen Shenghua	Yes	8	8	5	0	0	No	0
Cheng Xinsheng	Yes	8	8	5	0	0	No	1
Guan Wenjie	No	8	7	5	1	0	No	1
Wang Yiping	No	6	6	3	0	0	No	0
Number of Board meetings held in the reporting period								8
Of which: Number of onsite meetings								3
Number of meetings held by circulation								5
Number of meetings held by onsite presence & correspondence								0

During the reporting period, all directors gave reasonable opinions and suggestions based on their own expertise and experience, covering the business development, market capitalization management, strategy transformation, risk management, consumer protection, credit card business, internal control and audit and external audit. Relevant opinions and suggestions were effectively implemented. During the reporting period, directors of the Company did not raise any dissents on relevant issues of the Company.

4.6.2.2 Work of independent directors

During the reporting period, the Board of Directors of the Company kept the number of independent directors more than one third of its members, ensured independent directors' right to know and provided necessary assistance for independent directors to perform their duties properly. All independent directors performed their duties with due care in good faith, independently and diligently, effectively played their role of participation in decision-making, supervision, checks and balances and professional consultation, and safeguarded the overall interests of the Company, the interests of all shareholders and, in particular, the legitimate rights and interests of minority shareholders and financial consumers, and worked without any influence from the Company or its shareholders, senior managers or other entities or individuals having any major stake in the Company.

Independent directors were in no circumstances affecting their independence in performing duties at the Company. The number of domestic listed companies and domestic and foreign enterprises for which they served as independent directors met the regulatory requirements, ensuring that independent directors had enough time and energy to perform their duties as independent directors effectively, and worked at the Company for more than 15 working days in the reporting period. Independent directors attended meetings of the Board of Directors on time, understood the Company's business and operation, took the initiative to investigate and obtained the information and materials needed to make decisions and expressed objective and impartial independent opinions on matters considered by the Shareholders' General Meeting or the Board of Directors. In addition, independent directors also performed their duties by regularly obtaining information about the Company's operations, listening to reports from the management, communicating with the head of the internal audit and the accounting firm working as external audit for the Company, conducting field visits and communicating with minority shareholders.

4.6.3 Special committees of the Board of Directors

4.6.3.1 Members of special committees of the Board of Directors at the end of the reporting period

Name of special committee	Name of member
Strategy and Capital Management Committee	Li Minji (chairman), Wang Hongjun, Guan Wenjie, Ding Yi, Zhao Hong and Guo Qingwang
Audit Committee	Chen Shenghua (chairman), Ma Xiaoyan, Zou Libin, Ding Yi and Cheng Xinsheng
Risk Compliance and Consumer Protection Committee	Guan Wenjie (chairman), Song Jiqing, Cai Zhiwei, Zhao Hong, Guo Qingwang, Gong Zhiqiang and Lv Wendong
Related Party Transactions Control Committee	Lv Wendong (chairman), Ding Yi, Zhao Hong, Guo Qingwang, Gong Zhiqiang, Chen Shenghua and Cheng Xinsheng
Nomination and Remuneration Assessment Committee	Gong Zhiqiang (chairman), Guan Jifa, Zeng Beichuan, Lv Wendong, Chen Shenghua and Cheng Xinsheng

Note: On 12 January 2024, Mr. Guan Wenjie resigned from the posts of executive director, President and member of relevant committees of the Board of Directors of the Company due to work engagement.

4.6.3.2 Main duties of special committees

The Board of Directors of the Bank has established the following special committees according to needs: the Strategy and Capital Management Committee, the Audit Committee, the Risk Compliance and Consumer Protection Committee, the Related Party Transactions Control Committee and the Nomination and Remuneration Assessment Committee. Special committees provide professional opinions to the Board of Directors or make decisions on specialized matters and exercise the following functions and responsibilities:

The Strategy and Capital Management Committee is mainly responsible for: studying the long-term development strategy and major investment decisions of the Company, giving suggestions and supervising and assessing the development strategy implementation; studying and making suggestions on capital management of the Company, reviewing the capital planning, the capital adequacy management plan and report as well as internal capital adequacy assessment process (ICAAP) report formulated by the Senior Management, submitting them to the Board of Directors for approval and supervising their implementation; formulating the green finance development strategy of the Company, reviewing the green finance objectives formulated and green finance reports formulated by the Senior Management and submitting them to the Board of Directors for approval; formulating the strategic development plan and basic policy for inclusive finance; promoting the rule-of-law work of the Company; putting forward proposals and plans on major issues to be discussed and decided on by the Board of Directors; and other relevant matters prescribed by laws, regulations, ordinances, Articles of Association of the Company and authorized by the Board of Directors.

The Audit Committee is mainly responsible for: proposing to hire or replace the external audit body and supervising and assessing the external audit work; supervising and assessing the internal audit work, organizing and directing the internal audit work under the authorization of the Board of Directors, reporting to the Board of Directors and regularly listening to the internal audit work report; coordinating the Management and related departments with the external audit body, and coordinating internal auditors with external auditors; examining the Company's financial information and its disclosure, including examining the Company's accounting policies, financial position and financial reporting procedures, examining the Company's risk and compliance status, taking charge of the annual audit of the Company, making a judgmental report on the authenticity, integrity and accuracy of the audited financial report information and submitting the report to the Board of Directors for deliberation; proposing appointment and dismissal of the Principal of Financial Affairs; examining the changes in accounting policies and estimates caused by any matter other than changes in the accounting standards or correction of significant accounting errors the Company's risk; supervising and assessing the Company's internal control, examining the internal control evaluation report, supervising and assessing the Company's internal control, supervising the effective implementation and self-assessment of internal control, and coordinating internal control audit and other related matters; and other relevant matters prescribed by laws, regulations, ordinances, Articles of Association of the Company and authorized by the Board of Directors.

The Risk Compliance and Consumer Protection Committee is mainly responsible for: formulating the Company's risk tolerance and risk management policies and submitting them to the Board of Directors for approval; supervising the Senior Management's control over credit risk, liquidity risk, market risk, operational risk, compliance risk, IT risk, case risk, anti-money laundering risk and reputational risk; regularly listening to the Senior Management's special reports on the Company's risk profile, organizing and guiding the case prevention work upon the authorization from the Board of Directors, conducting regular assessment of the Company's risk policy, risk level, risk management status and risk tolerance, and making suggestions on improving risk management; formulating strategies, policies and objectives for consumer protection of the Company and researching major issues and important policies on consumer protection; supervising and inspecting consumer protection, supervising the comprehensiveness, timeliness and effectiveness of the work of the Senior Management and the consumer protection department; directing and urging the establishment and improvement of the consumer protection management system; holding regular meetings on consumer protection, review work reports and annual reports of the Senior Management and consumer protection department and submitting them to the Board of Directors for approval; studying audit reports, regulatory notices and internal assessment results related to annual consumer protection work and urging the Senior Management and relevant departments to promptly correct problems; and other relevant matters prescribed by laws, regulations, ordinances, Articles of Association of the Company and authorized by the Board of Directors.

The Related Party Transactions Control Committee is mainly responsible for: taking charge of the management, review and risk control of related party transactions, with a focus on the compliance, fairness and necessity of related party transactions, and hiring financial advisors and other independent third parties to issue reports as the basis for judgment where necessary; filing general related party transactions examined in accordance with internal management policy and authorization procedures; examining major related party transactions and submitting them to the Board of Directors for approval; and other relevant matters prescribed by laws, regulations, ordinances, Articles of Association of the Company and authorized by the Board of Directors.

The Nomination and Remuneration Assessment Committee is mainly responsible for: formulating standards and procedures for the selection and appointment of directors and senior managers and making suggestions; selecting eligible candidates for directors and senior managers; examining the eligibility and qualifications of candidates for directors and senior managers and making suggestions to the Board of directors on nomination, appointment or removal of directors and appointment or dismissal of senior managers; researching and formulating the standards and indicator system for Senior Management assessment, conduct assessment and making suggestions; researching, formulating and reviewing the remuneration policy and plan for directors and senior managers, making suggestions and supervising the implementation of the plan; formulating or altering the stock incentive plan and employee stock ownership plan; making suggestions on conditions for granting and exercising the rights and benefits under incentives; advising on the directors' and senior managers' shareholder plan for the proposed spin-off of a subsidiary; and other relevant matters prescribed by laws, regulations, ordinances, Articles of Association of the Company and authorized by the Board of Directors.

4.6.3.3 Meetings of special committees

S/N	Meeting	Date	Agenda items	Important opinions and suggestions and other duty performance
1	The 10th meeting of the Audit Committee of the Eighth Board of Directors	13 March 2023	Three proposals were reviewed and approved, including the *Proposal on the Dividend Distribution on Preference Shares for 2022.*	/
2	9th meeting of the Risk Compliance and Consumer Protection Committee of the Eighth Board of Directors	18 April 2023	10 proposals were reviewed and approved, including the *2022 Risk Management Report of Hua Xia Bank;* the *Special Report of Hua Xia Bank on Financial Crime Prevention among Employees* was read.	/
3	The seventh meeting of the Related Party Transactions Control Committee of the Eighth Board of Directors	18 April 2023	Four proposals were reviewed and approved, including the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties.*	/
4	The seventh meeting of the Strategy and Capital Management Committee of the Eighth Board of Directors	18 April 2023	Six proposals were reviewed and approved, including the *Assessment Report on 2022 Plan Execution of Hua Xia Bank Co., Limited;* the *Report on Preparation for Implementation of New Capital Regulation* was read.	/
5	The 11th meeting of the Audit Committee of the Eighth Board of Directors	19 April 2023	11 proposals were reviewed and approved, including the *Report on 2022 Final Accounts of Hua Xia Bank;* the *Report of Ernst & Young Hua Ming LLP on External Audit of Hua Xia Bank for 2022* was heard.	The Audit Committee has reviewed significant issues in the "key audit issues" section of the audit report and opined that a full explanation of these issues had been provided in the notes to financial statements and thus was not needed in the annual report.
6	The 11th meeting of the Nomination and Remuneration Assessment Committee of the Eighth Board of Directors	19 April 2023	Six proposals were reviewed and approved, including the *Proposal on the 2022 Bonus Distribution Plan for Senior Managers Not in the Charge of the Municipality.*	The remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2022 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations. Senior managers at the Head Office of the Company were all rated Grade A in annual performance assessment.
7	The 12th meeting of the Nomination and Remuneration Assessment Committee of the Eighth Board of Directors	13 June 2023	The *Proposal on Review of the Eligibility of Candidate for Vice President* was reviewed and approved.	The eligibility of Ms. Gao Bo as candidate for Vice President was reviewed and approved.
8	The eighth meeting of the Related Party Transactions Control Committee of the Eighth Board of Directors	23 August 2023	The *Report on Ongoing Risk Assessment of Related Finance Company in the First Half of 2023* was reviewed and approved.	/
9	The eighth meeting of the Strategy and Capital Management Committee of the Eighth Board of Directors	23 August 2023	The *Interim Report of Hua Xia Bank on Capital Adequacy Ratio in 2023* was reviewed and approved.	/
10	The 12th meeting of the Audit Committee of the Eighth Board of Directors	23 August 2023	Three proposals were reviewed and approved, including the *Proposal on the 2023 Interim Report of Hua Xia Bank Co., Limited; the Report of Ernst & Young Hua Ming LLP on Review Work for the First Half of 2023* was heard.	/
11	10th meeting of the Risk Compliance and Consumer Protection Committee of the Eighth Board of Directors	23 August 2023	The *Report on 2023 Recovery Plan of Hua Xia Bank* was reviewed and approved.	/
12	The 13th meeting of the Audit Committee of the Eighth Board of Directors	25 October 2023	The *Quarterly Report of Hua Xia Bank Co., Limited for the Third Quarter of 2023* was reviewed and approved.	/
13	The 13th meeting of the Nomination and Remuneration Assessment Committee of the Eighth Board of Directors	25 October 2023	The *Proposal on the 2023 Performance Assessment Plan for Non-municipality-managed Executives* was reviewed and approved.	/
14	The 11th meeting of the Risk Compliance and Consumer Protection Committee of the Eighth Board of Directors	25 October 2023	The *Provisioning for Credit Risk Losses of Hua Xia Bank for the Third Quarter of 2023* was reviewed and approved.	/
15	The 14th meeting of the Nomination and Remuneration Assessment Committee of the Eighth Board of Directors	11 December 2023	The *Proposal on Signing of the Three Elements of the Tenure and Contract Management by Members of the Management* was reviewed and approved.	/
16	The ninth meeting of the Strategy and Capital Management Committee of the Eighth Board of Directors	21 December 2023	The *Report on Mid-term Assessment and Review of the Development Plan 2021-2025 of Hua Xia Bank* was reviewed and approved.	/

4.7 DUTY PERFORMANCE OF THE SUPERVISORS AND BOARD OF SUPERVISORS

4.7.1 Board of Supervisors

4.7.1.1 Duties and composition of the Board of Supervisors

The Board of Supervisors, as the supervisory body of the Company, is mainly responsible for: supervising, inspecting and urging rectification of the Company's business decisions, risk management and internal control; supervising the performance of the duties of the Board of Directors, the Senior Management and their members; supervising the Board of Directors in establishing sound business philosophy and values and formulating development strategies suitable for the Company; assessing the scientificity, rationality and robustness of the Company's development strategy and forming an assessment report; supervising the selection and appointment process of directors; supervising the implementation of the Company's remuneration management system and the scientificity and rationality of the Senior Management remuneration plan; reviewing the regular reports of the Company prepared by the Board of Directors and give written review opinions; examining the Company's financial affairs; supervising the performance of the duties of the directors and senior managers of the Company, and proposing the removal of directors and senior managers who violate laws, administrative regulations, the Articles of Association or resolutions of the Shareholders' General Meeting; Requiring directors and senior managers to make corrections when their acts harm the interests of the Company; proposing the convening of an extraordinary General Meeting, and to convening and presiding over a General Meeting when the Board of Directors fails to perform its duties of convening and presiding over a General Meeting as provided for in the Company Law; making proposals to the Shareholders' General Meeting; lodging litigation against directors and senior managers in accordance with the relevant provisions of the Company Law; conducting an investigation over any abnormalities in operation of the Company; where necessary, engaging professional agencies such as accounting firm and law firm to assist them in their work at the Company's expense; formulating and revising the rules of procedure of the Board of supervisors, and examining and approving the working rules of the special committees of the Board of supervisors; reviewing the supervisory opinion given by the banking regulatory authority of the State Council on the Company and its report on rectification; other functions and powers of the Board of Supervisors as prescribed by laws, regulations or the Articles of Association. At the end of the reporting period, the Board of Supervisors of the Company was composed of nine supervisors. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.7.1.2 Meetings of the Board of Supervisors and supervision

During the reporting period, the Board of Supervisors held four meetings and reviewed and adopted 15 proposals covering work report of the Board of Supervisors, annual work plan for surveys, annual report, internal control evaluation report, duty performance evaluation report and social responsibility report, reviewed 14 special reports and heard three special reports. Five special surveys were conducted according to supervisory focus, internal and external audit findings, the Bank's work plans and key strategic transitions. Survey reports were developed on operating conditions, performance evaluation, implementation of the "commercial banking + investment banking" strategy, credit card business and subsidiary management. Supervisory opinions and suggestions were given, and corrective actions were urged. In collaboration with the internal audit departments, the Board of Supervisors conducted a supervisory review of four branches and urged the four branches to make systematic corrections and build long-term mechanisms.

4.7.1.3 Explanation of the Board of Supervisors' no dissents on supervised matters during the reporting period

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control building, risk management, strategy formulation and implementation and implementation of information disclosure policies having no dissents on those matters under supervision.

4.7.2 Work of external supervisors

During the reporting period, the Board of Supervisors of the Company kept the number of external supervisors more than one third of its members, ensured external supervisors' right to be know and provided necessary assistance for external supervisors to perform their duties properly. All external supervisors perform their duties with due care and prudence, with any influence from shareholders, senior managers and other entities and individuals having an interest in the Company, and attached importance to safeguarding the legitimate rights and interests of minority shareholders and other stakeholders. As chairmen of the special committees of the Board of Supervisors, external supervisor organized the special committees' meetings and submitted their decisions to the Board of Supervisors for consideration. External supervisors have enough time and energy to perform their duties effectively, and work at the Company for more than 15 working days. External supervisors attend the meetings of the Board of Supervisors on time, attend the meetings of the Board of Directors and Shareholders' General Meeting as nonvoting attendees, fully examine the resolutions of the Board of Supervisors, express their opinions independently, professionally and objectively, vote independently based on their prudent judgment and supervise the performance of duties of the Company's Board of Directors and Senior Management and their members.

4.8 Senior Management

The Senior Management, the executive body of the Company, reports to the Board of Directors and is supervised by the Board of Supervisors. The Company's Senior Management, with its functions and powers strictly separated from those of the Board of Directors, is responsible for carrying out business management activities upon authorization from the Board of Directors in accordance with the Articles of association. Pursuant to the requirements of the Board of Directors and the Board of Supervisors, the Senior Management reports the Company's operating results, important contracts, financial status, risk profile and business prospects in a timely, accurate and complete manner and provide relevant materials. At the end of the reporting period, the Senior Management of the Company was composed of six senior managers. For details, please see "4.4 Directors, Supervisors and Senior Management Members".

4.9 TIERED MANAGEMENT AND NUMBER AND REGIONAL DISTRIBUTION OF INSTITUTIONS

4.9.1 Basic information on branches and overview of tiered management

The Company focuses on economically central cities while radiating over the whole country. It conducts the institutional planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company had set up 44 tier one branches, 78 tier two branches, 7 non-local branches and 982 outlets in 120 Chinese cities at prefecture level and above.

4.9.2 Branches

Region	Institution	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Beijing-Tianjin-Hebei Region	Head Office	22 Jianguomennei Street, Dongcheng District, Beijing	–	4,087	2,709,209
	Beijing Branch	11 Financial Street, Xicheng District, Beijing	65	2,333	560,630
	Tianjin Branch	Tower E, Bohai-rim Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	13	620	51,769
	Shijiazhuang Branch	48 Zhongshan West Road, Qiaoxi District, Shijiazhuang	62	2,198	83,025
	Tianjin FTZ Branch	Baofeng Building, No. 3678 Xinhua Road, China (Tianjin) Pilot Free Trade Zone (CBD)	9	131	12,517
	Beijing Municipal Administrative Center Branch	Building 2, Block 11, Xinhua East Street, Tongzhou District, Beijing	7	170	20,438
Yangtze River Delta	Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	67	2,327	280,312
	Hangzhou Branch	No. 2 Building, Oceanwide International Center, 2 Xiangzhang Street, Sijiqing Subdistrict, Jianggan District, Hangzhou	60	1,724	220,773
	Shanghai Branch	256 Pudong South Road, China (Shanghai) Pilot Free Trade Zone	29	879	155,482
	Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	14	491	31,873
	Ningbo Branch	366 Heyuan Road, Yinzhou District, Ningbo	11	420	28,777
	Shaoxing Branch	354 Zhongxing South Road, Tashan Subdistrict, Yuecheng District, Shaoxing	13	402	39,243
	Changzhou Branch	9 Building, Fuxi Garden, 1598 Longjin Road, Xinbei District, Changzhou	14	416	43,434
	Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	20	743	113,639
	Wuxi Branch	3 Finance No.1 Street, Wuxi	22	545	60,657
	Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	16	758	57,780
	Shanghai FTZ Branch	No.569 Pudong Avenue, Pudong New Area, Shanghai; No.6, 10, 14 and 18, Lane 563; No.5, 9, 13 and 17, Lane 573; No.1, Lane 588, Changyi Road	1	39	2,591
Guangdong-Hong Kong-Macao Greater Bay Area	Shenzhen Branch	Zhongzhou Plaza, 3088 Jintian Road, Futian Sub-district, Futian District, Shenzhen	40	1,446	181,893
	Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	44	1,842	139,024
	Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	4	247	6,652
	Hong Kong Branch	F18, International Finance Center (Phase II), 8 Finance St., Central Hong Kong	1	131	83,565

Region	Institution	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Central and Eastern China	Ji'nan Branch	Building 3, Section 6, Hanyu Financial Business Center, No.7000 Jingshi Road, Licheng District, Jinan	54	1,832	105,246
	Wuhan Branch	Hua Xia Bank Building, 217 Zhongbei Road, Wuchang District, Wuhan	52	1,386	109,708
	Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	35	1,019	59,895
	Taiyuan Branch	Block A, Longcheng No.1 Office Building, No.97 Longcheng Street, Xiaodian District, Taiyuan	27	983	64,059
	Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	18	634	27,404
	Changsha Branch	Huameiou Mansion, 389 Wuyi Road, Furong District, Changsha	13	769	56,954
	Xiamen Branch	10, 11 and 16 Lingshiguan Road, Siming District, Xiamen	8	403	27,508
	Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	15	1,289	74,142
	Nanchang Branch	198 Ganjiang North Road, Honggutan District, Nanchang	13	498	37,557
Western China	Kunming Branch	Hua Xia Bank Tower, 98 Weiyuan Road, Wuhua District, Kunming	26	1,024	79,423
	Chongqing Branch	Annex 1, Annex 2, Annex 3, 27 Jiangbeichengxi Street, Jiangbei District, Chongqing	29	1,044	74,801
	Chengdu Branch	2 Building, Jinjiang Zhichun Building, 299 Yong'an Road, Jinjiang District, Chengdu	28	1,158	87,469
	Xi'an Branch	111 Chang'an North Road, Beilin District, Xi'an	30	807	52,443
	Urumqi Branch	15 Dongfeng Road, Tianshan District, Urumqi	14	455	33,993
	Hohhot Branch	57 Airport Expressway, Xincheng District, Hohhot	18	773	26,075
	Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Qingxiu District, Nanning	11	570	39,428
	Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	7	265	10,668
	Guiyang Branch	55 Changling North Road, Guanshanhu District, Guiyang	4	344	25,782
	Xining Branch	Hua Xia Bank Mansion, Building No. 1, 79 Haiyan Road, Chengxi District, Xining	1	107	4,962
	Lanzhou Branch	Zhihui Plaza, 333 Tianshui North Road, Chengguan District, Lanzhou	3	303	12,157
Northeastern China	Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	24	1,038	25,886
	Dalian Branch	50 and 52 Renmin East Road, Zhongshan District, Dalian	19	632	29,816
	Changchun Branch	4888 Renmin Street, Changchun	15	615	16,947
	Harbin Branch	2586 Lijiang Road, Daoli District, Harbin	6	396	12,364
Regional summarization adjustment			–	–	-1,982,765
Total			982	40,293	3,995,205

Note: Headcount and asset size of the Head Office include the staff of Credit Card Center.

4.10 EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

At the end of the reporting period, the Group had 40,885 service employees, including 40,293 ones working in the Company and 592 ones working in the major subsidiaries. The Group had 1,719 retired employees.

4.10.1 The Company's employees by professional field

Of the in-service employees of the Company, 30,718 or 76.23% were business personnel, 7,675 or 19.05% were management personnel and 1,900 or 4.72% were supporting personnel.

4.10.2 The Company's employees by educational background

Of the in-service employees of the Company, 6,267 persons or 15.55% held a master's or higher degree, 25,417 or 63.08% held a bachelor's degree, and 8,609 or 21.37% held an associate's or lower degree.

4.10.3 Remuneration policy and training

Guided by the national development strategies and the bank-wide strategic plan, the Company continued to improve the assessment and distribution mechanism with value creation as the core, emphasized the strategy transformation, highlighted the orientation to differentiated regional and business development, deepened the development mode transformation and structural adjustments, strengthened quality and risk compliance management and guided the operating institutions to refine their development modes. During the reporting period, the Company showed sound performance in economic, risk and social responsibility indicators.

Remuneration of the employees of the Company consisted of base pay and performance pay. The performance pay was linked to the overall institutional (departmental) and personal performance. The annual remuneration plan was brought through relevant procedures of the bank and approved by the competent authority of Beijing Municipality before implementation. According to regulatory requirements and management needs, the Company created a remuneration deferral and clawback mechanism for the Senior Management and employees in positions having significant impact on risks. The deferral ratio is above 40% and the deferral period is three years. If any misconduct or excessive exposure within the duty occurs during the specified period, the performance pays for the persons held liable will be deducted, stopped or reclaimed in line with the severity of circumstances pursuant to regulatory policies and the Company's policies. During the reporting period, the Company reclaimed a total of RMB15,588,900 in performance-based pay from 820 employees.

The Company established a hierarchical and classified training system in alignment with its development strategies. Efforts were stepped up to develop training resources such as courses, cases and quizzes, the in-house trainer team was strengthened, and the digital training library and learning platform was developed and launched to enhance online training, with knowledge updates quickened to make training more systematic and effective and continuously enhance the overall competency of employees.

4.11 PROFIT DISTRIBUTION PLAN FOR ORDINARY SHARES/PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE FOR 2023

4.11.1 Formulation, implementation or adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, except for preference shares adopted with the specific dividend policy, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

The profit distribution plan for 2022 was reviewed and approved at the Annual General Meeting for 2022 and took effect on 21 June 2023. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit attributable to ordinary shareholders realized during the period.

4.11.2 Profit distribution of ordinary shares in the past three years

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year	Cash dividend as percentage of net profit attributable to ordinary shareholders of the listed company in the consolidated statement of the distribution year (%)	Net profit attributable to shareholders of the listed company in the consolidated statement of the distribution year	Cash dividend as percentage of net profit attributable to shareholders of the listed company in the consolidated statement of the distribution year (%)
2023	–	3.84	–	6,111	24,423	25.02	26,363	23.18
2022	–	3.83	–	6,095	22,159	27.51	25,035	24.35
2021	–	3.38	–	5,201	20,755	25.06	23,535	22.10

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by the MOF and the *Articles of Association of Hua Xia Bank Co., Limited*, the parent company made statutory surplus reserve based on the audited net profit attributable to shareholders of the parent company in 2023, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited.

The profit distribution plan for 2023 is set forth below:

1. RMB2.43 billion or 10% of the audited net profit attributable to shareholders of the parent company of 2023 (RMB24.302 billion) is set aside as statutory surplus reserve.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB1.226 billion is to be set aside as general reserve for 2023.

3. The Company redeemed all the preference shares on 28 March 2023. This profit distribution did not involve any dividend distribution on preference shares.

4. In June 2019, the Company publicly issued RMB40 billion of perpetual bonds in the national interbank bond market upon approval by the former CBIRC and PBOC. The interest accrual period is from 26 June 2023 to 25 June 2024 (interest rate at 4.85%) and interest payable standing at RMB1.94 billion.

5. With 15,914,928,468 ordinary shares outstanding of the Company at the end of 2023 as the base number, cash dividends will be distributed to all of the shareholders at RMB3.84 (before tax) per 10 shares, and the cash dividends are to be distributed in an amount of RMB6,111 million.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2023 of the Company reviews and approves it.

The Company is now in a development stage of transformation and upgrading. The cash dividend payout for 2023 maintained the continuity and stability, taking into account both shareholder return and corporate sustainability. Retained profits were used to replenish capital in support of the Company's long-term strategy implementation.

4.12 STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

4.13 MANAGEMENT AND CONTROL OF SUBSIDIARIES

The Company continued to standardize the policies and procedures for equity investment and subsidiary management and made amendments to reflect the latest regulatory requirements and equity management actualities. The Company actively performed shareholder's duties and strengthened corporate governance of subsidiaries and improved the decision-making capability mainly through review of proposals. The management of Huaxia Financial Leasing Co., Ltd., Huaxia Wealth Management Co., Ltd and two rural banking subsidiaries were further strengthened with professional guidance and support, so as to ensure the quality and efficiency of Group-wide management.

4.14 ESTABLISHMENT AND IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Company continued to deepen the philosophy of "giving priority to internal control, putting compliance first". The internal control mechanism for businesses and products were enhanced to address gaps, ambiguities and controversies in business processes and improve the effectiveness of business and product rules, procedures and system controls. The internal control management was gradually enhanced by building an enterprise-level business policy management system and a compliance graph system and improving the whole-process and online management mechanism for Group-wide policies.

4.15 REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT AND REPORT ON INTERNAL CONTROL AUDIT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2023 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as other regulatory requirements for internal control. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the *2023 Internal Control Evaluation Report of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

The Company engaged Ernst & Young Hua Ming LLP as auditor of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control* and the *Guideline for Enterprise Internal Control Audit.* The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the Auditor's Report on Internal Control of Hua Xia Bank Co., Limited disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

4.16 INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT

The Company regulates day-to-day information disclosures pursuant to laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure timeliness, impartiality, authenticity, accuracy and completeness of the information disclosed and safeguard investors' interests. During the reporting period, the Company strengthened voluntary information disclosure. The structure and contents of regular reports were improved and the system of voluntary disclosure indicators was built on an ongoing basis to boost the willingness and transparency of disclosure. The Company prepared and disclosed four regular reports and 44 interim announcements in the year and informed the investors of such significant information as resolutions of the Board of Directors, the Board of Supervisors and the Shareholders' General Meeting, changes in directors, supervisors and senior management, earnings guidance, related party transactions and profit distribution on a timely basis. The Company continued to strengthen the management of inside information and insiders and performed well in the protection of inside information and registration of insiders.

The Company continued to deepen investor relations management and enhanced the interaction and communication with investors and analysts by telephone, internet and other means. In addition to results presentations, it maintained day-to-day communication with investors through the investor relation contact number, email and the sseinfo.com platform. The communication with investors and analysts in various forms informed investors and analysts of the connotation and values of the Company, enhanced their understanding of the Company and promoted the positive interaction between the Company and the capital market.

SECTION V

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

5.1 ENVIRONMENTAL INFORMATION

5.1.1 Administrative penalties for environmental problems

During the reporting period, the Company received no administrative penalties for environmental problems.

5.1.2 Green finance

The Company earnestly implemented the State's requirements on carbon peak and carbon neutrality and deepened the green finance development strategy. The Company revised the *Administrative Measures of Hua Xia Bank for Green Finance*, continued to increase support for green, low-carbon and circular economy, guarded against environmental, social and governance risks and kept improving the working mechanisms. By introducing innovative green finance products, improving the comprehensive service capabilities and developing new features of green finance, the Company provided a financial service backing for the high-quality economic and social development of the country. At the end of the reporting period, the balance of the Company's green finance was RMB359.261 billion and the proportion of green loans continued to increase, further enhancing the brand influence.

In terms of **green credit**, the Company deepened researches on key green industries, carried out ecosystem-based customer marketing, drew the ecosystem maps, built marketing platforms, strengthened development of green customers and improved the coverage of whitelist customers and the depth of cooperation with them. Business models were innovated through ongoing trials and pilots in a bid to create bright spots in green finance. The Company successfully issued China's first ever photovoltaic public REITs, namely, China Aviation Jingneng Photovoltaic Closed-end Infrastructure Securities Investment Fund. In an ongoing effort on product innovation, the carbon credits-backed financing facility was developed and piloted at 15 branches with green finance departments. The professional service capabilities were strengthened, with researches conducted on such topics as energy storage, hydrogen energy, integrated energy services, biodiversity, ESG risk rating, climate transition risk and carbon tariffs. At the end of the reporting period, the Company's balance of green loans reached RMB269.273 billion, up 9.00% from the end of the previous year, faster than growth of total loans. Specifically, the balance of credit for energy conservation and environmental protection, cleaner production, clean energy, ecological conservation, green upgrading of infrastructure and green services stood at RMB36.609 billion, RMB9.088 billion, RMB37.018 billion, RMB35.436 billion, RMB144.822 billion and RMB6.3 billion, respectively. In terms of green finance, the balance of green credit stood at RMB271.123 billion. During the reporting period, the Company's green credit helped save 1,098,400 tons of coal equivalent, reduce emissions by 2,608,400 tons of carbon dioxide equivalent and save 21,979,200 tons of water resources.

In terms of **green investment**, the Company continued to conduct investment business featuring green finance, actively applied financial products in the green field, innovated specialty products and business models, and actively added corporate asset-backed securities, green industry funds, credit bonds and green financial bonds to the interbank asset portfolio. Huaxia Wealth Management released the first ESG investment report with third-party assurance for the Company's wealth management subsidiary, and published the research report on ESG investment development in China's asset management industry for the fourth consecutive year, providing references for the overall development of ESG investment in China. At the end of the reporting period, the Company recorded RMB22.302 billion in balance of green investment and ESG wealth management products under management totaled RMB29.504 billion. Focus was placed on green debt financing instruments for higher competitiveness and recognition in the market. At the end of the reporting period, the Company had six outstanding underwritings of green debt financing instruments, with an outstanding balance of RMB2.838 billion. In an ongoing effort to develop the Chinese-issued green overseas bond market, the Company helped 17 enterprises gain access to cross-border green direct financing by underwriting 18 green overseas bonds. M&A finance products were used to support sewage treatment businesses, making a breakthrough in green M&A loans.

In terms of **green leasing**, the Company insisted on effectively serving the real economy as the core task, and carried out business around the four keywords of "green, real economy, inclusive finance and rural revitalization", further consolidating its strengths in green leasing. The Company strengthened the ESG risk management at the strategic level, in the formulation of investment and financing policies and the management of all business processes. Taking the financial service opportunities in China's ecological conservation drive and the 30-60 carbon goal, the Company actively guided resources toward the industries with low energy consumption, low emissions, low pollution, high efficiency and bright market prospects. Under the principle of "controllable risk and business sustainability" the Company continued to strengthen its strategic push for green financing. Market segment researches were strengthened to keep expanding the green leasing spaces. With a focus on green energy, green travel, pollution control and circular economy and the Company continued to consolidate its strengths in green leasing regarding wind energy, solar PV power, energy conservation and environmental protection. The Company also actively explored the business models for new energy vehicles and energy storage to sharpen the edge of its green finance brand, improve the service level and enhance the public image. In terms of offshore wind farm construction equipment, based on its successful operation of the wind turbine installation vessels, the Company extended its reach to crane vessels, cable laying vessels and other offshore wind farm construction equipment. Priority was given to green leasing in limit management, business pricing and performance assessment. At the end of the reporting period, the balance of green leasing stood at RMB62.252 billion, accounting for more than 30% of the Company's balance of leasing assets. The green leasing brand was further consolidated.

In terms of **green consumption**, the Company kept forging ahead toward the "carbon peak and carbon neutrality" goal, stoking the transition to a low-carbon society. ETC installations were further promoted with a variety of financial services and car user benefits, encouraging car owners to choose green travel. The mobile banking-based cloud payment features were provided for metro riders in selected cities, giving a boost to low-carbon mobility.

Box 7: Strengthening ESG Risk Management, Providing Financial Support for Biodiversity Conservation

ESG policies and procedures were improved. The *Guidelines of Hua Xia Bank for Environmental, Social and Governance Risk Management of Corporate Credit* was formulated. The environmental, social and governance (ESG) risk management was carried out through the investment and financing process. The credit strategy was tailor-made for customers according to the environmental risk sensitivity of the customer's industry, the customer's own ESG performance. Explorations were made to build ESG rating models for the credit business. The Company explored to include ESG elements in credit rating, aiming to establish a comprehensive risk assessment and asset valuation system integrating financial elements with ESG factors, so as to strengthen ESG risk assessment and process management and boost the Company's sustainable development. The Company began to disclose a separate *Environmental Information Disclosure Report* in 2022. The report meets the disclosure requirements of the People's Bank of China and the Task Force on Climate-Related Financial Disclosures (TCFD), focusing on the Company's main achievements in serving the transition to a green and low-carbon society and improving the Company's capability of environmental and climate risk management.

Committed to preventing its investment and financing activities from risking biodiversity, the Company has introduced innovative financial products to support biodiversity conservation and enhance ecological value. The Company developed its in-house statistical standards for green finance support for biodiversity against the relevant biodiversity conservation criteria set forth in the *Green Industry Guidance Catalog*. At the end of the reporting period, the Company's balance of biodiversity conservation loans reached RMB45.285 billion, accounting for 16.82% of green loans. The Company enriched its green finance product offerings and stepped up the innovation in biodiversity finance products. The Company also developed such products and projects as the carbon credits-backed financing facility, the plant variety right (PVR)-backed loan facility and the digital and intelligent agricultural technology platform. The biodiversity-related risks of investment and financing activities were managed. The impact of investment and financing activities on biodiversity was included as a separate item in the ESG risk assessment system. At the project level, the Company explored the assessment methodologies, tools and systems for the biodiversity impact of investment and financing activities. The research on financial support for biodiversity was furthered. The Company participated in formulating the *Technical specification for Value Accounting of Project-level Eco-friendly Products*. Platform tools were introduced to conduct biodiversity risk screening, assessing the ecological sensitiveness in areas where the Company operates and comprehensively assess the scope and degree of project impact on the local environment.

5.1.3 Green operations

During the reporting period, the Company adopted various measures to reduce energy consumption and carbon emissions.

The Company adopts an economy-without-waste policy. LED lighting and other energy-efficient equipment were used in office spaces, with air conditioning temperature kept within the upper limit (winter) and lower limit (summer) required by specifications. The rule of "turning off the light and water before you leave" and other management measures were strictly implemented. Printing on both sides of the paper was encouraged and supervised, with printing control gradually centralized to reduce the quantity of printers and consumables in use.

Green mobility and climate-friendly travel were encouraged. The company vehicle use policy was strictly implemented to ensure proper approval and registration and reasonable use of company vehicles. The use of new energy vehicles was vigorously promoted, with 50 new energy vehicles renewed in the year. Employees were encouraged to commute to work in green ways such as public transportation, subway, walking and cycling, so as to contribute to reducing motor vehicle emissions.

The "Clear Your Plate" campaign was carried out to save food and prevent waste. The staff canteen strictly implemented the "preparing & taking food as needed" policy to reduce kitchen waste. Employees were also encouraged to avoid food waste when dining out or at home.

The waste sorting measures were strictly implemented. Waste sorting facilities were erected at each office or business place. Employees were directed to sort waste to standard and increase the sorting efficiency. Employees were organized to participate in the "on duty before bins" campaign to supervise waste sorting in the local community and sign the letter of commitment on waste sorting.

5.2 SOCIAL RESPONSIBILITY INFORMATION

Upholding the brand philosophy of being "sustainable and better", the Company has integrated the idea of sustainability into all aspects of its business development, so as to deliver the maximum overall value on economic, environmental and social fronts. With an improved CSR management system and enhanced management capabilities, the Company has made good CSR practices toward the goal of building a colossal, competitive, outstanding modern financial group with stable operations and toward the vision of "harmony, sustainability and benevolence".

5.2.1 Consumer protection

During the reporting period, the Company firmly upheld the people-centered development philosophy and took sustained, in-depth actions for consumer protection.

First, the regulatory policy requirements were fully implemented. According to the Board of Directors' and the Management's decisions and plans for consumer protection, the Company unified thinking and action and harmonized its consumer protection tasks and actions with the Bank's high-quality development. **Second, coordinated efforts were made on in-depth integration of consumer protection and business operations.** The Company continued to improve the multi-pronged consumer protection framework in which the Board of Directors provide overall planning and guidance for consumer protection, the Board of Supervisors supervises the performance of consumer protection duties, the Senior Management makes overall work arrangements, the consumer protection work (affairs) committee provides coordination, the consumer protection department facilitates the work and professional business lines and branches jointly carry out the consumer protection work. **Third, the consumer protection work was implemented across the board.** In accordance with regulatory requirements, consumer protection was embedded into the design, development, marketing, after-sales management and other phases of financial products and services. The consumer protection work was further implemented through such mechanisms as consumer protection review, public education, internal training, supervisory inspection, information disclosure, complaint handling, dispute resolution and performance assessment. **Fourth, problem solving and output consolidation were urged.** The Company continued to urge the consumer protection work in key business lines, kept improving the whole-process consumer protection management mechanism, strengthened the supervisory inspection and field surveys of branches, urged the correction of problems and consolidated the results of correction. **Fifth, staff development and team building were strengthened.** Training surveys were conducted to improve the consumer protection courses and provide employees with appropriate training contents. Under the theme of "enhancing employees' awareness of consumer protection, fostering the culture of honest services and promoting the business development of the Bank", the consumer protection training was carried out to further enhance the capability of consumer protection. **Sixth, the quality and efficiency of compliant management were enhanced.** Through overall planning for the annual work on complaint management, the Company continued to implement the traceability and rectification mechanism, improve the dispute mediation mechanism, solidify the coordination mechanism, improve the complaint performance review mechanism and optimize the whistleblowing system in a bid to improve the quality and efficiency of complaint handling. During the reporting period, the Company received a total of 178,944 complaints from customers, with a 15-day closure rate of 99.99%, an overall closure rate of 100% and a satisfaction rate of 97.18%. According to statistics, in terms of the geographical distribution of complaints, the complaints about credit cards were concentrated in Guangdong, Shandong and Henan. Complaints involving other types of business were concentrated in Beijing, Jiangsu, Guangdong and Henan. In terms of complaint categories, complaints related to negotiation of credit card repayments, repayment of individual loans (mainly concentrated in residential mortgages and internet loans), debt collection, credit standing adjustments and returns on wealth management and other products. Under such circumstances, the Company earnestly performed its duty of complaint handling while attaching greater importance to addressing the root causes. It adhered to problem-oriented approach to work and management by objectives, drew upon the Fengqiao model for promoting community-level governance, endeavored to improve the level and quality of complaint management and devoted itself to providing better services for financial consumers.

5.2.2 Efforts on poverty alleviation and rural vitalization

The Company implemented the decisions and plans of the CPC Central Committee and the State Council for promoting rural revitalization across the board, acted on the work requirements of regulatory authorities and the Beijing Municipality, strengthened the coordination of agriculture-related loans, continued with Beijing's pairing assistance work and aids to villages with weaker collective economy and advanced rural revitalization across the board.

First, the organizational push for rural revitalization was strengthened. The leading group on rural vitalization, still headed by Li Minji, Party Committee Secretary and Chairman, coordinated efforts to promote rural revitalization. With a focus on key areas designated for collaboration between the eastern and western regions, an action plan for rural vitalization for 2023 was formulated. The Company clarified the work objectives and responsibilities and carried out various tasks for rural vitalization in a down-to-earth manner.

Second, credit support was expanded for industrial development in poverty-stricken areas. Guided by the credit policy, the Company granted the fund transfer pricing (FTP) incentives for all inclusive agriculture-related loans and credit facilities for key counties designated for assistance under the national rural vitalization strategy. According to local characteristics of resources and industrial development, new products and service models were created to step up the credit support for poverty-stricken areas. During the reporting period, the Company issued RMB13.738 billion of targeted assistance loans and provided financing services for 361,500 people lifted out of poverty.

Third, ongoing efforts were made in support of Beijing Municipality' s pairing assistance work. Branches of the Company continued to provide paired assistance for designated recipients according to local governments' work arrangements. During the reporting period, the Company donated a total of RMB6.89 million to areas designated by Beijing for collaboration between the eastern and western regions, including Inner Mongolia, Xinjiang, Qinghai, Tibet, Hebei, Henan and Hubei. Consumption-based assistance was also carried out through direct purchase and innovation center. The Company purchased RMB10,260,700 worth of agricultural and sideline products from key areas designated for assistance. Branches located in key areas designated for pairing assistance strengthened the coordination of resident work teams dispatched to help poor villages. Two outstanding officers were dispatched to replace existing members of the "fanghuiju" (an acronym that stands for "Visit the People, Benefit the People, and Get Together the Hearts of the People") resident work team in Hetian area. Three team members were sent to the residential work team in Fuping County, Baoding City, and one team member to Zhangjiakou City, Hebei Province and six team members to Pingshun County, Changzhi City, Shanxi Province. Residential workers were also sent to designated areas in Inner Mongolia, Sichuan and Yunnan provinces. To strengthen the aids to villages with weaker collective economy in Beijing, the Company appointed three outstanding officers as the "First Secretaries" seconded to these villages, and accomplished the task of increasing the annual collective operating income by RMB100,000 in the three villages with weaker collective economy designated for pairing assistance. The Company's rural revitalization work has been recognized by the society. Its rural revitalization cases were included in the *Typical Cases of Inclusive Finance in China 2023* compiled by the China Banking Association, and won the "Excellent Case of Rural Revitalization Practices of Listed Companies" and the "Best Case of Rural Revitalization Practices of Listed Companies" awarded by the China Association for Public Companies.

5.2.3 Other performance of social responsibility

The Company established a sound human resource management system and policies in line with the Bank's strategic plans to effectively protects the rights and interests of employees. Solid steps were taken to promote staff development, improve the staff education and training mechanism and provide a self-fulfillment platform for employees. The Company has enhanced employees' sense of gain, belonging and happiness by caring for the physical and mental health of employees, listening to their voices and addressing their concerns.

While pursuing its own development, the Company is also devoted to corporate Philanthropy. The Bank has organized volunteer activities and participated in disaster reliefs, student aids, education and technology programs, environmental protection and other philanthropic events, playing its part in building a beautiful and harmonious society. During the reporting period, the Company made donations of RMB70,579,300.

For more details, please refer to the *2023 Corporate Social Responsibility Report of Hua Xia Bank Co., Limited* disclosed by the Company on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

SECTION VI

SIGNIFICANT EVENTS

SECTION VI SIGNIFICANT EVENTS

6.1 PERFORMANCE OF COMMITMENTS

6.1.1 Upon the approval of CSRC, the Company issued 2,564,537,330 A-shares in a non-public offering in 2018, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. In this issuance, Shougang Group, State Grid Yingda International Holdings Group Ltd., and Beijing Infrastructure Investment Co., Ltd., committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer at maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators. As of 8 January 2024, the above commitments had been fully performed and relevant restricted shares became publicly tradable.

Committed by	Shougang Group, State Grid Yingda International Holdings Group Ltd., Beijing Infrastructure Investment Co., Ltd.,
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the Company's shares acquired at this offering within five years following the delivery date; and share transfer upon maturity and qualification of the transferee for shareholder shall be subject to the consent of regulators.
Commitment date	8 January 2019
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

6.1.2 Upon the approval of CSRC, the Company issued 527,704,485 A-shares in a non-public offering in 2022, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 18 October 2022. Shareholders Shougang Group and Beijing Infrastructure Investment Co., Ltd. committed not to transferring the Company's shares acquired at this offering within five years following the listing date.

Committed by	Shougang Group, Beijing Infrastructure Investment Co., Ltd.
Commitment type	Restrictions on sales of shares of re-financing
Commitment	Committed not to transferring the shares acquired at this offering within five years following the listing date.
Commitment date	1 August 2022
Commitment term	5 years
Implemented in a strict and timely way (Yes/No)	Yes

6.2 OCCUPATION OF FUNDS FOR NON-OPERATING PURPOSES

During the reporting period, as assured by Ernst & Young Hua Ming LLP, no funds of the Company were occupied for non-operating purposes by the major shareholder or other related parties.

6.3 EXPLANATION ON THE NONSTANDARD AUDITOR' S REPORT

Not applicable.

6.4 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND METHODS AND CHANGES IN CONSOLIDATION SCOPE OF FINANCIAL STATEMENTS DURING THE REPORTING PERIOD, CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS

During the reporting period, the Company underwent no changes in accounting policy, estimates o methods or correction of major accounting errors.

In November 2023, the Company completed the restructuring of Beijing Daxing Hua Xia Rural Bank Co., Ltd. by acquiring a minority interest and the scope of consolidated financial statements changed. For more details, please see "6.13 SIGNIFICANT EVENTS OF SUBSIDIARIES".

6.5 ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

6.5.1 Engagement and disengagement of the accounting firm for auditing the financial report

The Company engaged Ernst & Young Hua Ming LLP as the auditor of the 2023 financial statements with an audit fee of RMB5.15 million. Ernst & Young Hua Ming LLP for the Company started to provide audit services for the Company in 2021. The certified public accountants who signed the auditor's report for financial statements of the Company in 2023 are Zhang Fan and Sun Lingling. Zhang Fan has been the signatory certified public accountant of the Company since the annual audit in 2021 and Sun Lingling has been the signatory certified public accountant of the Company since the annual audit in 2022.

6.5.2 Engagement of the accounting firm for internal audit auditing

The Company engaged Ernst & Young Hua Ming LLP as the auditor of the 2023 internal control with an audit fee of RMB1.15 million.

6.5.3 Engagement of financial advisor

During the reporting period, the Company didn't engage any financial advisor.

6.5.4 Engagement of sponsor

During the reporting period, the Company didn't engage any sponsor.

6.6 MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. Most of these litigation and arbitration cases were lodged by the Company proactively for recovering NPLs. As at the end of the reporting period, there were 250 outstanding litigation cases where the Company is the defendant or a third party, involving a total value of RMB2.405 billion. Therefore, the Company believes that they won't have significant impact on its financial position or business results.

6.7 SUSPECTED NON-COMPLIANCES, PENALTIES AND CORRECTIVE ACTIONS OF THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS

During the reporting period, the Company and its directors, supervisors and senior management members were not subject to any investigation of suspected crime or subject to enforcement action or criminal penalty imposed in accordance with the law, or subject to investigation of suspected illegalities or irregularities by CSRC or administrative penalty imposed by CSRC or subject to any other major administrative penalty imposed by other competent authorities. No directors, supervisors or senior managers of the Company were detained by discipline inspection and supervision authorities for serious violation of laws and regulations or work-related crimes, which affected their performance of duties, or subjected to enforcement actions taken by other competent authorities for suspected violation of laws and regulations, which affected their performance of duties.

No directors, supervisors or senior managers of the Company were subjected to administrative regulatory measures taken by CSRC or disciplinary actions taken by the stock exchange.

6.8 STATEMENT ON CREDIT STANDING OF THE LISTED COMPANY

During the reporting period, there was no significant valid court judgment with which the Company had not complied, nor was there any outstanding debt of significant amount.

6.9 RELATED PARTY TRANSACTIONS

6.9.1 Overview, pricing principle and basis of related party transactions

During the reporting period, pursuant to the *Administrative Measures for Related Party Transactions of Banking and Insurance Institutions*, the Company's consolidated balance of credit to related parties totaled RMB26.264 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB26 billion, accounting for 6.94% of net capital of the Company, kept within the regulatory ceiling of 50%. The largest balance of credit to a related party went to Shougang Group, totaling RMB10.31 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB10.31 billion, accounting for 2.75% of the net capital of the Company, kept within the regulatory ceiling of 10%. The largest balance of credit to a group of related legal persons went to Shougang Group, totaling RMB12.436 billion. With margin deposits, pledged certificates of deposit and treasury bonds excluded, the credit balance was RMB12.271 billion, accounting for 3.27% of the net capital of the Company, kept within the regulatory ceiling of 15%. The Company's consolidated non-credit transactions with all related parties reached RMB173.053 billion, of which asset transfers amounted to RMB12.431 billion, service transactions were RMB1.143 billion and deposit and other transactions reached RMB159.479 billion.

During the reporting period, in accordance with the *Preparation and Reporting Rules for Information Disclosure by Companies Offering Securities to the Public No. 26: Special Provisions on Information Disclosure of Commercial Banks,* the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange,* the *Self-regulatory Guidelines of Shanghai Stock Exchange No. 5: Transactions and Related Party Transactions,* the *Administrative Measures for Related Party Transactions of Banking and Insurance Institutions* and the *Interim Measures for the Equity Management of Commercial Banks* issued by NFRA as well as other relevant regulations, the Company strengthened the management of related party transactions, improved the criteria for identifying related parties and calculating related transactions, maintained compliance in related party transactions, established an internal management mechanism for related transactions with cross-departmental, cross-functional and Group-wide cooperation, took effective measures to implement regulatory requirements and further controlled the risks of related party transactions.

During the reporting period, the Company conducted related party transactions in accordance with commercial principles, on conditions that were not more favorable than those for similar transactions with non-related parties and at prices determined pursuant to the market-price principle.

6.9.2 Material related party transactions concerning daily operation

6.9.2.1 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB42.148 billion granted for the day-to-day related party transactions between Shougang Group and its related enterprises in 2023. The quota for credit related party transactions was RMB30.5 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB11.648 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB12.271 billion. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	30,500.00	12,271.21
Asset transfer	Transfer price	500.00	0
Financial advisory services	Service fee receipts/expenditures	145.00	0
Asset custody services	Service fee receipts	0.50	0
Wealth management service	Service fee receipts	50.00	0.27
Integrated services	Service fee receipts/expenditures	32.80	13.55
Treasury operations and investment	Transaction price/gains and losses	1,420.00	354.64
Deposits	Non-demand deposits	9,500.00	280.62

6.9.2.2 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB56.191 billion granted for the day-to-day related party transactions between State Grid Yingda International Holdings Group Ltd. and its related enterprises in 2023. The quota for credit related party transactions was RMB30.5 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB25.691 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB1.391 billion. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	30,500.00	1,390.70
Asset transfer	Transfer price	13,500.00	0
Financial advisory services	Service fee receipts/expenditures	330.00	30.24
Asset custody services	Service fee receipts	0.10	0.90[7]
Wealth management service	Service fee receipts	50.00	0.20
Integrated services	Service fee receipts/expenditures	11.05	0.01
Treasury operations and investment	Transaction price/gains and losses	2,800.00	274.74
Deposits	Non-demand deposits	9,000.00	2,067.27

6.9.2.3 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB73.224 billion granted for the day-to-day related party transactions between PICC Property and Casualty Company Limited and its related enterprises in 2023. The quota for credit related party transactions was RMB30.5 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB42.724 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB954 million. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	30,500.00	953.58
Asset transfer	Transfer price	14,500.00	1,342.84
Financial advisory services	Service fee receipts/expenditures	388.40	32.38
Asset custody services	Service fee receipts	30.00	11.01
Wealth management service	Service fee receipts	50.00	0.15
Integrated services	Service fee receipts/expenditures	35.52	12.72
Treasury operations and investment	Transaction price/gains and losses	23,720.00	5,330.25
Deposits	Non-demand deposits	4,000.00	208.40

7 In accordance with requirements of the National Financial Regulatory Administration (NFRA), relevant procedures have been gone through for the asset custody service transactions between the Company and State Grid Yingda International Holdings Group Ltd. and its related companies that exceeded the requested limit.

6.9.2.4 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB26.16 billion granted for the day-to-day related party transactions between Beijing Infrastructure Investment Co., Ltd. and its related enterprises in 2023. The quota for credit related party transactions was RMB15 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB11.16 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB6.511 billion. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	15,000.00	6,510.66
Asset transfer	Transfer price	1,500.00	220.44
Financial advisory services	Service fee receipts/expenditures	100.00	7.78
Asset custody services	Service fee receipts	10.00	4.30
Wealth management service	Service fee receipts	50.00	0
Integrated services	Service fee receipts/expenditures	0.02	0
Treasury operations and investment	Transaction price/gains and losses	2,500.00	500
Deposits	Non-demand deposits	7,000.00	4,280.54

6.9.2.5 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB30.738 billion granted for the day-to-day related party transactions between Yunnan Hehe (Group) Co., Ltd. and its related enterprises in 2023. The quota for credit related party transactions was RMB7.57 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB23.168 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB321 million. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	7,570.00	321.13
Asset transfer	Transfer price	4,000.00	520.81
Financial advisory services	Service fee receipts/expenditures	90.00	0.53
Asset custody services	Service fee receipts	5.00	0.16
Wealth management service	Service fee receipts	50.00	0.12
Integrated services	Service fee receipts/expenditures	3.16	1.75
Treasury operations and investment	Transaction price/gains and losses	9,020.00	1,383.42
Deposits	Non-demand deposits	10,000.00	646.08

6.9.2.6 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB22.164 billion granted for the day-to-day related party transactions of Huaxia Financial Leasing Co., Ltd. in 2023. The quota for credit related party transactions was RMB22 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB164 million. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. As at the end of the reporting period, the balance of the above credit line (with deduction of the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties) stood at RMB2.109 billion. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	22,000.00	2,108.87
Financial advisory services	Service fee receipts/expenditures	160.00	23.09
Integrated services	Service fee receipts/expenditures	4.02	2.73

6.9.2.7 The 32nd Meeting of the Eighth Board of Directors and the Annual General Meeting for 2022 were convened on 20 April 2023 and 19 May 2023 respectively, considering and adopting the *Proposal on Application for the Quota for the Day-to-day Related Party Transactions with Related Parties*. According to the proposal, the Company agreed to approve the credit line worth RMB87.43 billion granted for the day-to-day related party transactions of Huaxia Wealth Management Co., Ltd. in 2023. The quota for credit related party transactions was RMB10 billion (excluding the amount of margin deposits, pledged bank deposit certificates and treasury bonds provided by the related parties), and the quota for non-credit related party transactions was RMB77.43 billion. Details can be seen in the *Announcement on Related Party Transactions of Hua Xia Bank Co., Limited* which was disclosed on 22 April 2023. At the end of the reporting period, Huaxia Wealth Management Co., Ltd. registered a zero balance of credit to related parties. For the use of the quota for related party transactions, please see the table below:

(Unit: RMB1 million)

Type of related party transaction	Scope of calculation	Expected ceiling of 2023	Use as of 31 December 2023
Credit transactions	Credit limit	10,000.00	0
Asset transfer	Transfer price	32,000.00	0
Financial advisory services	Service fee receipts/expenditures	2,880.00	490.67
Asset custody services	Service fee receipts	500.00	99.91
Integrated services	Service fee receipts/expenditures	0.02	0
Treasury operations and investment	Transaction price/gains and losses	37,050.00	0.97
Deposits	Non-demand deposits	5,000.00	0

6.9.3 Material related party transactions arising from the acquisition and sale of assets or equities

During the reporting period, there was no related party transaction arising from the acquisition or sale of assets or equities at the Company.

6.9.4 Material related party transactions arising from the external investments made by the Company and its related parties jointly

During the reporting period, there were no material related party transactions arising from the external investments made by the Company or its related parties jointly.

6.9.5 Details of debt & claim, guarantee or other affairs between the Company and its related parties can be seen in the Notes to the Financial Statements as a part of the Report

6.9.6 Financial transactions between the Company and related finance company and those between finance company controlled by the Company and a related party

Finance companies that were related parties of the Company were Shougang Group Finance Co., Ltd. and China Power Finance Co., Ltd. Shougang Group Finance Co., Ltd. is a finance company of Shougang Group. China Power Finance Co., Ltd. is a finance company of State Grid Corporation of China. The Company had no controlled finance company during the reporting period.

6.9.6.1 During the reporting period, the financial transactions between the Company and Shougang Group Finance Co., Ltd. were lending under a credit line. On 3 March 2023, the Company granted to Shougang Group Finance Co., Ltd. an overall credit line of RMB1.2 billion, which was shared among lending and trade finance on an unsecured basis. Loans under lending and trade finance must be effectively secured.

As at the end of the reporting period, the credit transactions of Shougang Group Finance Co., Ltd. were discounting of bank acceptance bill, with a balance of RMB47 million. During the reporting period, the discounting volume was RMB205 million with a pricing range of 1.60%-4.00%. The basis of pricing was the guidance price published daily by the Company. Shougang Group Finance Co., Ltd. had an interest in these transactions as the acceptor of banker's acceptances. The Company discounted the bills accepted by Shougang Group Finance Co., Ltd., thereby serving MSBs and private enterprises. The above transactions have been included in the quota management for credit related transactions of Shougang Group.

As at the end of the reporting period, Shougang Group Finance Co., Ltd. had a balance of deposits of RMB6,903,800 with the Company, which were demand deposits. During the reporting period, the interbank term deposit transactions amounted to RMB500 million in the year, with a deposit rate of 2.47% and matured on 12 July 2023. There was no ending balance of time deposits. The Company had a zero deposit balance with Shougang Group Finance Co., Ltd. The Company recorded zero in loans from or to Shougang Group Finance Co., Ltd.

6.9.6.2 During the reporting period, the financial transactions between the Company and China Power Finance Co., Ltd. were lending under a credit line. On 12 October 2022, the Company granted to China Power Finance Co., Ltd. an overall credit line of RMB1.5 billion, which was shared among lending, trade finance and interbank guarantee (for other banks) on an unsecured basis. Lending (including trade finance) should not be unsecured. The credit facility matured on 12 October 2023. Now there is no outstanding credit.

As at the end of the reporting period, the credit transactions of China Power Finance Co., Ltd. were discounting of bank acceptance bills, with a balance of zero. During the reporting period, the discounting volume was RMB1.41 million with a price of 3.80%. The basis of pricing was the guidance price published daily by the Company. China Power Finance Co., Ltd. had an interest in these transactions as the acceptor of banker's acceptances. The Company discounted the bills accepted by China Power Finance Co., Ltd., thereby serving private enterprises. The above transactions have been included in the quota management for credit related transactions of State Grid Yingda International Holdings Group Ltd.

At the end of the reporting period, China Power Finance Co., Ltd. registered zero in deposit with the Company. The Company had a zero loan balance with China Power Finance Co., Ltd., and China Power Finance Co., Ltd. had a zero loan balance with the Company.

6.9.7 Other material related party transactions

During the reporting period, there was no other major related party transactions made by the Company.

6.9.8 For details of the Company's balance of transactions with, and risk exposures to, related natural persons, please see the Notes to the Financial Statements as a part of the Report

6.10 MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

6.10.1 Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody, contracting or leasing of assets of other companies, neither did other companies take custody, engage in contracting of or lease any assets of the Company.

6.10.2 Material guarantees and guarantee non-compliances

Except for financial guarantees within the business scope as approved by the former CBIRC, the Company had no material guarantees to be disclosed during the reporting period. The Company had no guarantee non-compliances during the reporting period.

6.10.3 Other material contracts

During the reporting period, the Company was in no material dispute over contracts.

6.11 INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2023 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by PBOC and the former CBIRC. As at the end of the reporting period, outstanding guarantees of the Company amounted to RMB29.173 billion, down RMB1.553 billion compared with the end of the previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

6.12 OTHER SIGNIFICANT EVENTS

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 1) in the national inter-bank bond market on 28 March 2023. It was three-year fixed rate bond with an issue volume of RMB20 billion and a coupon rate of 2.80%. The value date is 30 March 2023 and the maturity date is 30 March 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Green Financial Bond in the national inter-bank bond market on 28 March 2023. It was three-year fixed rate bond with an issue volume of RMB10 billion and a coupon rate of 2.79%. The value date is 30 March 2023 and the maturity date is 30 March 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 2) in the national inter-bank bond market on 26 May 2023. It was three-year fixed rate bond with an issue volume of RMB40 billion and a coupon rate of 2.70%. The value date is 30 May 2023 and the maturity date is 30 May 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 3) in the national inter-bank bond market on 28 July 2023. It was three-year fixed rate bond with an issue volume of RMB15 billion and a coupon rate of 2.60%. The value date is 1 August 2023 and the maturity date is 1 August 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 4) in the national inter-bank bond market on 26 October 2023. It was three-year fixed rate bond with an issue volume of RMB13 billion and a coupon rate of 2.81%. The value date is 27 October 2023 and the maturity date is 27 October 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 5) in the national inter-bank bond market on 23 November 2023. It was three-year fixed rate bond with an issue volume of RMB23 billion and a coupon rate of 2.80%. The value date is 27 November 2023 and the maturity date is 27 November 2026.

The Company issued the Hua Xia Bank Co., Ltd. 2023 Financial Bond (Series 6) in the national inter-bank bond market on 15 December 2023. It was three-year fixed rate bond with an issue volume of RMB10 billion and a coupon rate of 2.79%. The value date is 19 December 2023 and the maturity date is 19 December 2026.

6.13 SIGNIFICANT EVENTS OF SUBSIDIARIES

On 8 November 2023, the Company received an approval from the Beijing Bureau of the NFRA for the acquisition of a 20% equity interest in Beijing Daxing Hua Xia Rural Bank Co., Ltd. for RMB27 million in cash. Since the Company had an 80% interest in shares of Beijing Daxing Hua Xia Rural Bank Co., Ltd. before the acquisition, the Company holds a 100% interest in Daxing Rural Bank after the acquisition. On 24 November 2023, Beijing Daxing Hua Xia Rural Bank Co., Ltd. was approved to dissolve by the NFRA. Beijing Branch of the Company received the approval for opening of the newly established Beijing Kangzhuang Road Sub-branch and Beijing Panggezhuang Sub-branch of Hua Xia Bank. The Company took over all the assets, liabilities, rights and obligations of Beijing Daxing Hua Xia Rural Bank Co., Ltd. On 1 April 2024, Beijing Daxing Hua Xia Rural Bank Co., Ltd. completed its deregistration in accordance with the law. The Company's acquisition of Beijing Daxing Hua Xia Rural Bank Co., Ltd. and setup of branch offices represented the first restructuring case of the rural banking subsidiary of a nationwide joint-stock commercial bank.

6.14 INDEX OF INFORMATION DISCLOSURES

Matter	Published in journals	Date of publication	Published on website
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of Vice President	*China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily*	6 January 20223	http://www.sse.com.cn
Announcement of Hua Xia Bank on Planned Redemption of Preference Shares	Ditto	9 February 2023	Ditto
First Indicative Announcement of Hua Xia Bank on Redemption of Preference Shares	Ditto	9 February 2023	Ditto
Second Indicative Announcement of Hua Xia Bank on Redemption of Preference Shares	Ditto	23 February 2023	Ditto
Announcement on 2022 Earnings Guidance of Hua Xia Bank	Ditto	24 February 2023	Ditto
Announcement on Resolutions of the 31st Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	16 March 2023	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	16 March 2023	Ditto
Third Indicative Announcement of Hua Xia Bank on Redemption of Preference Shares	Ditto	16 March 2023	Ditto
Announcement of Hua Xia Bank on Full Redemption and Delisting of Preference Shares	Ditto	23 March 2023	Ditto
Indicative Announcement of Hua Xia Bank on Suspended Trading of Preference Shares	Ditto	23 March 2023	Ditto
Announcement of Hua Xia Bank on Full Redemption and Completed Delisting of Preference Shares	Ditto	30 March 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 1)	Ditto	1 April 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Green Financial Bond	Ditto	1 April 2023	Ditto
Announcement on Resolutions of the 32nd Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	22 April 2023	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	22 April 2023	Ditto
Announcement of Hua Xia Bank on CBIRC Approval for Change in Registered Capital	Ditto	25 April 2023	Ditto
Announcement of Hua Xia Bank on Approval of CBIRC for Qualification of President	Ditto	25 April 2023	Ditto
Announcement of Hua Xia Bank on Holding the 2022 Annual Results Presentation	Ditto	25 April 2023	Ditto
Announcement on Resolutions of the 33rd Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	28 April 2023	Ditto
Announcement on Resolutions of the 22nd Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	28 April 2023	Ditto
Announcement on 2022 Profit Distribution Plan of Hua Xia Bank	Ditto	28 April 2023	Ditto
Announcement of Hua Xia Bank on Reengagement of Accounting Firm	Ditto	28 April 2023	Ditto
Special Report of Hua Xia Bank on the Deposit and Use of Raised Funds in 2022	Ditto	28 April 2023	Ditto

Matter	Published in journals	Date of publication	Published on website
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2022	Ditto	28 April 2023	Ditto
Announcement on Annual Report of Hua Xia Bank in 2022	Ditto	28 April 2023	Ditto
Announcement on First Quarterly Report of Hua Xia Bank in 2023	Ditto	28 April 2023	Ditto
Announcement on Resolutions of the Annual General Meeting for 2022 of Hua Xia Bank	Ditto	20 May 2023	Ditto
Announcement on Resolutions of the 23rd Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	27 May 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 2)	Ditto	31 May 2023	Ditto
Announcement on Annual Equity Distribution for 2022 of Hua Xia Bank	Ditto	13 June 2023	Ditto
Announcement on Resolutions of the 34th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	14 June 2023	Ditto
Announcement on Resolutions of the 35th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	19 July 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 3)	Ditto	3 August 2023	Ditto
Announcement of Hua Xia Bank on Holding the 2023 Interim Results Presentation	Ditto	21 August 2023	Ditto
Announcement on Resolutions of the 36th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	26 August 2023	Ditto
Announcement on Resolutions of the 24th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	26 August 2023	Ditto
Announcement on Interim Report of Hua Xia Bank in 2023	Ditto	26 August 2023	Ditto
Announcement of Hua Xia Bank on Approval of the National Financial Regulatory Administration for Qualification of Vice President	Ditto	5 September 2023	Ditto
Announcement on Resignation of Executive Director and Vice President of Hua Xia Bank	Ditto	28 September 2023	Ditto
Announcement of Hua Xia Bank on Holding the 2023Q3 Results Presentation	Ditto	25 October 2023	Ditto
Announcement on Resolutions of the 37th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	28 October 2023	Ditto
Announcement on Resolutions of the 25th Meeting of the Eighth Board of Supervisors of Hua Xia Bank	Ditto	28 October 2023	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2023	Ditto	28 October 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 4)	Ditto	31 October 2023	Ditto
Announcement of Hua Xia Bank on Completed Registration of the Change in Registered Capital	Ditto	23 November 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 5)	Ditto	29 November 2023	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of 2023 Financial Bond (Series 6)	Ditto	21 December 2023	Ditto
Announcement on Resolutions of the 38th Meeting of the Eighth Board of Directors of Hua Xia Bank	Ditto	26 December 2023	Ditto

SECTION VII

DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

SECTION VII DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

7.1 CHANGES IN SHARES

7.1.1 Changes in ordinary shares

(Unit: share)

	31 December 2022			31 December 2023	
	Number	Percentage (%)	Increase/ decrease	Number	Percentage (%)
I. Shares subject to restrictions or sales	3,092,241,815	19.43	–	3,092,241,815	19.43
1. State-owned shares	–	–	–	–	–
2. Shares held by state-owned corporations	3,092,241,815	19.43	–	3,092,241,815	19.43
3. Shares held by other domestic investors	–	–	–	–	–
Of which: shares held by domestic non-state-owned corporations	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–
Of which: shares held by foreign corporations	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–
II. Shares not subject to restrictions on sales	12,822,686,653	80.57	–	12,822,686,653	80.57
1. RMB-denominated ordinary shares	12,822,686,653	80.57	–	12,822,686,653	80.57
2. Foreign shares listed domestically	–	–	–	–	–
3. Foreign shares listed overseas	–	–	–	–	–
4. Others	–	–	–	–	–
III. Total number of shares	15,914,928,468	100.00	–	15,914,928,468	100.00

7.1.2 Changes in registered shares subject to restrictions on sales

(Unit: share)

Name of shareholder		Number of shares subject to restrictions on sales at the beginning of the year	Number of shares released from restrictions on sales in the year	Increase of shares subject to restrictions on sales in the year	Number of shares subject to restrictions on sales at the end of the year	Reason for restrictions on sales	Date on which shares become tradable
Shougang Group		519,985,882	–	–	519,985,882	(Refer to Note 1 for details)	8 January 2024
		329,815,303	–	–	329,815,303	(Refer to Note 2 for details)	18 October 2027
	Sub-total	849,801,185	–	–	849,801,185	/	/
State Grid Yingda International Holdings Group Ltd.		737,353,332	–	–	737,353,332	(Refer to Note 1 for details)	8 January 2024
Beijing Infrastructure Investment Co., Ltd.		1,307,198,116	–	–	1,307,198,116	(Refer to Note 1 for details)	8 January 2024
		197,889,182	–	–	197,889,182	(Refer to Note 2 for details)	18 October 2027
	Sub-total	1,505,087,298	–	–	1,505,087,298	/	/
Total		3,092,241,815	–	–	3,092,241,815	/	/

Notes:

1. The 2,564,537,330 A-shares in this non-public offering in 2018 got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019, and the subscribers may not transfer these shares within five years since the date of subscription. Upon the expiration of lock-up period, the transfer of related shares shall be conducted as per the applicable laws and regulations like the *Company Law of the People's Republic of China* as well as the relevant provisions of CSRC and Shanghai Stock Exchange. As of 8 January 2024, relevant restricted shares became publicly tradable. (For details, please refer to the *Announcement of Hua Xia Bank Co., Limited on Public Trading of Restricted A-shares Issued Through Non-public Offering* disclosed by the Company on 2 January 2024 on the SSE website (www.sse.com.cn) and the Company's website (www.hxb.com.cn).

2. The 527,704,485 A-shares in this non-public offering in 2022 got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 18 October 2022 and the subscribers may not transfer these shares within five years since the date of listing. Upon the expiration of lock-up period, the transfer of shares subscribed for in this issuance shall be conducted as per the applicable laws and regulations like the Company Law of the People's Republic of China as well as the relevant provisions of CSRC and Shanghai Stock Exchange.

7.2 SECURITIES ISSUE AND OFFERING

7.2.1 Securities issue during the reporting period

Not applicable.

7.2.2 Changes in the total number and shareholder structure of ordinary shares and changes in structure of assets and liabilities of the Company

Not applicable.

7.2.3 Individual employee stock ownership

Not applicable.

7.3 SHAREHOLDERS

7.3.1 Number of ordinary shareholders and particulars of shareholding of the top 10 preference shareholders as at the end of the reporting period

(Unit: share)

Total number of ordinary shareholders as at the end of the reporting period	94,828
Total number of ordinary shareholders at the end of the month immediately before disclosing date of this Annual Report	90,340

Particulars of shareholding of the top 10 preference shareholders								
							Shares pledged, marked or frozen	
Name of shareholder	Nature of shareholder	Changes during the reporting period	Shareholding percentage (%)	Shares held at the end of the period	Number of shares subject to restrictions on sales that were held		Shares status	Number
Shougang Group	State-owned legal person	–	21.68	3,449,730,597	849,801,185		None	–
State Grid Yingda International Holdings Group Ltd.	State-owned legal person	–	19.33	3,075,906,074	737,353,332		None	–
PICC Property and Casualty Company Limited	State-owned legal person	–	16.11	2,563,255,062	–		None	–
Beijing Infrastructure Investment Co., Ltd.	State-owned legal person	–	10.86	1,728,201,901	1,505,087,298		None	–
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	–	3.52	560,851,200	–		None	–
Hong Kong Securities Clearing Company Limited	Foreign legal person	-5,733,778	2.64	419,405,237	–		None	–
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	–	1.72	273,312,100	–		Pledge	273,312,100
China Securities Finance Corporation Limited	State-owned legal person	–	1.27	201,454,805	–		None	–
Central Huijin Asset Management Co., Ltd.	State-owned legal person	–	1.03	163,358,260	–		None	–
Bosera Fund – Agricultural Bank of China – Bosera CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
E Fund – Agricultural Bank of China – E Fund CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
Dacheng Fund – Agricultural Bank of China – Dacheng CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
Harvest Fund – Agricultural Bank of China – Harvest CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
GF Fund – Agricultural Bank of China – GF CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
Zhong Ou AMG – Agricultural Bank of China – Zhong Ou CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
ChinaAMC – Agricultural Bank of China – ChinaAMC CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
Yinhua Fund – Agricultural Bank of China – Yinhua CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
Southern Asset Management – Agricultural Bank of China – Southern CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–
ICBC Credit Suisse – Agricultural Bank of China – ICBC Credit Suisse CSI Financial Asset Management Plan	Others	–	0.48	76,801,200	–		None	–

Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Name of shareholder	Number of shares not subject to restrictions on sales that were held	Type of shares
Shougang Group	2,599,929,412	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,563,255,062	RMB-denominated ordinary shares
State Grid Yingda International Holdings Group Ltd.	2,338,552,742	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	560,851,200	RMB-denominated ordinary shares
Hong Kong Securities Clearing Company Limited	419,405,237	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,100	RMB-denominated ordinary shares
Beijing Infrastructure Investment Co., Ltd.	223,114,603	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	201,454,805	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	163,358,260	RMB-denominated ordinary shares
Bosera Fund – Agricultural Bank of China – Bosera CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
E Fund – Agricultural Bank of China – E Fund CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Dacheng Fund – Agricultural Bank of China – Dacheng CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Harvest Fund – Agricultural Bank of China – Harvest CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
GF Fund – Agricultural Bank of China – GF CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Zhong Ou AMG – Agricultural Bank of China – Zhong Ou CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
ChinaAMC – Agricultural Bank of China – ChinaAMC CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Yinhua Fund – Agricultural Bank of China – Yinhua CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Southern Asset Management – Agricultural Bank of China – Southern CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
ICBC Credit Suisse – Agricultural Bank of China – ICBC Credit Suisse CSI Financial Asset Management Plan	76,801,200	RMB-denominated ordinary shares
Repo accounts of top 10 shareholders	The Company had no share repurchases during the reporting period.	
Delegating or abandoning of voting rights of the above shareholders	The Company found none of the above shareholders delegated or abandoned voting rights or gained delegated voting rights from others.	
Remarks on the connected relations or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders or concerted action defined in the Administrative Measures for Acquisition of Listed Companies.	

Notes:

1. The top 10 shareholders and the top 10 holders of unrestricted tradable shares were not involved in margin trading or short selling or lending of refinancing shares.
2. There were no changes in the top 10 shareholders and the top 10 holders of unrestricted tradable shares when compared with the end of the previous period.

7.3.2 Number of shares subject to restrictions on sales held by shareholders and restrictions on sales

(Unit: share)

Name of shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales that were held	Particulars of trading of shares subject to restrictions on sales: Tradable time	Particulars of trading of shares subject to restrictions on sales: Number of new tradable shares	Restrictions on sales
Shougang Group	519,985,882	8 January 2024	519,985,882	(Refer to Note 1 for details)
	329,815,303	18 October 2027	329,815,303	(Refer to Note 2 for details)
State Grid Yingda International Holdings Group Ltd.	737,353,332	8 January 2024	737,353,332	(Refer to Note 1 for details)
Beijing Infrastructure Investment Co., Ltd.	1,307,198,116	8 January 2024	1,307,198,116	(Refer to Note 1 for details)
	197,889,182	18 October 2027	197,889,182	(Refer to Note 2 for details)

Notes:

1. The Company issued 2,564,537,330 A-shares in a non-public offering in 2018, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 8 January 2019. All subscribers may not transfer their shares within five years since the date of subscription. The above shares became publicly tradable on 8 January 2024.

2. The Company issued 527,704,485 A-shares in a non-public offering in 2022, and these shares got registration and sale restriction procedures done with Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on 18 October 2022. All subscribers may not transfer their shares within five years since the listing date of the above shares. These shares are expected to become tradable on 18 October 2027 (which will be postponed to the subsequent trading day in case of a statutory public holiday/festival or rest day).

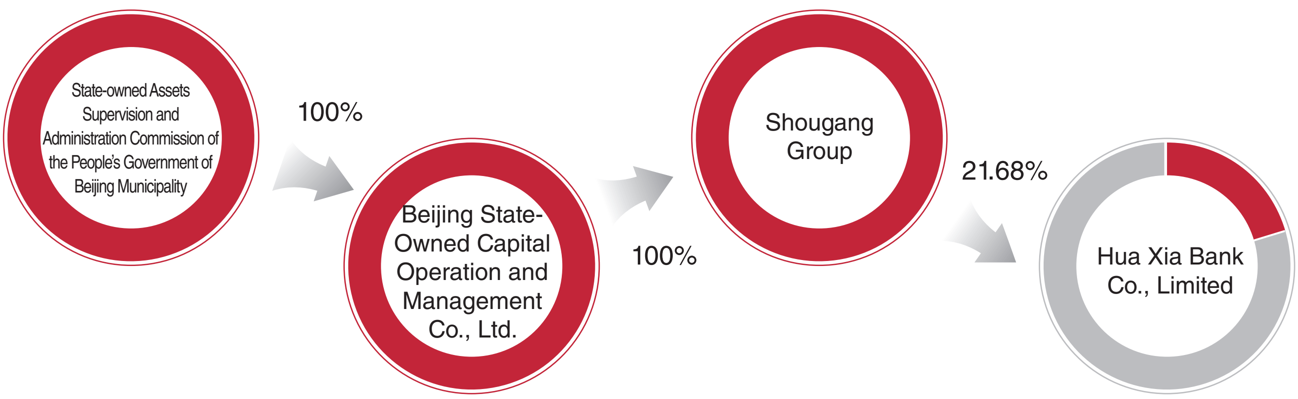
7.3.3 Particulars of shareholders holding over 5% ordinary shares of the Company

The Company has no controlling shareholder or de facto controller. Shougang Group is the largest shareholder of the Company. At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Group (21.68%), State Grid Yingda International Holdings Group Ltd. (19.33%), PICC Property and Casualty Company Limited (16.11%) and Beijing Infrastructure Investment Co., Ltd. (10.86%).

7.3.3.1 Shougang Group

Shougang Group (formerly known as "Shougang Corporation") was changed into its current name in May 2017 and restructured from an enterprise owned by the whole people into a wholly state-owned company with the approval of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. With unified social credit code as 911100001011200015, its legal representative is Zhao Minge and its registered capital is RMB28.755 billion. Shougang Group is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets; establishment of the newspaper *Shougang Daily*; design and production of TV ads; release of ads with its self-owned TV station; design and production of prints and ads; placement of ads on its self-owned Shougang Daily; sewage treatment and recycling; seawater desalination; art creation and performance; operations of sports events (except those involving high risk); operations of sports venues; Internet information service; and municipal domestic waste treatment.

The equity relationship between the Company and Shougang Group as the largest shareholder is illustrated below:



7.3.3.2 State Grid Yingda International Holdings Group Ltd.

State Grid Yingda International Holdings Group Ltd. (formerly known as "State Grid Asset Management Co., Ltd."), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with Yang Dongwei as its legal representative. Its unified social credit code is 91110000710935089N. Its registered capital is RMB19.9 billion. Business scope: Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory.

7.3.3.3 PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was solely sponsored by People's Insurance Company of China in July 2003 after obtaining approval from the State Council and the former China Insurance Regulatory Commission. It is the largest property insurer in the mainland China. The unified social credit code is 91100000710931483R and the legal representative is Yu Ze. The registered capital is RMB22,242.77 million. Business scope: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China's insurance regulatory authority.

7.3.3.4 Beijing Infrastructure Investment Co., Ltd.

Founded in 2003, Beijing Infrastructure Investment Co., Ltd. is a wholly state-owned company of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. Its unified social credit code is 911100001011241849. Its legal representative is Hao Weiya. Its registered capital is RMB173,159.47 million. Business scope: manufacturing of subway vehicles and subway equipment; management and investment of state-owned assets as authorized, and planning and construction of new subway lines; operation and management of completed subway lines; import and export business of various commodities and technologies on proprietary or agent basis, except for commodities and technologies that are restricted or banned from operation by the state; design and repair of subway vehicles; design and installation of subway equipment; project supervision; property management; real estate development; subway ad design and production.

7.3.4 Other substantial shareholders

As prescribed by the former CBRC's *Interim Measures for the Equity Management of Commercial Banks*, other substantial shareholders of the Company included Yunnan Hehe (Group) Co., Ltd. and Runhua Group Co., Ltd. as at the end of the reporting period.

Yunnan Hehe (Group) Co., Ltd. held 3.52% shares of the Company and appointed a supervisor representing shareholder to the Company. It had a registered capital of RMB6 billion and its legal representative was Bi Fenglin. Hongta Tobacco (Group) Co., Ltd. holds 75% of Yunnan Hehe (Group) Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is China Tobacco. Hongta Tobacco (Group) Co., Ltd. was incorporated on 15 September 1995, with a registered capital of RMB6 billion and its legal representative is Wang Yong.

Runhua Group Co., Ltd. held 1.72% of shares in the Company and appointed a supervisor representing shareholder to the Company. It had a registered capital of RMB109 million and its legal representative was Luan Tao. Luan Tao holds 54.22% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

7.3.5 Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Group is the largest shareholder of the Company.

7.3.6 Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Group is the largest shareholder of the Company.

7.4 SHARE REPURCHASES

Not applicable.

SECTION VIII

PREFERENCE SHARES

SECTION VIII PREFERENCE SHARES

8.1 SECURITIES ISSUE AND OFFERING

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Number of shares	Date of listing	Number of shares listed for trading	Date of de-listing
360020	Hua Xia Preference Share 1	23 March 2016	100	4.68	20,000	20 April 2016	20,000	28 March 2023

Notes:

1. According to the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427) and the *Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited* (ZH. J.X.K. [2016] No. 342), the Bank issued 200 million preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.
2. The coupon rate of Hua Xia Preference Share 1 for the first five-year period was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bond yield 20 trading days before and excluding the payment cut-off date and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates. On 28 March 2021, the coupon rate of Hua Xia Preference Share 1 was adjusted and the coupon rate for the second five-year period was 4.68%, including the arithmetic mean (3.07%) of the five-year T-bond yield 20 trading days before the date of adjustment (exclusive of the date of adjustment) and the fixed premium (1.61%).
3. Use of proceeds: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19.978 billion, were used to replenish the tier-1 capital.
4. The Company redeemed all the preference shares issued in this offering on 28 March 2023. Please refer to the announcements disclosed by the Company on the website (www.sse.com.cn) of Shanghai Stock Exchange and the website (www.hxb.com.cn) of the Company for details on the redemption.

8.2 NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS

The Company redeemed all the 200 million preference shares on 28 March 2023. At the end of the reporting period, the Company had no preference shares issued and outstanding.

8.3 DISTRIBUTION OF PROFIT FROM PREFERENCE SHARES

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 28 March 2023, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2023. A cash dividend of RMB4.68 (before tax) was paid per preference share at the coupon rate of 4.68% and the dividends distributed this time totaled to RMB936 million (before tax).

Please refer to the announcements disclosed by the Company on the website (www.sse.com.cn) of Shanghai Stock Exchange and the website (www.hxb.com.cn) of the Company for details on the dividend payment.

8.4 REDEMPTION OF PREFERENCE SHARES

(Unit: 10,000 shares)

Preference share code	Preference share name	Repurchase period	Repurchase price	Pricing principle	Repurchase volume	% of total (%)	Total repurchase amount	Sources of funds	Term of share repurchase	Party exercising the repurchase option
360020	华夏优 1	28 March 2023	RMB104.68/ share	Face value plus preference share dividend declared but not paid for the period	20,000	100.00	RMB20.936 billion	Own funds	N/A	The Company
Impact on equity structure of the Company	As of the end of the reporting period, the total number of preference shares changed from 200 million to zero.									
Preference share repurchase review procedure	On 12 May 2015, the 2014 Annual General Meeting of the Company reviewed and approved the *Proposal on the Plan for Non-public Offering of Preference Shares*, which authorized the Board of Directors of the Company to decide on the redemption of the preference shares according to regulatory requirements, market conditions and other factors, and to handle all matters related to the redemption upon approval by the former CBIRC. On 29 December 2022, the *Proposal on Exercising the Right to Redeem Preference Shares* was reviewed and approved at the 30th meeting of the Eighth Board of Directors. Independent directors gave an independent opinion of approval. The Company received a reply from the former CBIRC affirming the redemption of preference shares by the Company									

8.5 CONVERSION AND RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES

During the reporting period, the Bank did not convert or restore any voting right of preference shares.

8.6 ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments* and the *Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time meet the requirements for accounting treatment as equity instruments and, therefore, are calculated as equity instruments.

SECTION IX

FINANCIAL STATEMENTS

SECTION IX FINANCIAL STATEMENTS

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

26 April 2024

WRITTEN CONFIRMATION OF 2023 ANNUAL REPORT BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

In accordance with relevant provisions and requirements of the *Securities Law* and the *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision in 2021)*, we, as directors, supervisors and senior management members of Hua Xia Bank Co., Limited, have fully read and examined the 2023 Annual Report of the Company and its Summary and hereby give the following opinion:

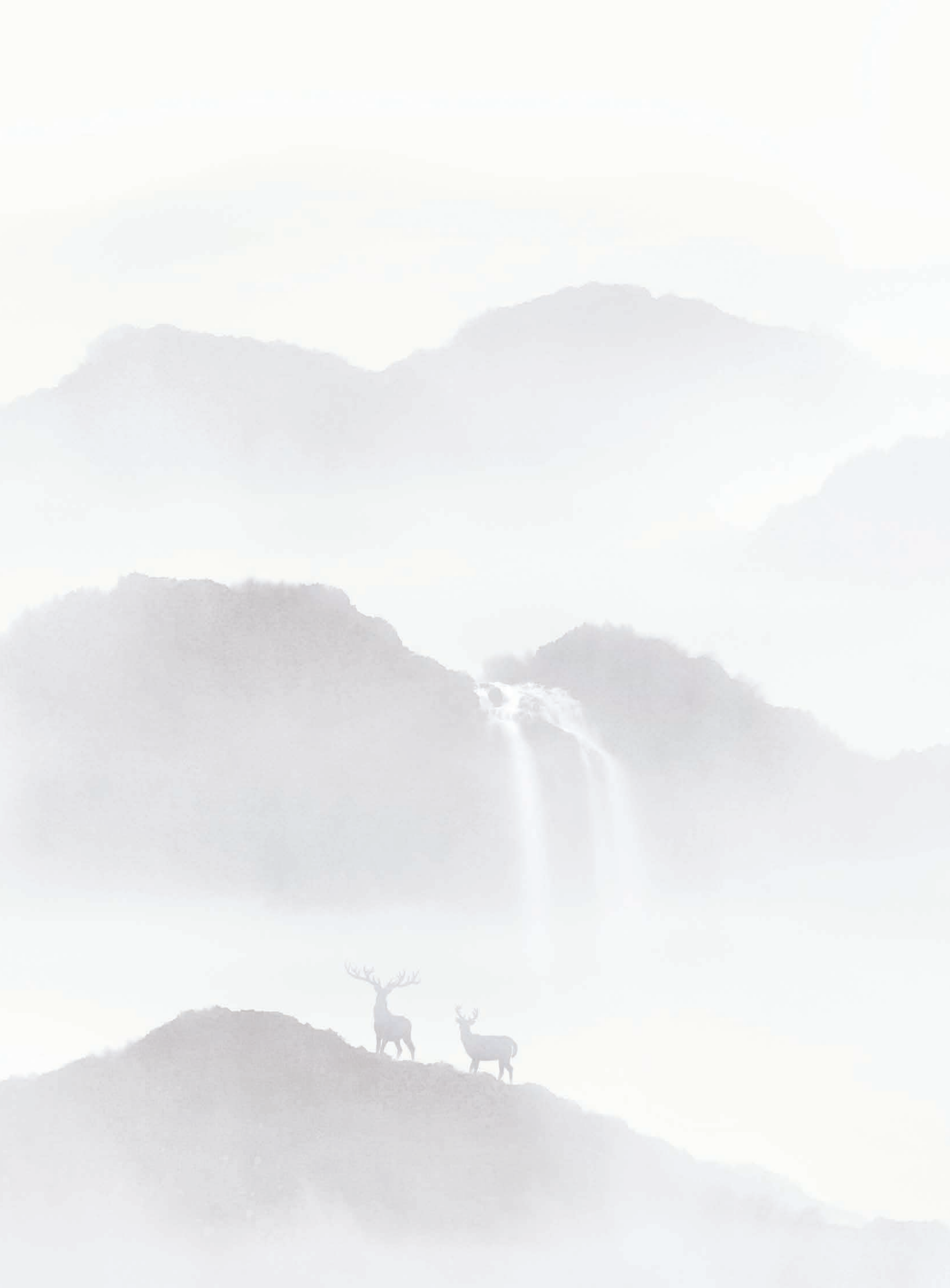
The Company operated in strict accordance with the *Accounting Standards for Business Enterprises* and the guidelines for its application, and the 2023 Annual Report of the Company and its Summary fairly present the financial position and operating conditions of the Company for the reporting year.

The 2023 financial statements of the Company have been audited.

We hereby guarantee that the 2023 Annual Report of the Company and its Summary were prepared and reviewed according to procedures that conform to laws, regulations, supervisory rules and the articles of association and internal management policies of the Company, disclose authentic, accurate and complete information and contain no false records, misleading statements or major omissions, and agree to be individually and jointly responsible for the authenticity, accuracy and completeness of their contents.

26 April 2024

Name	Position	Signature
Li Minji	Chairman of the Board of Directors, Executive Director	
Wang Hongjun	Vice Chairman of the Board of Directors, Non-executive Director	
Zhu Min	Vice Chairman of the Board of Directors, Non-executive Director	
Song Jiqing	Executive Director, Secretary to the Board	
Cai Zhiwei	Non-executive Directors	
Ma Xiaoyan	Non-executive Directors	
Zeng Beichuan	Non-executive Directors	
Guan Jifa	Non-executive Directors	
Zou Libin	Non-executive Directors	
Ding Yi	Independent Director	
Zhao Hong	Independent Director	
Guo Qingwang	Independent Director	
Gong Zhiqiang	Independent Director	
Lv Wendong	Independent Director	
Chen Shenghua	Independent Director	
Cheng Xinsheng	Independent Director	
Guo Peng	Chairman of the Board of Supervisors, Employee Supervisor	
Deng Kang	Supervisor Representing Shareholder	
Ding Zhaohua	Supervisor Representing Shareholder	
Zhu Xiaofang	External Supervisor	
Zhao Xijun	External Supervisor	
Guo Tianyong	External Supervisor	
Zhang Hong	External Supervisor	
Zhu Jiang	Employee Supervisor	
Xu Xinming	Employee Supervisor	
Yang Wei	Vice President	
Liu Ruijia	Vice President	
Gao Bo	Vice President	
Wang Xingguo	Principal of Financial Affairs	



AUDITOR'S REPORT

AUDITOR' S REPORT

Ernst & Young Hua Ming (2024) Shen Zi No.70013365_A01

Hua Xia Bank Co., Limited

To the shareholders of Hua Xia Bank Co., Limited,

I. AUDIT OPINION

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank") and its subsidiaries (collectively the "Group"), which comprise balance sheet as at 31 December 2023 and income statement, statement of changes in equity and statement of cash flows of the Group and the Bank for the year then ended and notes to these Financial Statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and the Bank's financial position as at 31 December 2023, and the consolidated and the Bank's financial performance and cash flows for the year then ended in accordance with *Accounting Standards for Business Enterprises* ("ASBEs").

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the *China Standards on Auditing* ("CSAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with China Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT ISSUES

Key audit issues are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current year. These issues are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these issues. We also describe how to address each issue in our audit in that context.

We have fulfilled our responsibilities described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of this report, including responsibilities related to these key audit issues. Accordingly, our audit work includes implementing the audit procedures designed to address the risk of material misstatements in assessed financial statements. The results of our implementation of audit procedures include the procedures implemented to address the following key audit issues, laying the foundation for giving an audit opinion on the financial statements as a whole.

III. KEY AUDIT ISSUES (CONTINUED)

Key audit issue	How to respond to the issues in audit
Allowance for impairment losses on loans and advances to customers	
The Group used a number of models and assumptions in the measurement of expected credit loss (ECL). For example: • Significant increase in credit risk – the determination of significant increase in credit risk depends highly on judgment, which may have a major effect on the ECL of loans with a long residual life; • Models and parameters – the models used to measure the ECL are highly complicated, with many model parameter inputs and also many judgments and assumptions involved in the estimation of parameters; • Forward-looking information – the impact of macro-economic forecasts based on expert judgments on the ECL, taking into account the weights of different economic scenarios; • Individual assessment for impairment – a number of factors are considered in determination of credit impairment, and the ECL measurement depends on the estimation of expected future cash flows. As loan impairment assessment involves many major judgments and assumptions with significant amounts (at 31 December 2023, the loans and advances to customers totaled RMB2,318,183 million, accounting for 54.48% for total assets; allowance for loan impairment losses totaled RMB61,631 million), we regard them as a key audit issue. For relevant disclosures, please see Notes IX-8, V-3, VIII-6 and XIV-3 to the consolidated financial statements.	We have assessed and tested the effectiveness of the design and implementation of key controls related to loan approval, post-lending management, credit rating, collateral management and loan impairment testing, including related data quality and information systems. We have selected samples to carry out the credit review procedure using a risk-oriented sampling method. We analyzed the debtors' ability to pay and the Group's judgments on loan classification based on the post-lending survey report, the debtors' financial information, the collateral valuation report and other available information. With the assistance from internal credit risk model experts, we have assessed and tested the important parameters of the expected credit loss (ECL) models, significant judgments of the management and the application of related assumptions, with a focus on the following aspects: 1. ECL models: • Assessing the methodologies of ECL models and related parameters, including probability of default, loss given default, risk exposure and significant increase in credit risk, taking into account macroeconomic changes; • Assessing the forward-looking information used by the management in determining the ECL, including the forecast of macroeconomic variables and assumptions regarding multiple macro scenarios; • Assessing the management's determination on whether credit impairment has occurred and, for impaired loans and advances to customers, assessing the calculation logic for the loss given default, especially the recoverable amount of collateral. 2. Effectiveness of design and implementation of key controls: • Assessing and testing the data and key controls used to confirm the allowance for ECL, including loan data, internal credit rating data and macroeconomic data, as well as the calculation logic, data inputs and system interface of the impairment system; • Assessing and testing the key controls of ECL models, including model change approval, ongoing monitoring of model performance, model validation and parameter calibration. We have assessed and tested the effectiveness of the design and implementation of controls for disclosures related to the Group's credit exposure and ECL.

Ernst & Young Hua Ming (2024) Shen Zi No.70013365_A01

Hua Xia Bank Co., Limited

III. KEY AUDIT ISSUES (CONTINUED)

Key audit issue	How to respond to the issues in audit
Consolidation of structured entities	
In the process of financial investment, asset management, credit asset transfer and other business activities, the Group holds interests in many different structured entities, such as wealth management products, funds and trust plans. The Group should comprehensively consider the power it owns, the variable returns it is entitled to and the relationship in between and judge whether the Group has control over each structured entity so that it should be included in the consolidated financial statements. In analyzing whether it has control over a structured entities, the Group should consider a number of factors, including the purpose of setting up the structured entity, the ability of the Group to direct its relevant activities, the interests held directly or indirectly and returns thereon, the management performance rewards received and the rewards or losses incurred by providing credit enhancement or liquidity support. The comprehensive analysis of such factors and the conclusion on control involve significant estimates and judgments of the management. Given the significance of the matter and the complexity of the management's judgments, we regard it as a key audit issue. For relevant disclosures, please see Notes V-4 and XIII to the consolidated financial statements.	We have assessed and tested the effectiveness of design and implementation of key controls related to the control or non-control over structured entities. We have assessed the Group's analysis and conclusion on whether it controls structured entities based on the Group's power over structured entities and analysis on the magnitude and variability of the variable returns on structured entities. We have also examined relevant contract documents to analyze whether the Group has the statutory or constructive obligation to ultimately assume the risk loss of structured entities and examined whether the Group has provided any liquidity support or credit enhancement to the structured entities sponsored by it. We have assessed and tested the effectiveness of the Group's design and implementation of controls for disclosures related to structured entities not included in the scope of consolidation.

IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 the other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young Hua Ming (2024) Shen Zi No.70013365_A01

Hua Xia Bank Co., Limited

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

VI. AUDITOR' S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally 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 the financial statements.

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

(1) Identify and assess the risks of material misstatement of the 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 auditing 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.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's 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 Bank'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 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 Bank to cease to continue as a going concern.

(5) Evaluate the overall presentation (including disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Ernst & Young Hua Ming (2024) Shen Zi No.70013365_A01

Hua Xia Bank Co., Limited

VI. AUDITOR' S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and will communicate with the body all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance body, we determine those matters that are of the most significance in the audit of the financial statements of the current period and are therefore the key audit issues. We describe these issues in our auditor's report unless law or regulation precludes public disclosure about the issues or when, in extremely rare circumstances, we determine that an issue 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.

Ernst & Young Hua Ming LLP	Chinese Certified Public Accountant:	Zhang Fan (Engagement Partner)
	Chinese Certified Public Accountant:	Sun Lingling

Beijing, China

26 April 2024

BALANCE SHEET OF THE GROUP AND THE BANK

31 December 2023 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
		31 December	31 December	31 December	31 December
	Note VIII	2023	2022	2023	2022
Assets					
Cash on hand and balances with central banks	1	202,434	175,383	202,230	175,037
Due from banks	2	17,758	18,277	17,015	17,859
Placements with banks and other financial institutions	3	50,314	57,234	52,322	63,234
Derivative financial assets	4	3,803	7,505	3,803	7,505
Financial assets purchased under agreements to resell	5	20,157	58,442	18,558	58,442
Loans and advances to customers	6	2,256,596	2,217,691	2,147,887	2,106,464
Financial investments					
Held-for-trading financial assets	7	316,586	359,584	456,597	357,896
Debt investments	8	986,805	680,111	747,542	677,795
Other debt investments	9	295,408	248,105	293,442	245,922
Other equity instrument investments	10	6,489	7,131	6,081	6,726
Long-term equity investments	11	–	–	7,990	8,090
Fixed assets	12	55,395	27,230	17,859	14,456
Right-of-use assets	13	5,677	6,095	5,527	5,925
Intangible assets	14	1,792	1,771	1,734	1,737
Deferred income tax assets	15	9,444	12,838	8,186	11,658
Other assets	16	26,108	22,770	8,432	11,979
Total assets		4,254,766	3,900,167	3,995,205	3,770,725

BALANCE SHEET OF THE GROUP AND THE BANK (CONTINUED)

31 December 2023 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note VIII	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Liabilities					
Due to central banks	18	153,561	100,836	153,561	100,835
Due to banks and other financial institutions	19	576,391	559,957	576,724	566,361
Placements from banks and other financial institutions	20	205,036	166,842	65,205	58,050
Derivative financial liabilities	4	3,900	6,359	3,900	6,359
Financial assets sold under agreements to repurchase	21	202,827	73,631	109,720	73,631
Deposits taken	22	2,165,881	2,094,669	2,164,092	2,092,445
Accrued payroll	23	7,348	7,060	7,051	6,792
Taxes and dues payable	24	3,464	8,017	3,159	7,519
Lease liabilities	25	5,627	5,982	5,471	5,815
Debt obligations payable	26	592,643	530,397	588,533	524,264
Projected liabilities	27	1,437	2,451	1,426	2,444
Other liabilities	28	14,889	20,644	8,805	14,704
Total liabilities		3,933,004	3,576,845	3,687,647	3,459,219
Interests					
Share capital	29	15,915	15,915	15,915	15,915
Other equity instruments	30	39,993	59,971	39,993	59,971
Of which: Preference shares		–	19,978	–	19,978
Perpetual bonds		39,993	39,993	39,993	39,993
Capital reserve	31	60,737	60,759	60,737	60,758
Other comprehensive income	45	(803)	(1,581)	(808)	(1,574)
Surplus reserve	32	24,119	21,909	24,119	21,909
General risk reserve	33	48,779	47,124	46,324	44,737
Retained profit	34	129,839	116,360	121,278	109,790
Total equity attributable to shareholders of the parent company		318,579	320,457	307,558	311,506
Minority entity		3,183	2,865	–	–
Total shareholders' equity		321,762	323,322	307,558	311,506
Total liabilities and equity		4,254,766	3,900,167	3,995,205	3,770,725

The accompanying notes are an integral part of these financial statements

The financial statements on pages 137-275 are signed by:

Legal representative	President	Principal of Financial Affairs	Seal
Li Minji	Li Minji (proxy)	Wang Xingguo	

INCOME STATEMENT OF THE GROUP AND THE BANK

2023 (In RMB millions, unless otherwise stated)

	Note VIII	The Group 2023	The Group 2022	The Bank 2023	The Bank 2022
I. Operating income		93,207	93,808	86,558	87,773
Net interest income	35	70,442	74,293	63,275	70,134
Interest income		155,611	151,315	145,189	144,187
Interest expense		(85,169)	(77,022)	(81,914)	(74,053)
Net fee and commission income	36	6,402	10,369	5,733	8,988
Fee and commission income		11,619	14,309	10,919	13,231
Fee and commission expenses		(5,217)	(3,940)	(5,186)	(4,243)
Investment loss/(gain)	37	9,425	6,247	10,017	6,213
Of which: Gains on derecognition of financial assets measured at amortized cost		8	13	8	13
Gains on changes in fair value	38	2,609	2,161	6,847	2,170
Exchange gains	40	548	144	548	144
Other operating income	39	3,623	546	79	99
Profit/loss from the disposal of assets		39	(3)	39	(3)
Other income		119	51	20	28
II. Operating expenses		(57,764)	(60,113)	(54,290)	(58,181)
Tax and surcharges	41	(1,066)	(1,053)	(1,010)	(997)
General and administrative expenses	42	(29,236)	(28,264)	(28,456)	(27,454)
Impairment losses on credit	43	(25,301)	(30,733)	(24,324)	(29,677)
Other impairment losses on assets		(666)	(36)	(482)	(28)
Other business costs	39	(1,495)	(27)	(18)	(25)
III. Operating profit		35,443	33,695	32,268	29,592
Plus: Non-operating income		166	203	142	198
Less: Non-operating expenses		(170)	(315)	(168)	(311)
IV. Total profit		35,439	33,583	32,242	29,479
Less: Income tax expense	44	(8,594)	(8,093)	(7,940)	(7,382)
V. Net profit		26,845	25,490	24,302	22,097
i. Classified by operational continuity					
1. Net profit from continuous operation		26,845	25,490	24,302	22,097
2. Net profit from ceased operation		–	–	–	–
ii. Classified by ownership affiliation					
1. Net profit attributable to shareholders of the parent company		26,363	25,035	24,302	22,097
2. Minority shareholders' gains/losses		482	455	–	–
VI. After-tax other comprehensive income	45	732	(2,788)	720	(2,781)
After-tax other comprehensive income attributable to shareholders of the parent company		732	(2,788)	720	(2,781)
i. Other comprehensive income not to be classified as profit/loss		(381)	(689)	(384)	(686)
1. Changes in fair value of other equity instrument investments		(381)	(689)	(384)	(686)
ii. Other comprehensive income to be classified as profit/loss		1,113	(2,099)	1,104	(2,095)
1. Change in fair value of financial assets measured at fair value through other comprehensive income		1,126	(1,791)	1,115	(1,787)
2. Change in fair value of allowances for credit losses on investment in financial assets measured at fair value through other comprehensive income		(12)	(297)	(12)	(297)
3. Difference from foreign currency translation		(1)	(11)	1	(11)
After-tax other comprehensive income attributable to minority shareholders		–	–	–	–
VII. Total Comprehensive Income		27,577	22,702	25,022	19,316
Total comprehensive income attributable to shareholders of the parent company		27,095	22,247	25,022	19,316
Total comprehensive income attributable to minority shareholders		482	455	–	–
VIII. Earnings per share					
Basic earnings per share (RMB yuan)	46	1.48	1.43		

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK

2023 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note VIII	2023	2022	2023	2022
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		78,827	177,800	73,179	184,000
Net decrease in balances with central banks and due from banks and other financial institutions		5,553	–	9,488	–
Net increase in placements from banks and other financial institutions and financial assets sold under agreements to repurchase		167,091	79,567	43,213	63,574
Net decrease in placements with banks and other financial institutions and financial assets purchased under agreements to resell		24,040	9,868	28,039	12,367
Net increase in due to central banks		51,875	–	51,876	–
Proceeds from interest and fee & commission		127,652	133,386	123,953	125,385
Other proceeds received related to operating activities		5,798	5,246	4,446	4,310
Sub-total of cash inflows from operating activities		460,836	405,867	334,194	389,636
Net increase in loans and advances to customers		(65,937)	(82,481)	(67,577)	(89,298)
Net increase in balances with central banks and due from banks and other financial institutions		–	(3,796)	–	(1,163)
Net decrease in due to central banks		–	(48,053)	–	(48,017)
Net decrease in business debt obligations payable		(4,867)	(44,396)	(4,867)	(44,396)
Net increase in held-for-trading financial assets		(14,290)	(34,498)	(14,441)	(34,535)
Cash paid as interest and fee & commission expenses		(76,869)	(67,813)	(74,033)	(65,426)
Cash paid to and for employees		(15,886)	(15,603)	(15,369)	(15,115)
Taxes and dues paid		(17,661)	(18,197)	(16,686)	(17,191)
Other cash paid related to operating activities		(12,149)	(12,055)	(10,504)	(10,136)
Sub-total of cash outflows from operating activities		(207,659)	(326,892)	(203,477)	(325,277)
Net cash flows from operating activities	48	253,177	78,975	130,717	64,359
Cash flows from investing activities					
Proceeds from disposal of investments		1,276,040	869,518	1,272,416	870,509
Investment gains received		47,100	40,800	43,277	40,621
Net gains on disposal of fixed assets, intangible assets and other long-term assets		73	29	67	22
Sub-total of cash inflows from investing activities		1,323,213	910,347	1,315,760	911,152
Cash paid for acquisition of investments		(1,558,046)	(974,723)	(1,458,074)	(974,723)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(32,888)	(21,954)	(6,509)	(5,156)
Cash paid for acquisition of shares in subsidiaries		(27)	–	(27)	–
Sub-total of cash outflows from investing activities		(1,590,961)	(996,677)	(1,464,610)	(979,879)
Net cash flows from investing activities		(267,748)	(86,330)	(148,850)	(68,727)

STATEMENT OF CASH FLOWS OF THE GROUP AND THE BANK (CONTINUED)

2023 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note VIII	2023	2022	2023	2022
Cash flows from financing activities					
Proceeds from attraction of investments		–	7,995	–	7,995
Proceeds from issuance of debt securities		131,000	60,000	131,000	60,000
Sub-total of cash inflows from financing activities		131,000	67,995	131,000	67,995
Cash paid for redemption of other equity instruments		(20,000)	–	(20,000)	–
Cash paid for repayment of debt securities		(65,000)	(32,500)	(63,000)	(30,000)
Cash paid for dividends and profit distribution or interest repayment		(15,251)	(13,979)	(14,898)	(13,675)
Cash payments for principal and interest on lease liabilities		(2,027)	(2,008)	(1,953)	(1,940)
Sub-total of cash outflows from financing activities		(102,278)	(48,487)	(99,851)	(45,615)
Net cash flows from financing activities		28,722	19,508	31,149	22,380
Effect of exchange rate changes on cash and cash equivalents		264	925	264	925
Net change of cash and cash equivalents	48	14,415	13,078	13,280	18,937
Plus: Opening balance of cash and cash equivalents		87,707	74,629	87,093	68,156
Closing balance of cash and cash equivalents	47	102,122	87,707	100,373	87,093

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2023

(In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total	Minority interests	Total
I. Balance as at 1 January 2023		15,915	59,971	60,759	(1,581)	21,909	47,124	116,360	320,457	2,865	323,322
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	26,363	26,363	482	26,845
ii. Other comprehensive income	45	–	–	–	732	–	–	–	732	–	732
Subtotal of the above i and ii		–	–	–	732	–	–	26,363	27,095	482	27,577
iii. Capital reduction by shareholders											
1. Capital reduction by holders of other equity instruments	30	–	(19,978)	(22)	–	–	–	–	(20,000)	–	(20,000)
2. Change in shareholding percentage in controlled subsidiaries		–	–	–	–	–	–	(2)	(2)	(26)	(28)
iv. Distributed Profit											
1. Surplus reserve withdrawn	34	–	–	–	–	2,210	–	(2,210)	–	–	–
2. General risk reserve allocated	34	–	–	–	–	–	1,655	(1,655)	–	–	–
3. Distribution of dividends on ordinary shares	34	–	–	–	–	–	–	(6,095)	(6,095)	–	(6,095)
4. Profit distribution to holders of other equity instruments	34	–	–	–	–	–	–	(2,876)	(2,876)	–	(2,876)
5. Others		–	–	–	–	–	–	–	–	(138)	(138)
v. Internal transfer of owner's equity											
1. Other comprehensive income transferred to retained earnings		–	–	–	46	–	–	(46)	–	–	–
III.Balance as at 31 December 2023		15,915	39,993	60,737	(803)	24,119	48,779	129,839	318,579	3,183	321,762

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2023 (In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Sub-total	Minority interests	Total
I. Balance as at 1 January 2022		15,387	59,971	53,292	833	19,747	43,631	105,431	298,292	2,410	300,702
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	25,035	25,035	455	25,490
ii. Other comprehensive income	45	–	–	–	(2,788)	–	–	–	(2,788)	–	(2,788)
Subtotal of the above i and ii		–	–	–	(2,788)	–	–	25,035	22,247	455	22,702
iii. Shareholder's equity											
1. Shareholder's equity		528	–	7,467	–	–	–	–	7,995	–	7,995
iv. Distributed Profit											
1. Surplus reserve withdrawn	34	–	–	–	–	2,162	–	(2,162)	–	–	–
2. General risk reserve allocated	34	–	–	–	–	–	3,493	(3,493)	–	–	–
3. Distribution of dividends on ordinary shares	34	–	–	–	–	–	–	(5,201)	(5,201)	–	(5,201)
4. Profit distribution to holders of other equity instruments	34	–	–	–	–	–	–	(2,876)	(2,876)	–	(2,876)
v. Internal transfer of owner's equity											
1. Other comprehensive income transferred to retained earnings		–	–	–	374	–	–	(374)	–	–	–
III. Balance as at 31 December 2022		15,915	59,971	60,759	(1,581)	21,909	47,124	116,360	320,457	2,865	323,322

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

1 January to 31 December 2023

(In RMB millions, unless otherwise stated)

	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 1 January 2023		15,915	59,971	60,758	(1,574)	21,909	44,737	109,790	311,506
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	24,302	24,302
ii. Other comprehensive income	45	–	–	–	720	–	–	–	720
Subtotal of the above i and ii		–	–	–	720	–	–	24,302	25,022
iii. Capital reduction by shareholders									
1. Capital reduction by holders of other equity instruments	30	–	(19,978)	(22)	–	–	–	–	(20,000)
2. Change in shareholding percentage in controlled subsidiaries		–	–	1	–	–	–	–	1
iv. Distributed Profit									
1. Surplus reserve withdrawn	34	–	–	–	–	2,210	–	(2,210)	–
2. General risk reserve allocated	34	–	–	–	–	–	1,587	(1,587)	–
3. Distribution of dividends on ordinary shares	34	–	–	–	–	–	–	(6,095)	(6,095)
4. Profit distribution to holders of other equity instruments	34	–	–	–	–	–	–	(2,876)	(2,876)
v. Internal transfer of owner's equity									
1. Other comprehensive income transferred to retained earnings		–	–	–	46	–	–	(46)	–
III.Balance as at 31 December 2023		15,915	39,993	60,737	(808)	24,119	46,324	121,278	307,558

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

1 January to 31 December 2023

(In RMB millions, unless otherwise stated)

	Note VIII	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Total
I. Balance as at 1 January 2022		15,387	59,971	53,291	833	19,747	42,104	100,939	292,272
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	22,097	22,097
ii. Other comprehensive income	45	–	–	–	(2,781)	–	–	–	(2,781)
Subtotal of the above i and ii		–	–	–	(2,781)	–	–	22,097	19,316
iii. Shareholder's equity									
1. Shareholder's equity		528	–	7,467	–	–	–	–	7,995
iv. Distributed Profit									
1. Surplus reserve withdrawn	34	–	–	–	–	2,162	–	(2,162)	–
2. General risk reserve allocated	34	–	–	–	–	–	2,633	(2,633)	–
3. Distribution of dividends on ordinary shares	34	–	–	–	–	–	–	(5,201)	(5,201)
4. Profit distribution to holders of other equity instruments	34	–	–	–	–	–	–	(2,876)	(2,876)
v. Internal transfer of owner's equity									
1. Other comprehensive income transferred to retained earnings		–	–	–	374	–	–	(374)	–
III.Balance as at 31 December 2022		15,915	59,971	60,758	(1,574)	21,909	44,737	109,790	311,506

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 January to 31 December 2023 (In RMB millions, unless otherwise stated)

I. PROFILE OF THE BANK

Hua Xia Bank Co., Limited (hereinafter "the Bank"), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People's Bank of China ("PBOC"). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission ("CSRC") for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission (renamed into "China Banking and Insurance Regulatory Commission" ("the former CBRC") in 2018, and renamed into "National Financial Regulatory Administration ("NFRA") in 2023), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce (now remained into "Beijing Municipal Administration for Market Regulation").

As at 31 December 2023, in addition to the Head Office, the Bank had established 44 tier-1 branches in Chinese mainland, with outlets totaling 982.

The business scope of the Bank and its subsidiaries (collectively referred to as the "Group") covers public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service, wealth management and other services approved by the former CBIRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Basis of preparation

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as "Accounting Standards for Business Enterprises") promulgated by the Ministry of Finance of PRC (the "MOF"). Besides, the Group also discloses relevant financial information in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Provisions on Financial Report* issued by CSRC.

Ongoing concern

The Group has assessed its ability to sustain ongoing operation over the 12 months since 31 December 2023, finding no issue or condition that incurs a material ongoing concern. Therefore, the financial statements are drafted on the assumption of ongoing operation.

III. DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Group truly and fairly represent the financial position of the Group and the Bank as at 31 December 2023, and the operating results and cash flows of the Group and the Bank for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the operating activities of the Bank and its subsidiaries. The Bank and its subsidiaries take Renminbi as the bookkeeping base currency. The Bank and its subsidiaries adopt Renminbi in the preparation of these financial statements.

3. Basis of accounting and measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

Measured on the basis of historical costs, assets shall be measured at the amount of cash or cash equivalents paid for purchasing them or the fair value of the consideration received. Liabilities shall be measured at the proceeds or assets received upon the assumption of obligations, or the contractual amount received upon the assumption of obligations, or the amount of cash or cash equivalents expected to be paid for debt repayment in daily activities.

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

If the fair value of a financial asset is set at its transaction price upon initial recognition and subsequently measured using a valuation technique involving non-observable inputs, the valuation technique will be calibrated in the valuation process so that the initial recognition result determined by the valuation technique is equal to the transaction price.

Fair value is measured based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, and divided into the following three levels:

The input value at Level 1 is the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date.

The input value at Level 2 is the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1.

The input value at Level 3 is the unobservable input value of related assets or liabilities.

4. Business combination

Business combination is divided into business combination under common control and business combination not under common control.

Business combination under common control

A business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The assets and liabilities acquired by the merging party in the business combination under common control shall be accounted for on the basis of the carrying value in the financial statements of the ultimate controlling party at the date of combination. For the difference between the book value of the net assets acquired by the merging party and the book value of the consideration of combination paid, the share capital premium in the capital reserve is adjusted. Where the share capital premium is not sufficient to be offset, the retained earnings shall be adjusted.

Business combination not under common control

A business combination not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination.

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The audit, legal service, valuation, advisory and other intermediary fees and other relevant administrative expenses incurred by the buyer for combination of businesses are recorded in profit or loss upon occurrence.

At the acquisition date, identifiable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value.

For the balance between the combination cost and the fair value share of identifiable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost. If the combination cost is less than the fair value share of identifiable net assets of the acquiree acquired in the combination, the Group first reviews the fair value of acquired identifiable assets, liabilities and contingent liabilities of the acquiree and the measurement of combination cost. If the combination cost after review is still less than the fair value share of identifiable net assets of the acquiree acquired in the combination, it will be recorded in profit or loss.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses.

5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control, including financial statements of the Group and all its subsidiaries. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Once the actors involved in the above definition of control change due to any changes in relevant facts and circumstances, the Group will conduct a re-assessment.

The combination of a subsidiary starts when the Group gains control over the subsidiary and ends when the Group loses control over the subsidiary.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

For subsidiaries acquired through business combination under common control, operating results and cash flows of the merged party are included in consolidated financial statements as from the beginning of the combination period. When the comparative consolidated financial statements are prepared, the relevant items of the previous financial statements are adjusted as if the reporting entity formed after the combination had existed since the ultimate controller began to exercise control.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank. All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" under the item "shareholders' equity" of the financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

6. Recognition of the cash and cash equivalents

Cash refers to the cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

7. Foreign currency transactions and foreign currency translation

For foreign currency transactions, the Group converts the foreign currency amount to the amount in the bookkeeping base currency.

Foreign currency transactions are converted to the bookkeeping base currency upon initial recognition at the spot exchange rate. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of monetary items measured at fair value through other comprehensive income is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall still be translated at the exchange rate adopted upon initial recognition, without any change to its amount presented in the bookkeeping base currency. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value. The resulting difference is recorded in current profit or loss or other comprehensive income according to the nature of non-monetary items.

8. Financial instruments

A financial asset or financial liability is recognized when the Group becomes a party to a financial instrument contract.

For a financial asset purchased or sold in a regular manner, the asset to be received or liability to be assumed will be recognized at the transaction date or the sold asset will be derecognized at the transaction date.

A financial asset or liability is measured at fair value upon initial recognition. For financial assets and financial liabilities measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included in the initially recognized amount.

Effective interest rate method is the method of calculating the amortized cost of a financial asset or financial liability and amortizing interest income/expenses over accounting periods.

Effective interest rate refers to the interest rate used when discounting the future cash flows of a financial asset or financial liability over its estimated lifetime into the book value of the financial asset or the amortized cost of the financial liability. Upon confirming the effective interest rate, the expected cash flow should be estimated based on the consideration of all contract terms of financial assets or financial liabilities (such as prepayment, extension, call option or other similar options), but the expected credit loss should not be considered.

The amortized cost of a financial asset or financial liability is calculated by deducting the repaid principal from the initially recognized amount of the financial asset or financial liability, then adding or subtracting the accumulated amortization amount generated by amortizing the difference between the initial recognition amount and the maturity-date amount using the effective interest rate method, and finally deducting the accumulated allowance for impairment losses (for the financial asset only).

8.1 Classification, recognition and measurement of financial assets

After initial recognition, the Group subsequently measures financial assets at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss as appropriate.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by collecting contractual cash flows, the financial asset will be classified as financial asset measured at amortized cost. These financial assets mainly include cash on hand and balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized cost and debt investments.

If the contractual terms of a financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amounts outstanding and the financial asset is managed by the Group in a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset, the financial asset will be classified as debt instrument investment measured at fair value through other comprehensive income.

Upon initial recognition, the Group may, based on a single financial asset, irrevocably designate equity instrument investments not held for trading as financial assets measured at fair value through other comprehensive income. Such financial assets are stated as other equity instrument investments.

If a financial asset meets any of the following conditions, the Group holds the financial asset for trading purposes:

(1) The purpose of acquiring relevant financial assets is mainly for selling in a short term;

(2) The financial asset is part of a recognizable financial instrument portfolio under centralized management upon initial recognition and there is objective evidence proving that there is a short-term profit-making method;

(3) The financial asset is a derivative instrument, except for the derivative instrument that meets the definition of financial guarantee contract and is designated as effective hedging instrument.

Financial assets measured at fair value through profit or loss include financial assets classified as at fair value through profit or loss and financial assets designated at fair value through profit or loss:

(1) Financial assets not eligible for classification as financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss;

(2) Upon initial recognition, to eliminate or significantly reduce accounting mismatches, the Group may irrevocably designate financial assets as measured at fair value through profit or loss.

Except for derivative financial assets, financial assets measured at fair value through profit or loss are stated as held-for-trading financial assets.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method, and the gains or losses arising from impairment or derecognition are recorded through current profit or loss.

The Group recognizes interest income on financial assets measured at amortized cost using the effective interest rate method. The Group calculates and determines the interest income on a financial asset by multiplying its book balance by effective interest rate, unless in the following circumstances:

(1) For a purchased or originated credit-impaired financial asset, the Group calculates and determines its interest income since initial recognition at the amortized cost of the financial asset and credit-adjusted effective interest rate.

(2) For a purchased or originated non-credit-impaired financial asset that has become credit-impaired in subsequent periods, the Group calculates and determines its interest income during subsequent periods at the amortized cost of the financial asset and effective interest rate. If the financial instrument ceases to be credit-impaired in subsequent periods due to credit risk improvements that are linked to an event that occurs after application of the above provisions, the Group will shift to calculating and determining the interest income by multiplying the book value of the financial asset by effective interest rate.

Financial assets measured at fair value through other comprehensive income:

Impairment losses or gains on debt instrument investments measured at fair value through other comprehensive income, their interest income calculated using the effective interest rate method and their exchange gains are recorded through current profit or loss. Other changes in fair value of these financial assets are recorded through other comprehensive income. The amount of the financial asset stated in the profit or loss for each period is equal to that stated in profit or loss for each period as if it were always measured at amortized cost. Upon derecognition of the financial asset, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to current profit or loss.

Changes in the fair value of not-held-for-trading equity instrument investment designated at fair value through other comprehensive income are recognized in other comprehensive income. Upon derecognition of the financial asset, accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings. During the period when the Group holds such not-held-for-trading equity instrument investments, dividend income is recognized and recorded in current profit or loss when the Group's right to dividend is established and the economic benefits related to the dividend in a reliably measurable amount is likely to flow into the Group.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

8.2 Impairment of financial instruments

The Group accounts for impairment and recognizes allowance for impairment losses based on ECL for financial assets measured at amortized cost, debt instrument investments measured at fair value through other comprehensive income, financial lease receivables and loan commitments other than financial liabilities measured at fair value through profit or loss.

For other financial instruments, except for purchased or originated credit-impaired financial assets, the Group assesses the changes in credit risk of relevant financial instruments after initial recognition on each balance sheet date. If the financial instrument has had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its lifetime ECL. If the financial instrument has not had a significant increase in credit risk since initial recognition, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL. The increase or reversal of allowance for credit losses, except for debt instrument investments measured at fair value through other comprehensive income, is recorded into current profit or loss as impairment losses or gains. For a debt instrument investment measured at fair value through other comprehensive income, the Group recognizes its allowance for credit losses in other comprehensive income, and recorded the impairment losses or gains in current profit or loss without reducing book value of the financial asset listed in the balance sheet.

Where the Group measured the allowance for impairment losses on a financial instrument at an amount equal to its lifetime ECL during the previous accounting period but the financial instrument no longer has had a significant increase in credit risk since initial recognition on the current balance sheet date, the Group will measure the allowance for impairment losses on the financial instrument at an amount equal to its 12-month ECL on the current balance sheet date, and the resulting reversal of allowance for impairment losses will be recorded in current profit or loss as impairment gains.

8.2.1 Significant increase in credit risk

The Group uses reasonable and supportable forward-looking information that is available to determine whether a financial instrument has had a significant increase in credit risk since initial recognition by comparing the default risk of the financial instrument on the balance sheet date with the default risk at the initial recognition date. For loan commitments, the Group takes the date when the Group becomes the party making irrevocable commitments as the initial recognition date for applying the rules for impairment of financial instruments.

In assessing whether credit risk has increased significantly since initial recognition, the Group will compare the default risk of the financial instrument on the report date and its default risk upon initial recognition. In such assessment, the Group will consider reasonable and supportable quantitative and qualitative information, including historical experience and forward-looking information that is available without undue cost or effort. For the criteria for significant increase in credit risk, please see Note XIV-3.1 Credit Risk Management.

8.2.2 Credit-impaired financial assets

When the Group expects one or more events to occur that will have a detrimental impact on the future cash flows of a financial asset, the financial asset becomes a credit-impaired financial asset. Evidence that a financial asset is credit-impaired include observable information. Please see Note XIV-3.1 Credit Risk Management.

8.2.3 Determination of expected credit loss

ECL is measured based on probability of default, loss given default and exposure at default. For measurement and recognition of ECL, please see Note XIV-3.1 Credit Risk Management.

8.2.4 Write-down of financial assets

When the Group no longer reasonably expects the contractual cash flow of a financial asset to be fully or partially recovered, the book balance of the financial asset is directly written down. Such write-down of financial assets constitutes derecognition of financial assets.

8.3 Transfer of financial assets

Where a financial asset meets any of the following conditions, it will be derecognized:

(1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;

(2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;

(3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall continue to recognize the transferred financial asset based on the degree of subsequent involvement and concurrently recognize relevant liabilities. The Group measures relevant liabilities as follows:

(1) If the transferred financial asset is measured at amortized cost, the book value of the relevant liability is equal to the book value of the transferred financial asset with continuing involvement less the amortized cost of the rights retained by the Group (if the Group retains relevant rights due to the transfer of financial asset) and plus the amortized cost of the obligation assumed by the Group (if the Group assumes relevant obligation due to the transfer of financial asset). The relevant liability is not designated as the financial liability at fair value through profit or loss.

(2) If the transferred financial asset is measured at fair value, the book value of the relevant liability is equal to the book value of the transferred financial asset with continuing involvement less the fair value of the rights retained by the Group (if the Group retains relevant rights due to the transfer of financial asset) and plus the fair value of the obligation assumed by the Group (if the Group assumes relevant obligation due to the transfer of financial asset). The fair value of such rights and obligations is the fair value when measured on an independent basis.

When a fully transferred financial asset meets derecognition conditions, the difference between (a) the book value of the transferred financial asset at derecognition date and (b) the sum of the consideration for the transferred financial asset and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings.

When the partially transferred financial asset meets the conditions for derecognition, the pre-transfer book value of the entire financial asset is apportioned between the derecognized part and still-recognized part at their respective fair value on the transfer date, and the difference between (a) the sum of the received consideration for the derecognized part and the corresponding derecognized part of the accumulated changes in fair value originally recorded into other comprehensive income and (b) the book value of the derecognized part on derecognition date will be recorded through profit or loss. If the financial asset transferred by the Group is not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the accumulated gains or losses previously recorded in other comprehensive income are transferred from other comprehensive income to retained earnings.

If the transfer of an entire financial asset does not meet derecognition conditions, the Group will continue to recognize the transferred financial asset in its entirety and recognize the received consideration as financial liability.

Asset securitization

As part of the operating activity, the Group securitizes credit assets in part generally by selling such assets to a structured entity, which then issues securities to investors. Interests in securitized financial assets are classified into senior asset-backed securities and junior asset-backed securities. After payment of relevant taxes and expenses, credit assets are first used to pay the principal and interest on senior asset-backed securities. The remaining credit assets after full payment of principal and interest are recognized as income from junior asset-backed securities.

In applying the accounting policy for a securitized financial asset, the Group has considered the degree of risk and return on the asset transferred to any other entity and the degree of control exercised by the Group over the entity:

(1) When the Group has transferred substantially all the risk and return on the ownership of the financial asset, the Group derecognizes the financial asset;

(2) When the Group retains substantially all the risk and return on the ownership of the financial asset, the Group continues to recognize the financial asset;

(3) If the Group neither transfers nor retains substantially all the risk and return on the ownership of the financial asset, the Group considers whether it has controls over the financial asset or not. If the Group retains no control, the Group derecognizes the financial asset and recognizes the right and obligation generated or retained in the transfer as asset or liability respectively. If the Group retains control, the financial asset is recognized according to the degree of continuing involvement in the financial asset.

8.4 Classification of financial liabilities and equity instruments

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance instead of the legal form only, with reference to the definition of financial liability and equity instrument.

8.4.1 Classification, recognition and measurement of financial liabilities

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities (including derivative instruments classified as financial liabilities) and those designated as financial liabilities measured at fair value through profit or loss. Except for derivative financial liabilities stated separately, financial liabilities measured at fair value through profit or loss are stated as held-for-trading financial liabilities.

If a financial liability meets any of the following conditions, the Group assumes the financial liability for trading purposes:

(1) The purpose of assuming relevant financial assets is mainly for repurchase in a short term;

(2) The financial liability is part of a recognizable financial instrument portfolio under centralized management upon initial recognition and there is objective evidence proving that there is a short-term profit-making method.

(3) Relevant financial liabilities are derivative instruments. except for the derivative instrument that meets the definition of financial guarantee contract and is designated as effective hedging instrument.

The Group may designate a financial liability that meets any of the following conditions as a financial liability at fair value through profit or loss upon initial recognition:

(1) Such designation can eliminate or significantly reduce accounting mismatch;

(2) The official written documents of the risk management or investment strategy of the Group state that the said combination of financial assets, the said combination of financial liabilities, or the combination of financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and will be reported to the key management personnel within the Group;

(3) Hybrid contract that contains embedded derivative instruments is included if conditions are satisfied.

Held-for-trading financial liabilities are subsequently measured at fair value. The gain or loss on fair value changes and the dividend or interest expenses relating to such financial liability will be recorded in profit or loss.

Changes in fair value of a financial liability designated at fair value through profit or loss due to changes in the Group's own credit risk are recorded in other comprehensive income, and other changes in fair value are stated in profit or loss. Upon derecognition of a financial liability, the cumulative changes in its fair value resulting from changes in own credit risk and previously recognized as other comprehensive income are transferred to retained earnings. The dividend or interest expenses relating to such financial liability are recorded in profit or loss. If the treatment of the impact of changes in such financial liability's own credit risk using the above method will result in or expand the accounting mismatch in gain or loss, the Group will record all the gain or profit (including the amount of impact of own credit risk changes) of the financial liability in profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities arising from the ineligibility of financial assets for derecognition or continuing involvement in the transferred financial assets and loan commitments are classified as financial liabilities measured at amortized cost and subsequently measured at amortized cost, with the gains or losses on derecognition or amortization stated in profit or loss.

If the Group and the counterparty modifies or renegotiates the contract, which does not result in derecognition of the financial liability subsequently measured at amortized cost but results in changes in contractual cash flows, the Group recalculates the book value of the financial liability and records relevant gain or loss in profit or loss. The Group recalculates the carrying value of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate of the financial liability. Any costs or expenses arising from the modification or renegotiation of the contract adjust the book value of the modified financial liability and are amortized over the remaining term of modified financial liability.

Financial Guarantee Contracts and Loan commitments

Financial guarantee contract means a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The financial guarantee contract that is not a financial liability designated at fair value through profit or loss or does not meet the derecognition conditions due to financial asset transfer or a financial liability resulting from continuing involvement in the transferred financial asset, and the commitment to provide loans at a below-market interest rate are measured after initial recognition at the higher of the amount of loss reserve and the initial recognition amount less the cumulative amortization determined pursuant to the income standards.

8.4.2 Derecognition of financial liabilities

A financial liability is derecognized in part or in whole when the current obligation of the financial liability is discharged in part or in whole. If the Group (borrower) signs an agreement with the lender to take a new financial liability instead of the original financial liability and the contract terms on the new and existing financial liabilities are materially different, the Group terminates the original financial liability and recognizes the new financial liability at the same time.

If a financial liability is derecognized in part or in whole, the difference between the book value and paid consideration (including non-cash asset transferred out or the new financial liability assumed) of the derecognized part is recorded in profit or loss.

8.4.3 Equity instruments

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity.

The Group treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

8.5 Derivatives and embedded derivatives

Derivatives include forward foreign exchange, foreign currency swap, interest rate swap and option contracts. Derivatives are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value.

In the case of a hybrid contract comprised of embedded derivatives and a host contract that is a financial asset, the Group will account for the hybrid contract in its entirety using the accounting standards for classification of financial assets other than separate the embedded derivatives from the hybrid contract.

If the hybrid contract includes a host contract that is not a financial asset and also meets the following conditions, the Group will separate the embedded derivatives from the hybrid contract and account for them as if they were stand-alone derivatives:

(1) The economic characteristic and risk of the embedded derivatives are not closely related to the economic characteristic and risk of the host contract.

(2) A stand-alone instrument with the same terms and conditions as the embedded derivatives meets the definition of derivatives.

(3) The hybrid contract is not measured at fair value through profit or loss.

If the embedded derivatives are separated from the hybrid contract, the Group will account for the host contract of the hybrid contract in accordance with applicable accounting standards. If the Group cannot reliably measure the fair value of the embedded derivatives in accordance with the terms and conditions on embedded derivatives, the fair value of the embedded derivative instrument will be determined according to the difference between the fair value of hybrid contract and that of host contract. If the fair value of the embedded derivatives still cannot be separately measured on the acquisition date or subsequent balance sheet date after the above method is used, the Group will designate the hybrid contract in its entirety as a financial instrument measured at fair value through profit or loss.

8.6 Offset between financial assets and financial liabilities

Where the Group has a legally enforceable right to offset a recognized financial asset and a recognized financial liability and intends either to settle the asset and the liability on a net basis or to realize the asset and settle the liability simultaneously, the net value after offsetting the financial asset against the financial liability will be stated in the balance sheet. Otherwise, financial assets and financial liabilities shall be presented on the balance sheet separately, instead of offsetting with each other.

8.7 Hedge accounting

The Group designates some financial instruments as hedging tools to manage the risk exposure arising from specific risks. The Group uses the hedge accounting method to deal with the hedges that meet specified conditions. Hedge at the Group is fair value hedge.

At the beginning of hedge, the Group formally designates hedging instruments and hedged items and prepares written documents indicating hedging instruments, hedged items, nature of hedged risks and hedge effectiveness assessment methods (including cause analysis for invalid part of hedge and the method to determine hedge ratio).

The Group will cease to use hedge accounting under any of the following circumstances:

(1) The hedge relationship no longer meets the changed risk management objectives.

(2) The hedging instruments have expired or been sold or the contract has been terminated or exercised.

(3) There is no longer any economic relationship between the hedged item and the hedging instrument, or the impact of credit risk starts to dominate the value changes arising from the economic relationship between the hedged item and hedging instrument.

(4) The hedge relationship no longer meets other conditions for using the hedge accounting method.

Fair value hedge

The Group records gains or losses on hedging instruments in profit or loss. If the hedging instrument is used to hedge not-held-for-trading equity instrument investment measured at fair value through other comprehensive income, the gain or loss on hedging instrument investment is recorded in other comprehensive income.

The Group records the gain or loss on the hedged exposure of the hedged item in profit or loss and meanwhile adjusts the book value of the recognized hedged item not measured at fair value. If the hedged item is classified as a debt instrument investment measured at fair value through other comprehensive income, the gain or loss on its hedged exposure is recorded in profit or loss.

In fair value hedge, the hedged item is classified as a financial asset measured at fair value through other comprehensive income. The Group amortizes the recognized cumulative hedge gains or losses using the same method as stated above.

Hedge effectiveness assessment method

The Group assesses whether the hedge relationship meets the hedge effectiveness requirements on an ongoing basis on and after the start date of hedge. If a hedge meets all of the following conditions, the Group will conclude that the hedging relationship meets the hedge effectiveness requirements:

(1) There is an economic relationship between hedged item and the hedging instrument.

(2) The impact of credit risk does not dominate the value changes arising from the economic relationship between the hedged item and the hedging instrument.

(3) The hedge ratio of the hedge relationship will be equal to the ratio of the number of hedged items of the Group to the number of the hedging tools used to hedge them.

If the hedge relationship no longer meets the hedge effectiveness requirements due to hedge ratio but the risk management objective that designates the hedging relationship has not changed, the Group will rebalance the hedging relationship, adjust the number of hedged items or hedging instruments in the existing hedging relationship, so that the hedge ratio will meet the hedge effectiveness requirements again.

9. Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase

Financial assets purchased under agreements to resell means the money lent by the Group by buying financial assets and then selling them back at a fixed price under the agreements to resell. Financial assets sold under agreements to repurchase means the money borrowed by the Group by selling financial assets and then repurchasing them at a fixed price under the agreements to repurchase.

Financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase are recorded and presented in the balance sheet in the amounts actually paid or received upon occurrence of transaction. In the case of financial assets purchased under agreements to resell, the purchased assets will not be recognized. In the case of financial assets sold under agreements to repurchase, the sold assets will continue to be recognized in balance sheet.

The bid-ask spread of financial assets purchased under agreements to resell and financial assets sold under agreements to repurchase is amortized using effective interest rate method during the transaction period and recognized as "interest income" and "interest expenses" respectively.

10. Long-term equity investments

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

A long-term equity investment is measured initially at cost.

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss.

11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year. A fixed asset is recognized only when the economic benefits associated with it will probably flow into the Group and its asset can be reliably measured.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Usable life	Estimated residual rate	Annual depreciation rate
Houses and buildings	20 – 35 years	5%	2.71% – 4.75%
Office supplies and electronic devices	3 – 5 years	5%	19.00% – 31.67%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

The fixed assets leased by the Group are mainly residential solar PV system equipment, ships, vehicles, machinery and equipment. The Group depreciates assets on a straight-line basis over an estimated useful life of 2 to 30 years (net of the used life at the time of purchase), with an estimated net residual rate of 3% to 10%.

A fixed asset is derecognized when it is disposal of or its expected use or when it is no longer expected to generate economic benefit through use of disposal. The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets, with adjustments made where necessary.

The cost of construction-in-process is measured at actual cost. The actual cost includes all project expenses, capitalized borrowing costs before the project becomes ready for intended use and other relevant expenses incurred during the construction period. Construction-in-process is not depreciated. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized on a straight-line basis over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

The useful life of intangible assets are as follows:

Category	Usable life
Land use rights	40 – 50 years

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

13. Repossessed assets

When the loans and advances to customers and interest receivable are repaid by repossession of assets, the repossessed assets are recorded at the sum total of the fair value of the waived debts and the expenses payable for repossession of the assets. When there is any sign showing that the realizable net value of a repossessed asset is lower than its book value, the Group reduces its book value to its realizable value.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

14. Impairment of non-financial assets

On each balance sheet date, the Group checks the long-term equity investments, fixed assets, construction-in-process, right-of-use assets and intangible assets with a fixed service life for any sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated and an impairment test shall be conducted.

The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. Recoverable amount is determined based on the fair value deducting disposal expense of the asset or asset portfolio and present value of estimated future cash flows of the asset, whichever is higher. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss. The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

15. Long-term prepaid expenses

Long-term deferred expenses are amortized using the straight-line method over a period of approximately 1 to 10 years.

16. Staff remuneration and welfare

Employee Compensation

Employee compensation means any form of remuneration or compensation paid by the Group to the employees in exchange for employee service or employment termination. Employee compensation includes short-term compensation, post-employment benefits, termination benefits and other long-term employee benefits. The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

Social Welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

17. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; and (3) The amount of the obligation can be reliably measured.

On the balance sheet date, factors pertaining to a contingency such as risks, uncertainties and time value of money are taken into account, while the contingent liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, the best estimate is determined by discounting the expected future cash flows.

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

Allowances for impairment losses on loan commitments and financial guarantee contracts recognized by the Group based on expected credit loss are stated as projected liabilities.

18. Preference shares, perpetual bonds and others financial instruments

The preference shares, perpetual bonds and others financial instruments issued by the Group are taken as equity instruments, provided that the following conditions are met:

(1) The financial instrument does not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions;

(2) Where the financial instrument shall or can be settled with the Group's own equity instruments in the future, (a) in case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; or (b) in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

Except for other financial instruments that can be classified as equity instruments under the above conditions, financial instruments issued by the Group are classified as financial liabilities.

For preference shares, perpetual bonds and other financial instruments classified as financial liabilities, the interest expenses or dividend distributions are accounted for as borrowing expenses and the gains or losses on their repurchase or redemption are recorded in current profit or loss. Where financial liabilities are measured at amortized cost, relevant transaction expenses are included in the initial measured amount.

For preference shares, perpetual bonds and other financial instruments classified as equity instruments, the interest expenses or dividend distributions are accounted for as the Group's profit distribution, their repurchase or deregistration is accounted for as equity changes and relevant transaction expenses are deducted from equity.

19. Recognition of income

Income refers to total inflow of economic benefits generated in the day-to-day activities of the Group, which will lead to an increase in shareholder's equity and is irrelevant to the capital contributed by shareholders.

The specific accounting policy relating to main activities for which the Group recognizes income is described below:

Net interest income

Except financial instruments measured at fair value through profit or loss, the interest income and expenses on all financial instruments are measured at effective interest rate and stated under "interest income" and "interest expenses" of the consolidated income statement. Interest income on financial instruments measured at fair value through profit or loss is recognized in "investment income".

Net fee and commission income

The Group recognizes the fee and commission income when performing each separate performance obligation, that is, when the "control" of a good or service under a performance obligation is transferred to the customer.

Performance obligation means a promise in a contract that the Group will transfer to the customer a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer. If the contract contains two or more performance obligations, the Group will allocate the transaction price to separate performance obligations (except for discounts and variable consideration) according to the relative proportion of the stand-alone selling price of the goods or services promised by separate performance obligations on the contract commencement date and measure the income according to the transaction price allocated to separate performance obligations.

The stand-alone selling price of the distinct goods or services based on performance obligations is determined at the contract commencement date. The price at which the Group separately sells a commodity or service to similar customers in a similar environment is the best proof to determine the separate price of the commodity or service. If the stand-alone selling price is not directly observable, the Group uses appropriate techniques to estimate the transaction price finally allocated to any performance obligation to reflect the consideration that the Group is expected to be entitled to for transferring goods or services to customers.

A performance obligation that meets any of the following conditions is deemed to be satisfied over time and the relevant revenue is recognized over time:

(1) The customer simultaneously receives and consumes the economic benefits provided by the entity's performance as the entity performs;

(2) The customer controls the work-in-process during the entity's performance;

(3) The Group's performance does not create a good or service with an alternative use, and the Group has an enforceable right to payment for performance completed to date over the entire contract term.

Otherwise, the performance obligation is deemed to be satisfied at a point in time.

For the performance obligation to be satisfied over time, the Group recognizes revenue over time according to the progress of performance. The progress of satisfying the performance obligation is measured using the output approach. This approach determines the progress of performance based on directly measuring the value of service transferred to customer relative to the value of the residual service under contract, which best reflects the Group's performance in transferring the control of service.

For the performance obligation satisfied at a point in time, the Group recognizes revenue at the point in time when the Group acquires control of the relevant good or service. In judging whether the customer has acquired the control of a good or service or not, the Group will consider the following signs:

(1) The Group has a present right to payment for the good or service;

(2) The Group has transferred physical possession of the good to the customer;

(3) The Group has transferred the legal title to the good or the significant risks and rewards related to the ownership of the asset;

(4) The customer has accepted the good or service.

When another party is involved in providing service to a customer, the Group will determine whether the nature of its promise is a performance obligation to provide the specified service itself (i.e. the Group is a principal) or to arrange for service to be provided by another party (i.e. the Group is an agent).

The Group is a principal if it has control of a service before that service is transferred to a customer: The Group is an agent if the performance obligation is to arrange for service to be provided by another party. In such a circumstance, the Group will not control the specified service provided by another party before the service is transferred to the customer. If the Group acts as an agent, the Group recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified service to be provided by another party.

20. Government subsidies

Government subsidies refer to the monetary and non-monetary assets that the Group obtains free-of-charge from the Government. Government subsidies can be confirmed when they meet the attached conditions and can be received.

If such subsidies are monetary assets, they shall be measured at the received or receivable amount.

The government subsidies related to assets are determined as deferred income, and recorded through current profit or loss over the whole lease period by phase.

The government subsidies related to benefit, if used for covering the already incurred costs and expenses or losses, shall be directly recorded in profit or loss.

For relating to the Group's daily activities, the government subsidies shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income and expenditure.

Where an already recognized government subsidy needs to be returned, the book balance of related deferred income shall be written down if there is an outstanding deferred income, and the exceeding part shall be accounted through profit or loss; if not, it shall be accounted through profit or loss directly.

21. Income tax

Income tax expense includes the current income tax and the deferred income tax.

Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

Generally the relevant deferred income tax is recognized for all temporary differences. With regard to deductible temporary differences, however, the Group recognizes the relevant deferred income tax assets up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference. In addition, for temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from a single transaction that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax asset or liabilities will not be recognized.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

The Group recognizes the deferred income tax liabilities arising from the taxable temporary differences in connection with subsidiaries, unless the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future. For deductible temporary differences in connection with subsidiaries, the Group recognizes the deferred income tax assets only when the temporary differences are likely to be reversed in the foreseeable future and taxable income is likely to be obtained in the future to offset deductible temporary difference.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

Current income tax and deferred income tax, except adjusted goodwill due to business combination or equity transactions or matters recognized directly in shareholder's equity, are stated in profit or loss as income tax expense or gain.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

22. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and assisting in collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

23. Leasing

The Group assesses whether a contract is or contains a lease at the contract commencement date. A contract is or contains a lease if it conveys the right to control the use of an identified asset or identified assets for a certain period of time in exchange for consideration.

As the lessee

Right-of-use assets

At the lease commencement date, the Group recognizes its right to use the underlying asset during the lease term as the right-of-use asset and initially measures it at cost. Costs of right-of-use assets include: (1) the amount of the initial measurement of the lease liability; (2) any payments made at, or before, the commencement date of the lease, less any lease incentives received; (3) any initial direct costs incurred by the Group as the lessee; and (4) an estimate of any costs to be incurred in dismantling and removing the underlying asset, or restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Where the Group re-measures lease liabilities due to changes in lease payments, the carrying amount of the right-of-use asset is adjusted accordingly.

Subsequently the Group depreciates the right-of-use assets on a straight-line basis. If it is reasonably certain that the ownership of the underlying asset will be transferred to the lessee upon expiration of the lease term, the Group will depreciate the right-of-use assets over the remaining useful life of the underlying asset. If it is not reasonably certain that the ownership of the underlying asset will be transferred to the lessee upon expiration of the lease term, the Group will depreciate the right-of-use assets over the lease term or the remaining useful life of the underlying asset, whichever is shorter.

Lease liabilities

At the lease commencement date, the Group recognizes the present value of unpaid lease payments as lease liability, except for short-term leases and low-value asset leases. Lease payments include fixed payments and in-substance fixed payments net of lease incentives, variable lease payments depending on indexes or ratios and expected payables based on security balances, and also include the strike price of the purchase option or amounts payable to exercise the option to terminate the lease, provided that the Group is reasonably sure that the option will be exercised or that the lease term suggests that the Group will exercise the option to terminate the lease.

In calculating the present value of lease payments, the Group adopts the ChinaBond Ordinary Bond of Commercial Bank Yield (AAA) as the discount rate. The Group calculates the interest expense of the lease liability in each period over the lease term according to the fixed periodic interest rate, and records it in profit or loss. The variable lease payments not included in the measurement of lease liability are included in the profit or loss when incurred.

After the beginning of the lease term, the Group increases the carrying amount of the lease liability when recognizing interest and reduces the carrying amount of the lease liability when paying the lease payment. Where the amount of in-substance fixed payments changes, the estimated payable amount of the residual value guarantees changes, the index or ratio used to determine the lease payment amount changes or the assessment result or actual exercise of the purchase option, renewal option or termination option changes, the Group will re-measure the lease liability at the present value of the changed amount of lease payments.

Short-term leases and low-value asset leases

At the commencement date of the lease term, the Group identifies a lease with a lease term of 12 months or less and containing no purchase options as short-term lease, and identifies a lease where the underlying asset has a low value when new as a low-value asset lease. The Group chooses not to recognize right-of-use assets and lease liabilities for short-term leases or low-value asset leases, and amortizes their rental in each period over the lease term on a straight-line basis and recognizes it in profit or loss.

As the lessor

Finance lease is a type of lease that transfers substantially all risks and rewards incident to the ownership of a leased asset at the lease commencement date. Any lease other than a financial lease is operating lease.

As the lessor in a financial lease, the Group recognizes the financial lease receivable for the financial lease and derecognize financial lease assets at the commencement date of the lease term. Upon initial measurement of the financial lease receivable, the Group records the net investment in the lease as the carrying value of the financial lease receivable. The net investment in the lease comprises the unguaranteed residual value and the present value of the outstanding lease payments discounted at the interest rate implicit in the lease. The Group calculates and recognizes the interest income in each period over the lease term according to the fixed periodic interest rate. The variable lease payments not included in the measurement of the net investment in the lease are stated the profit or loss when incurred.

As the lessor in an operating lease, the Group still presents the leased asset as the Group's asset. The rental income from operating lease is amortized over each period on a straight-line basis and recognized in profit or loss. Contingent rentals are recognized in profit or loss when incurred.

Sale and lease-back

The Group assesses and determines whether the asset transfer in a sale and lease-back transaction is a sale according to Note IV-19.

As the lessor

Where the asset transfer in a sale and lease-back transaction belongs to sales, the Group accounts for the asset purchase as the lessor and accounts for the asset leasing pursuant to the aforesaid rules. Where the asset transfer in a sale and lease-back transaction is not a sale, the Group as the lessor does not recognize the transferred asset, but recognizes a financial asset equal to the transfer income, and accounts for the financial asset according to Note IV-8.

24. Debt restructuring

As the creditor

Where the debt restructuring takes the form of debt service with non-cash asset, the Group initially recognizes the asset other than transferred financial asset at cost. Costs include the fair value of waived debts and the tax, transport, handling, insurance and other costs incurred in bringing the asset to its present location and condition and directly attributable to the asset. The difference between fair value and book value of waived debts is recognized into current profit or loss.

Where the debt restructuring takes the form of modifying other terms and conditions, the Group recognizes and measures the restructured debts in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*.

Where debt restructuring takes the form of debt service with multiple assets or a combination of methods, the received financial assets and restructured debt will be recognized and measured first in accordance with the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*. Then the fair value of waived debt net of the recognized amount of financial assets and restructured debt will be distributed in proportion to assets other than received financial assets, and on this basis the costs of assets are recognized respectively using the foregoing method. The difference between fair value and book value of waived debts is recognized into current profit or loss.

25. Determining method and selecting basis of materiality criteria

The Group assesses the materiality of financial information in terms of the nature and amount of an item in line with the specific environment. In determining the materiality of the nature of an item, the Group mainly considers whether the item is a day-to-day activity in nature and whether it has a significant effect on the Group's financial position, operating results and cash flows. In assessing the materiality of the amount of an item, the Group considers the amount of the item as a percentage of total assets, total liabilities, total owners' equity, total operating income, total operating expenses, net profit, total comprehensive income or the amount of another directly related item, or as a percentage of the amount of items listed separately in the corresponding statement.

V. MAJOR JUDGMENTS MADE IN ACCOUNTING POLICY APPLICATION AND KEY ASSUMPTIONS AND UNCERTAINTIES ADOPTED IN ACCOUNTING ESTIMATION

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet date, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

1. Classification of financial assets

Major judgments the Group makes in classification of financial assets include the analysis of business models and contractual cash flow characteristics.

The Group determines the business model for financial asset management at the level of financial asset portfolio. Considerations include the way of evaluating and reporting to key management personnel the performance of financial assets, risks affecting the performance of financial assets and their management methods and the way of remunerating relevant business management personnel.

The Group makes the following major judgments in assessing whether the contractual cash flows of financial assets are consistent with basic lending arrangements: whether the principal undergoes changes in time distribution or amount during the life due to prepayment; whether the interest only includes the consideration for time value of money, credit risks, other basic lending risks, costs and profits. For example, whether the prepayment amount reflects the outstanding principal and interest on outstanding principal and the reasonable compensation for early termination of contract.

2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include the discounted cash flow model, option pricing model and market comparison method. The valuation models developed by the Group use as much market information as possible and use as less information specific to the Group as possible. However, the Management needs to estimate observable market information that is unavailable. These changes in related assumptions will influence the fair value of the financial instruments. The Group regularly reviews the foregoing estimates and assumptions and makes adjustments where necessary.

3. Measurement of credit impairment loss

i. Significant increase in credit risk: The impairment allowances are recognized in the ECL model based on the 12-month ECL in Stage 1 and based on the lifetime ECL in Stage 2 and Stage 3. If the credit risk has increased significantly since initial recognition, the asset will move to Stage 2; if the asset is credit-impaired, it will move to Stage 3 (not purchased or originated credit-impaired asset). In assessing whether the credit risk of the asset increases significantly, the Group will consider qualitative and quantitative forward-looking information that is both reasonable and supportable;

ii. Grouping of assets with similar credit risks characteristics: When ECL is measured on a portfolio basis, financial instruments are grouped on the basis of similar risk characteristics. The Group keeps assessing whether these financial instruments maintain similar credit risk characteristics to ensure financial instruments will be properly reclassified once credit risk characteristic change. This may lead to the creation of a new asset portfolio or reclassification of assets to an existing asset portfolio to better reflect the similar credit risk characteristic of such assets;

iii. Use of models and assumptions: The Group uses different models and assumptions to assess the fair value and ECL of a financial asset. By making judgment, the Group determines the model most suitable for each financial asset and the assumptions used by the model, including assumptions related to key drivers of credit risk;

iv. Forward-looking information: In assessing ECL, the Group uses reasonable and supportable forward-looking information that is based on assumptions regarding future trends in different economic drivers and how these economic drivers influence each other;

v. Probability of default: PD is an important input for ECL. PD is an estimate of the likelihood of default in a given future period. Its calculation involves historical data, assumptions and future expectations;

vi. Loss given default: LGD is an estimate of the loss caused by default. It is based on the difference between contractual cash flows and expected cash flows to be received by the borrower, taking into account the cash flows and overall credit enhancement generated by collateral.

4. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

5. Derecognition of financial assets

The Group transfers financial assets in its normal operating activities through various methods such as conventional transactions, asset securitization, and repurchase agreements. While determining whether the transferred financial assets can be derecognized entirely, the Group needs to make significant judgments and estimations.

Where financial assets are transferred to special-purpose entities through structured transactions, the Group shall analyze and assess whether its relations with these entities virtually indicate that it exercises the control power over these entities, thus entailing the combination. The decision on combination will determine whether the analysis for derecognition shall occur on the level of combined entities or single entities from which financial assets are transferred.

The Group needs to analyze the rights and obligations relating to the contracted cash flow arising from the transfer of financial assets, and then confirms whether the conditions for derecognition can be met with reference to the following basis:

(1) Where the contractual rights for collecting cash flows of the said financial asset are terminated;

(2) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;

(3) Where the financial asset has been transferred and the Group has not retained control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset.

6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

VI. MAJOR ITEMS

1. Enterprise income tax

The Chinese corporate income tax rate of 25% is applicable to all taxable entities within the Group. According to Paragraph 13 of Article 30 of the *Catalogue for Guiding Industry Restructuring (Edition 2019)* issued by NDRC Document No. 29 of 2019 with regard to the encouraged category, as from 1 January 2020, the Group's subsidiary Huaxia Financial Leasing Co., Ltd. is subject to a preferential corporate income tax rate of 15% applicable to enterprises in regions covered by China's Western Development Program.

2. VAT

Since 1 May 2016, the Group has paid VAT instead of business tax, with the basis of taxation being assessable amounts. The tax payable under the general tax computation method shall be calculated by subtracting deductible input taxes from the result of multiplying the assessable income by the applicable tax rate. The tax payable under the simple tax computation method shall be calculated by multiplying the assessable transaction or sales amount by the applicable tax rate. The value added tax rates applicable to the Group are 6% and 13%.

3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of VAT.

4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of VAT.

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries acquired through establishment or investment as at 31 December 2023 are as follows:

Name	Date of establishment	Place of registration	Registered capital/ Paid-in capital	Shareholding percentage	Voting rights percentage	Minority interests	Business nature
			RMB millions	(%)	(%)	RMB1 millions	
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	23	Banking
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	75	70.00	70.00	48	Banking
Huaxia Financial Leasing Co., Ltd.	2013	Kunming	10,000	82.00	82.00	3,112	Financial leasing
Huaxia Wealth Management Co., Ltd.	2020	Beijing	3,000	100.00	100.00	–	Asset management

On 8 November 2023, the Bank received an approval from the Beijing Bureau of the National Financial Regulatory Administration ("Beijing Bureau") for the acquisition of a 20% equity interest in Beijing Daxing Hua Xia Rural Bank Co., Ltd. ("Daxing Rural Bank") for RMB27 million in cash, and holds a 100% interest in Daxing Rural Bank after the acquisition. This transaction led to a decrease of RMB26 million in minority interests in the consolidated financial statements. On 24 November 2023, Daxing Rural Bank got Beijing Bureau's approval to dissolve, and the Bank took over all the assets, liabilities, rights and obligations of Daxing Rural Bank.

For details on structured entities included in consolidated scope of the Group, please see Note XIII Structured Entities.

VIII. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and balances with central banks

		The Group		The Bank	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022
Cash on hand		2,131	2,035	2,125	2,024
Statutory reserves with central banks	(1)	141,849	151,907	141,764	151,801
Excess reserves with central banks	(2)	57,631	21,154	57,518	20,925
Other balances with central banks	(3)	823	287	823	287
Total		202,434	175,383	202,230	175,037

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2023	31 December 2022
RMB:		
The Bank	7.00%	7.50%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	5.00%	5.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	5.00%	5.00%
Foreign currency:	4.00%	6.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

2. Due from banks

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Due from domestic banks and other financial institutions	11,886	13,193	11,145	12,819
Due from overseas banks and other financial institutions	6,156	5,294	6,156	5,294
Accrued interest	2	45	–	1
Less: Allowance for impairment losses	(286)	(255)	(286)	(255)
Book value of due from banks and other financial institutions	17,758	18,277	17,015	17,859

As at 31 December 2023, the balance of allowances for impairment losses on the due from banks of the Group and the Bank classified into Stage 3 was RMB5 million (31 December 2022: RMB5 million). All others were in Stage 1. In 2023 and 2022, no stage transfer occurred to the allowance for impairment losses on the due from banks of the Group and the Bank.

3. Placements with banks and other financial institutions

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Placements with domestic banks and other financial institutions	1,000	689	1,000	689
Placements with overseas banks and other financial institutions	3,187	6,054	3,187	6,054
Placements with other domestic financial institutions	46,123	50,523	48,123	56,523
Accrued interest	45	60	53	60
Less: Allowance for impairment losses	(41)	(92)	(41)	(92)
Book value of placements with banks and other financial institutions	50,314	57,234	52,322	63,234

As at 31 December 2023, the balance of allowances for impairment losses on the placements with banks and other financial institutions of the Group and the Bank classified into Stage 3 was RMB30 million (31 December 2022: RMB83 million). All others were in Stage 1. In 2023 and 2022, no stage transfer occurred to the allowance for impairment losses on the placements with banks and other financial institutions of the Group and the Bank.

4. Derivative financial instruments

Non-hedging instruments:

	The Group and the Bank		
	31 December 2023		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Foreign exchange forwards	20,460	285	257
Foreign exchange swaps	432,676	2,943	2,913
Interest rate swaps	112,322	359	370
Option contracts	88,210	177	172
Credit risk mitigation warrants	260	–	8
Total		3,764	3,720

	The Group and the Bank		
	31 December 2022		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Foreign exchange forwards	47,252	1,215	1,228
Foreign exchange swaps	385,128	5,989	4,847
Interest rate swaps	24,141	16	15
Option contracts	90,315	252	252
Total		7,472	6,342

Hedging instruments:

Fair value hedge

The Group uses fair value hedge to avoid the impact of changes in the fair value of financial assets caused by changes in market interest rates. Interest rate swap is used as a hedging instrument for interest rate risk of financial assets. The hedging instruments designated by the Group and the Bank included in the above derivative financial instruments are as follows:

	The Group and the Bank		
	31 December 2023		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Derivatives designated as fair value hedge:			
Interest rate swaps	21,612	39	180

	The Group and the Bank		
	31 December 2022		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Derivatives designated as fair value hedge:			
Interest rate swaps	11,140	33	17

Hedged items are fixed-rate bonds invested in by the Group, which are included in the bonds of financial institutions and corporate bonds in Note VIII-9 Other Debt Investments.

The invalid hedge recognized in the loss/gain on changes in fair value in 2023 and 2022 was insignificant.

5. Financial assets purchased under agreements to resell

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
By collateral type:				
Bonds	1,000	37,266	1,000	37,266
Bills	17,832	21,293	17,832	21,293
Certificates of deposit with banks and other financial institutions	1,599	–	–	–
Accrued interest	33	190	33	190
Less: Allowance for impairment losses	(307)	(307)	(307)	(307)
Book value of financial assets purchased under agreements to resell	20,157	58,442	18,558	58,442

6. Loans and advances to customers

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Loans and advances to customers measured at amortized cost [1]	2,225,791	2,170,242	2,110,479	2,052,908
Less: Allowance for impairment losses	(61,587)	(63,661)	(54,979)	(57,538)
Sub-total	2,164,204	2,106,581	2,055,500	1,995,370
Loans and advances to customers measured at fair value through other comprehensive income [2]	83,792	102,731	83,792	102,731
Accrued interest	8,600	8,379	8,595	8,363
Total	2,256,596	2,217,691	2,147,887	2,106,464

(1) The loans and advances to customers measured at amortized cost are distributed as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Corporate loans and advances to customers	1,500,921	1,463,241	1,390,393	1,350,926
Of which: Loans	1,466,427	1,423,697	1,355,899	1,311,382
Discounting	34,494	39,544	34,494	39,544
Personal loans and advances to customers	724,870	707,001	720,086	701,982
Of which: Residential mortgages	316,726	318,125	316,659	318,048
Credit Cards	184,097	181,670	184,097	181,670
Others	224,047	207,206	219,330	202,264
Total loans and advances to customers	2,225,791	2,170,242	2,110,479	2,052,908
Less: Allowance for impairment losses on loans and advances to customers	(61,587)	(63,661)	(54,979)	(57,538)
Of which: 12-month ECL	(17,047)	(16,628)	(15,751)	(15,113)
Lifetime ECL	(44,540)	(47,033)	(39,228)	(42,425)
Total	2,164,204	2,106,581	2,055,500	1,995,370

(2) The loans and advances to customers measured at fair value through other comprehensive income are distributed as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Corporate loans and advances to customers				
Of which: Loans	21,499	22,014	21,499	22,014
Discounting	62,293	80,717	62,293	80,717
Total	**83,792**	**102,731**	**83,792**	**102,731**

(3) The loans and advances to customers are presented as follows by assessment method:

	The Group			
31 December 2023	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total loans and advances to customers measured at amortized cost	2,105,584	77,894	42,313	2,225,791
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(17,047)	(15,800)	(28,740)	(61,587)
Net loans and advances measured at amortized cost	2,088,537	62,094	13,573	2,164,204
Loans and advances to customers measured at fair value through other comprehensive income	83,792	–	–	83,792
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(44)	–	–	(44)

	The Group			
31 December 2022	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total loans and advances to customers measured at amortized cost	2,046,370	82,902	40,970	2,170,242
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(16,628)	(16,749)	(30,284)	(63,661)
Net loans and advances measured at amortized cost	2,029,742	66,153	10,686	2,106,581
Loans and advances to customers measured at fair value through other comprehensive income	102,731	–	–	102,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(83)	–	–	(83)

31 December 2023	The Bank Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total loans and advances to customers measured at amortized cost	2,008,258	61,824	40,397	2,110,479
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(15,751)	(12,072)	(27,156)	(54,979)
Net loans and advances measured at amortized cost	1,992,507	49,752	13,241	2,055,500
Loans and advances to customers measured at fair value through other comprehensive income	83,792	–	–	83,792
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(44)	–	–	(44)

31 December 2022	The Bank Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total loans and advances to customers measured at amortized cost	1,943,938	69,403	39,567	2,052,908
Less: Allowance for impairment losses on loans and advances to customers measured at amortized cost	(15,113)	(13,083)	(29,342)	(57,538)
Net loans and advances measured at amortized cost	1,928,825	56,320	10,225	1,995,370
Loans and advances to customers measured at fair value through other comprehensive income	102,731	–	–	102,731
Allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income	(83)	–	–	(83)

(4) Changes in allowance for impairment losses on loans and advances to customer measured at amortized cost:

	The Group Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2023	16,628	16,749	30,284	63,661
Transfer to Stage 1	1,391	(1,290)	(101)	–
Transfer to Stage 2	(379)	1,043	(664)	–
Transfer to Stage 3	(154)	(4,358)	4,512	–
Charge/(reversal) for the year [1]	(443)	3,656	22,346	25,559
Recovery for the year	–	–	2,965	2,965
Transfer-out due to increase of present value	–	–	(647)	(647)
Write-offs and transfer-out for the year	–	–	(29,960)	(29,960)
Change in exchange rate	4	–	5	9
31 December 2023	17,047	15,800	28,740	61,587

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2022	20,508	10,590	27,385	58,483
Transfer to Stage 1	440	(389)	(51)	–
Transfer to Stage 2	(1,854)	1,913	(59)	–
Transfer to Stage 3	(155)	(1,666)	1,821	–
Charge/(reversal) for the year [1]	(2,318)	6,301	23,440	27,423
Recovery for the year	–	–	2,611	2,611
Transfer-out due to increase of present value	–	–	(630)	(630)
Write-offs and transfer-out for the year	–	–	(24,234)	(24,234)
Change in exchange rate	7	–	1	8
31 December 2022	16,628	16,749	30,284	63,661

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2023	15,113	13,083	29,342	57,538
Transfer to Stage 1	723	(622)	(101)	–
Transfer to Stage 2	(287)	848	(561)	–
Transfer to Stage 3	(154)	(3,911)	4,065	–
Charge/(reversal) for the year [1]	353	2,661	21,639	24,653
Recovery for the year	–	–	2,850	2,850
Transfer-out due to increase of present value	–	–	(628)	(628)
Write-offs and transfer-out for the year	–	–	(29,462)	(29,462)
Change in exchange rate	3	–	5	8
Others	–	13	7	20
31 December 2023	15,751	12,072	27,156	54,979

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2022	16,702	8,937	26,745	52,384
Transfer to Stage 1	440	(389)	(51)	–
Transfer to Stage 2	(1,051)	1,109	(58)	–
Transfer to Stage 3	(52)	(1,613)	1,665	–
Charge/(reversal) for the year [(1)]	(933)	5,039	22,370	26,476
Recovery for the year	–	–	2,491	2,491
Transfer-out due to increase of present value	–	–	(616)	(616)
Write-offs and transfer-out for the year	–	–	(23,205)	(23,205)
Change in exchange rate	7	–	1	8
31 December 2022	**15,113**	**13,083**	**29,342**	**57,538**

(1) Including new loans, outstanding loans, model/risk parameter adjustments and charge/(reversal) caused by stage shift.

7. Held-for-trading financial assets

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Held-for-trading financial assets:				
Government bonds	79	16	79	16
Bonds of public entities and quasi-governments	3,189	1,173	3,189	1,173
Bonds of financial institutions	8,355	7,676	8,355	7,676
Corporate bonds	51,465	52,085	51,465	52,085
Certificates of deposit with banks and other financial institutions	28,057	17,054	28,057	17,054
Fund investments	2,052	903	1,961	661
Other investments measured at fair value through profit or loss:				
Asset management plan of financial institutions	25,449	130,063	167,026	130,063
Fund investments	192,715	146,875	192,069	146,187
Beneficiary rights of assets and others	4,482	3,158	3,653	2,400
Sub-total	315,843	359,003	455,854	357,315
Accrued interest	743	581	743	581
Total	**316,586**	**359,584**	**456,597**	**357,896**

8. Debt investments

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Government bonds	311,601	281,780	302,246	280,435
Bonds of public entities and quasi-governments	323,101	89,917	104,506	89,583
Bonds of financial institutions	12,344	21,610	12,344	21,610
Corporate bonds	152,315	84,216	144,812	83,316
Asset management plan of financial institutions	120,141	131,865	120,141	131,865
Debt financing plans	38,073	55,558	38,073	55,558
Beneficiary rights of assets and others	27,307	22,368	26,308	22,368
Sub-total	984,882	687,314	748,430	684,735
Accrued interest	14,827	9,812	11,706	9,795
Less: Allowance for impairment losses	(12,904)	(17,015)	(12,594)	(16,735)
Including: 12-month ECL	(736)	(937)	(736)	(937)
Lifetime ECL	(12,168)	(16,078)	(11,858)	(15,798)
Total	986,805	680,111	747,542	677,795

Credit risk and expected credit loss of bond investments:

	The Group			
	31 December 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total debt investment	947,577	13,198	24,107	984,882
Accrued interest	14,553	274	–	14,827
Less: Allowance for impairment losses	(736)	(1,067)	(11,101)	(12,904)
Book value of debt investments	961,394	12,405	13,006	986,805

	The Group			
	31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total debt investment	642,339	24,854	20,121	687,314
Accrued interest	9,192	620	–	9,812
Less: Allowance for impairment losses	(937)	(3,290)	(12,788)	(17,015)
Book value of debt investments	650,594	22,184	7,333	680,111

	The Bank			
	31 December 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total debt investment	712,025	12,298	24,107	748,430
Accrued interest	11,432	274	–	11,706
Less: Allowance for impairment losses	(736)	(757)	(11,101)	(12,594)
Book value of debt investments	722,721	11,815	13,006	747,542

	The Bank			
	31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Total debt investment	640,660	23,954	20,121	684,735
Accrued interest	9,175	620	–	9,795
Less: Allowance for impairment losses	(937)	(3,010)	(12,788)	(16,735)
Book value of debt investments	648,898	21,564	7,333	677,795

Changes in allowance for impairment losses on debt investments are as follows:

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2023	937	3,290	12,788	17,015
Transfer to Stage 1	50	(50)	–	–
Transfer to Stage 2	(21)	21	–	–
Transfer to Stage 3	(1)	(1,137)	1,138	–
Charge/(reversal) for the year	(232)	(1,057)	(113)	(1,402)
Write-offs and transfer-out for the year	–	–	(2,727)	(2,727)
Effect of exchange rate	3	–	15	18
31 December 2023	736	1,067	11,101	12,904

	The Group			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2022	2,382	2,315	8,747	13,444
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(1,469)	1,469	–	–
Transfer to Stage 3	–	–	–	–
Charge/(reversal) for the year	19	(494)	3,723	3,248
Write-offs and transfer-out for the year	–	–	(4,057)	(4,057)
Transfer-in for the year	–	–	4,333	4,333
Effect of exchange rate	5	–	42	47
31 December 2022	937	3,290	12,788	17,015

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2023	937	3,010	12,788	16,735
Transfer to Stage 1	50	(50)	–	–
Transfer to Stage 2	(21)	21	–	–
Transfer to Stage 3	(1)	(1,137)	1,138	–
Charge/(reversal) for the year	(232)	(1,087)	(113)	(1,432)
Write-offs and transfer-out for the year	–	–	(2,727)	(2,727)
Effect of exchange rate	3	–	15	18
31 December 2023	736	757	11,101	12,594

	The Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2022	2,202	2,315	8,747	13,264
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(1,189)	1,189	–	–
Transfer to Stage 3	–	–	–	–
Charge/(reversal) for the year	(81)	(494)	3,723	3,148
Write-offs and transfer-out for the year	–	–	(4,057)	(4,057)
Transfer-in for the year	–	–	4,333	4,333
Effect of exchange rate	5	–	42	47
31 December 2022	937	3,010	12,788	16,735

9. Other debt investments

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Government bonds	39,610	37,673	37,674	35,516
Bonds of public entities and quasi-governments	102,326	117,044	102,326	117,044
Bonds of financial institutions	95,656	56,665	95,656	56,665
Corporate bonds	53,936	27,440	53,936	27,440
Certificates of deposit with banks and other financial institutions	–	6,209	–	6,209
Sub-total	291,528	245,031	289,592	242,874
Accrued interest	3,880	3,074	3,850	3,048
Total	295,408	248,105	293,442	245,922

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Initial investment cost of other debt investments	290,095	246,204	288,172	244,042
Changes in fair value recorded in other comprehensive income accumulatively	1,433	(1,173)	1,420	(1,168)
Sub-total	291,528	245,031	289,592	242,874
Accrued interest	3,880	3,074	3,850	3,048
Total	295,408	248,105	293,442	245,922
Allowance for impairment losses on credit set aside accumulatively	(250)	(227)	(250)	(227)

Credit risk and expected credit loss of other bond investments:

	The Group			
	31 December 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Other debt investments	291,493	–	35	291,528
Accrued interest	3,880	–	–	3,880
Book value of other debt investments	295,373	–	35	295,408
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(163)	–	(87)	(250)

	The Group			
	31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Other debt investments	245,031	–	–	245,031
Accrued interest	3,074	–	–	3,074
Book value of other debt investments	248,105	–	–	248,105
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(227)	–	–	(227)

	The Bank			
	31 December 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Other debt investments	289,557	–	35	289,592
Accrued interest	3,850	–	–	3,850
Book value of other debt investments	293,407	–	35	293,442
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(163)	–	(87)	(250)

	The Bank			
	31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
Other debt investments	242,874	–	–	242,874
Accrued interest	3,048	–	–	3,048
Book value of other debt investments	245,922	–	–	245,922
Allowance for impairment losses on other debt investments recorded into other comprehensive income	(227)	–	–	(227)

Changes in allowance for impairment losses on other debt investments are as follows:

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2023	227	–	–	227
Charge for the year	(68)	–	87	19
Effect of exchange rate	4	–	–	4
31 December 2023	163	–	87	250

	The Group and the Bank			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
1 January 2022	193	–	–	193
Charge for the year	26	–	–	26
Effect of exchange rate	8	–	–	8
31 December 2022	227	–	–	227

10. Other equity instrument investments

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Equity investment	6,489	7,131	6,081	6,726

Analysis of information on other equity instrument investments is as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Initial investment cost of other equity instrument investments	8,641	8,835	8,231	8,426
Changes in fair value recorded in other comprehensive income accumulatively	(2,152)	(1,704)	(2,150)	(1,700)
Total	6,489	7,131	6,081	6,726

The equity instruments in the disposal of repossessed shares of the Group had a fair value of RMB266 million (2022: RMB255 million) in 2023, and the cumulative loss on disposal and the amount of transfer from other comprehensive income to retained earnings was RMB61 million (2022: cumulative gain of RMB500 million).

11. Long-term equity investments

	The Bank	
	31 December 2023	31 December 2022
Subsidiaries		
– Huaxia Financial Leasing Co., Ltd.	4,920	4,920
– Huaxia Wealth Management Co., Ltd.	3,000	3,000
– Beijing Daxing Hua Xia Rural Bank Co., Ltd	–	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
Total	7,990	8,090

As at 31 December 2023 and 31 December 2022, there was no impairment in the Group's long-term equity investments.

12. Fixed assets

	The Group					
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	Operating lease assets	Total
Original value						
1 January 2023	15,072	9,193	137	593	12,938	37,933
Acquisition in the year	11	1,231	5	3,429	25,973	30,649
Transfer-in/(transfer-out) of construction in-process	630	–	–	(634)	4	–
Sale/disposal	–	(534)	(8)	–	(7)	(549)
Difference from foreign currency translation	–	–	–	–	13	13
31 December 2023	15,713	9,890	134	3,388	38,921	68,046
Accumulative depreciation						
1 January 2023	(3,982)	(6,421)	(95)	–	(205)	(10,703)
Charge for the year	(416)	(822)	(8)	–	(1,044)	(2,290)
Sale/disposal	–	505	8	–	2	515
31 December 2023	(4,398)	(6,738)	(95)	–	(1,247)	(12,478)
Allowance for impairment losses						
1 January 2023	–	–	–	–	–	–
Charge for the year	–	–	–	–	(173)	(173)
Sale/disposal	–	–	–	–	–	–
31 December 2023	–	–	–	–	(173)	(173)
Net amount						
1 January 2023	11,090	2,772	42	593	12,733	27,230
31 December 2023	11,315	3,152	39	3,388	37,501	55,395

	The Group					
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	Operating lease assets	Total
Original value						
1 January 2022	14,364	8,574	138	199	288	23,563
Acquisition in the year	453	1,036	6	649	12,657	14,801
Transfer-in/(transfer-out) of construction in-process	255	–	–	(255)	–	–
Sale/disposal	–	(417)	(7)	–	(4)	(428)
Difference from foreign currency translation	–	–	–	–	(3)	(3)
31 December 2022	15,072	9,193	137	593	12,938	37,933
Accumulative depreciation						
1 January 2022	(3,578)	(6,066)	(94)	–	–	(9,738)
Charge for the year	(404)	(748)	(8)	–	(205)	(1,365)
Sale/disposal	–	393	7	–	–	400
31 December 2022	(3,982)	(6,421)	(95)	–	(205)	(10,703)
Allowance for impairment losses						
1 January 2022	–	–	–	–	–	–
Charge for the year	–	–	–	–	–	–
31 December 2022	–	–	–	–	–	–
Net amount						
1 January 2022	10,786	2,508	44	199	288	13,825
31 December 2022	11,090	2,772	42	593	12,733	27,230

	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	Total
Original value					
1 January 2023	15,042	9,147	135	589	24,913
Acquisition in the year	7	1,227	5	3,429	4,668
Transfer-in/(transfer-out) of construction in-process	630	–	–	(630)	–
Sale/disposal	–	(529)	(8)	–	(537)
31 December 2023	15,679	9,845	132	3,388	29,044
Accumulative depreciation					
1 January 2023	(3,974)	(6,390)	(93)	–	(10,457)
Charge for the year	(414)	(815)	(8)	–	(1,237)
Sale/disposal	–	501	8	–	509
31 December 2023	(4,388)	(6,704)	(93)	–	(11,185)
Allowance for impairment losses					
1 January 2023	–	–	–	–	–
Charge for the year	–	–	–	–	–
Sale/disposal	–	–	–	–	–
31 December 2023	–	–	–	–	–
Net amount					
1 January 2023	11,068	2,757	42	589	14,456
31 December 2023	11,291	3,141	39	3,388	17,859

	The Bank				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities and others	Construction in-process	Total
Original value					
1 January 2022	14,334	8,535	136	199	23,204
Acquisition in the year	453	1,029	6	645	2,133
Transfer-in/(transfer-out) of construction in-process	255	–	–	(255)	–
Sale/disposal	–	(417)	(7)	–	(424)
31 December 2022	15,042	9,147	135	589	24,913
Accumulative depreciation					
1 January 2022	(3,571)	(6,039)	(93)	–	(9,703)
Charge for the year	(403)	(743)	(7)	–	(1,153)
Sale/disposal	–	392	7	–	399
31 December 2022	(3,974)	(6,390)	(93)	–	(10,457)
Allowance for impairment losses					
1 January 2022	–	–	–	–	–
Charge for the year	–	–	–	–	–
Sale/disposal	–	–	–	–	–
31 December 2022	–	–	–	–	–
Net amount					
1 January 2022	10,763	2,496	43	199	13,501
31 December 2022	11,068	2,757	42	589	14,456

(1) On 31 December 2023, the original value of operating lease assets of Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group was RMB38,921 million (31 December 2022: RMB12,938 million).

(2) As at 31 December 2023 and 31 December 2022, the Group has several houses and buildings that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

13. Right-of-use assets

	The Group			
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Total
Original value				
1 January 2023	9,246	23	1	9,270
Increase in the year	1,462	–	–	1,462
Decrease in the year	(871)	–	–	(871)
Difference from foreign currency translation	2	–	–	2
31 December 2023	9,839	23	1	9,863
Accumulative depreciation				
1 January 2023	(3,161)	(13)	(1)	(3,175)
Increase in the year	(1,861)	(2)	–	(1,863)
Decrease in the year	851	–	–	851
Difference from foreign currency translation	1	–	–	1
31 December 2023	(4,170)	(15)	(1)	(4,186)
Net amount				
1 January 2023	6,085	10	–	6,095
31 December 2023	5,669	8	–	5,677

	The Group			
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Total
Original value				
1 January 2022	8,130	23	1	8,154
Increase in the year	1,800	–	–	1,800
Decrease in the year	(684)	–	–	(684)
Difference from foreign currency translation	–	–	–	–
31 December 2022	9,246	23	1	9,270
Accumulative depreciation				
1 January 2022	(1,794)	(7)	(1)	(1,802)
Increase in the year	(1,911)	(6)	–	(1,917)
Decrease in the year	544	–	–	544
Difference from foreign currency translation	–	–	–	–
31 December 2022	(3,161)	(13)	(1)	(3,175)
Net amount				
1 January 2022	6,336	16	–	6,352
31 December 2022	6,085	10	–	6,095

	The Bank			
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Total
Original value				
1 January 2023	8,958	23	1	8,982
Increase in the year	1,405	–	–	1,405
Decrease in the year	(789)	–	–	(789)
Difference from foreign currency translation	2	–	–	2
31 December 2023	9,576	23	1	9,600
Accumulative depreciation				
1 January 2023	(3,043)	(13)	(1)	(3,057)
Increase in the year	(1,800)	(2)	–	(1,802)
Decrease in the year	785	–	–	785
Difference from foreign currency translation	1	–	–	1
31 December 2023	(4,057)	(15)	(1)	(4,073)
Net amount				
1 January 2023	5,915	10	–	5,925
31 December 2023	5,519	8	–	5,527

	The Bank			
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Total
Original value				
1 January 2022	7,852	23	1	7,876
Increase in the year	1,790	–	–	1,790
Decrease in the year	(684)	–	–	(684)
Difference from foreign currency translation	–	–	–	–
31 December 2022	8,958	23	1	8,982
Accumulative depreciation				
1 January 2022	(1,739)	(7)	(1)	(1,747)
Increase in the year	(1,848)	(6)	–	(1,854)
Decrease in the year	544	–	–	544
Difference from foreign currency translation	–	–	–	–
31 December 2022	(3,043)	(13)	(1)	(3,057)
Net amount				
1 January 2022	6,113	16	–	6,129
31 December 2022	5,915	10	–	5,925

14. Intangible assets

	The Group		The Bank	
	2023	2022	2023	2022
Original value				
Balance at the beginning of the year	1,842	125	1,798	96
Increase in the year	63	1,717	34	1,702
Decrease in the year	–	–	–	–
Difference from foreign currency translation	–	–	–	–
Balance at the end of the year	**1,905**	**1,842**	**1,832**	**1,798**
Accumulative amortization				
Balance at the beginning of the year	(71)	(31)	(61)	(25)
Increase in the year	(42)	(40)	(37)	(36)
Decrease in the year	–	–	–	–
Difference from foreign currency translation	–	–	–	–
Balance at the end of the year	**(113)**	**(71)**	**(98)**	**(61)**
Allowance for impairment losses				
Balance at the beginning of the year	–	–	–	–
Increase in the year	–	–	–	–
Decrease in the year	–	–	–	–
Difference from foreign currency translation	–	–	–	–
Balance at the end of the year	**–**	**–**	**–**	**–**
Net amount				
Balance at the beginning of the year	1,771	94	1,737	71
Balance at the end of the year	**1,792**	**1,771**	**1,734**	**1,737**

15. Deferred taxation

Deferred income tax assets and deferred income tax liabilities are stated as follows in net amounts after offsetting:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Deferred income tax assets	9,444	12,838	8,186	11,658

(1) Changes in balance of deferred income tax assets

	The Group		The Bank	
	2023	2022	2023	2022
Balance at the beginning of the year	12,838	10,169	11,658	9,217
Recorded in profit or loss	(3,134)	1,868	(3,210)	1,635
Recorded in other comprehensive income	(260)	801	(262)	806
Balance at the end of the year	**9,444**	**12,838**	**8,186**	**11,658**

(2) Deferred income tax assets and deferred income tax liabilities that are not offset are stated as follows:

	The Group			
	31 December 2023		31 December 2022	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowances for impaired loans	31,615	7,175	33,346	7,668
Wages set aside but not paid	6,945	1,717	6,742	1,673
Allowance for impairment losses on other assets	12,621	3,091	16,478	4,079
Changes in fair value of derivative financial instruments	3,900	975	6,359	1,590
Changes in fair value of held-for-trading financial assets	1,597	399	1,573	393
Changes in fair value of other debt investments	–	–	373	93
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	380	95	336	84
Changes in fair value of other equity instrument investments	2,152	539	1,704	426
Projected liabilities	1,437	358	2,451	613
Others	237	20	167	28
Sub-total	60,884	14,369	69,529	16,647
Deferred income tax liabilities				
Changes in fair value of derivative financial instruments	(3,803)	(951)	(7,505)	(1,876)
Changes in fair value of held-for-trading financial assets	(6,970)	(1,743)	(7,716)	(1,930)
Changes in fair value of other debt investments	(1,176)	(294)	–	–
Others	(7,865)	(1,937)	(14)	(3)
Sub-total	(19,814)	(4,925)	(15,235)	(3,809)
Net amount	**41,070**	**9,444**	**54,294**	**12,838**

	The Bank			
	31 December 2023		31 December 2022	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
Allowances for impaired loans	24,325	6,080	26,511	6,628
Wages set aside but not paid	6,682	1,670	6,505	1,626
Allowance for impairment losses on other assets	11,961	2,990	16,069	4,017
Changes in fair value of derivative financial instruments	3,900	975	6,359	1,590
Changes in fair value of held-for-trading financial assets	1,597	399	1,564	391
Changes in fair value of other debt investments	–	–	369	92
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	380	95	336	84
Changes in fair value of other equity instrument investments	2,150	539	1,700	425
Projected liabilities	1,426	357	2,444	611
Sub-total	52,421	13,105	61,857	15,464
Deferred income tax liabilities				
Changes in fair value of derivative financial instruments	(3,803)	(951)	(7,505)	(1,876)
Changes in fair value of held-for-trading financial assets	(14,647)	(3,663)	(7,716)	(1,930)
Changes in fair value of other debt investments	(1,163)	(291)	–	–
Others	(56)	(14)	–	–
Sub-total	(19,669)	(4,919)	(15,221)	(3,806)
Net amount	**32,752**	**8,186**	**46,636**	**11,658**

16. Other assets

		The Group		The Bank	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022
Receivables and payment on account	(1)	10,201	6,306	2,227	2,591
Security deposit paid		6,803	3,616	979	1,038
Operating lease payments advanced		3,734	4,543	–	–
Construction prepaid		–	2,712	–	2,712
Interest receivable		1,875	1,035	1,681	1,023
Funds to be cleared		1,547	2,748	1,546	2,744
Long-term prepaid expenses		1,893	1,523	1,823	1,484
Repossessed assets to be disposed of	(2)	1,923	2,149	1,923	2,149
Others		976	2,223	973	2,223
Sub-total		28,952	26,855	11,152	15,964
Less: Allowance for impairment losses		(2,844)	(4,085)	(2,720)	(3,985)
Total		26,108	22,770	8,432	11,979

(1) Receivables and payment on account presented by aging

	The Group							
	31 December 2023				31 December 2022			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	9,209	90.28	(588)	8,621	4,988	79.10	(233)	4,755
1 – 2 years (inclusive)	265	2.60	(205)	60	250	3.96	(77)	173
2 – 3 years (inclusive)	102	1.00	(89)	13	140	2.22	(33)	107
More than 3 years	625	6.12	(416)	209	928	14.72	(650)	278
Total	10,201	100.00	(1,298)	8,903	6,306	100.00	(993)	5,313

	The Bank							
	31 December 2023				31 December 2022			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	1,306	58.64	(533)	773	1,436	55.42	(197)	1,239
1 – 2 years (inclusive)	221	9.92	(205)	16	187	7.22	(64)	123
2 – 3 years (inclusive)	95	4.27	(89)	6	129	4.98	(30)	99
More than 3 years	605	27.17	(412)	193	839	32.38	(611)	228
Total	2,227	100.00	(1,239)	988	2,591	100.00	(902)	1,689

(2) Repossessed assets to be disposed of

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Repossessed assets to be disposed of	1,923	2,149	1,923	2,149
Less: Allowance for impairment losses	(1,479)	(1,068)	(1,479)	(1,068)
Net book value of repossessed assets to be disposed of	444	1,081	444	1,081

17. Allowance for impairment losses on credit/assets

	The Group					
	2023					
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate and others	Ending balance
Due from banks	255	29	–	–	2	286
Placements with banks and other financial institutions	92	1	(54)	–	2	41
Financial assets purchased under agreements to resell	307	–	–	–	–	307
Loans and advances to customers measured at amortized cost	63,661	25,559	(30,607)	2,965	9	61,587
Loans and advances to customers measured at fair value through other comprehensive income	83	(39)	–	–	–	44
Debt investments	17,015	(1,402)	(2,727)	–	18	12,904
Other debt investments	227	19	–	–	4	250
Projected liabilities	2,451	(1,015)	–	–	1	1,437
Fixed assets	–	173	–	–	–	173
Other assets	4,085	2,642	(3,885)	2	–	2,844
Total	88,176	25,967	(37,273)	2,967	36	79,873

	The Group					
	2022					
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	73	180	–	–	2	255
Placements with banks and other financial institutions	94	(3)	–	–	1	92
Financial assets purchased under agreements to resell	306	1	–	–	–	307
Loans and advances to customers measured at amortized cost	58,483	27,423	(24,864)	2,611	8	63,661
Loans and advances to customers measured at fair value through other comprehensive income	514	(431)	–	–	–	83
Debt investments	13,444	3,248	(4,057)	4,333	47	17,015
Other debt investments	193	26	–	–	8	227
Projected liabilities	2,355	91	–	–	5	2,451
Other assets	3,983	234	(137)	2	3	4,085
Total	79,445	30,769	(29,058)	6,946	74	88,176

	The Bank					
	2023					
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate and others	Ending balance
Due from banks	255	29	–	–	2	286
Placements with banks and other financial institutions	92	1	(54)	–	2	41
Financial assets purchased under agreements to resell	307	–	–	–	–	307
Loans and advances to customers measured at amortized cost	57,538	24,653	(30,090)	2,850	28	54,979
Loans and advances to customers measured at fair value through other comprehensive income	83	(39)	–	–	–	44
Debt investments	16,735	(1,432)	(2,727)	–	18	12,594
Other debt investments	227	19	–	–	4	250
Projected liabilities	2,444	(1,019)	–	–	1	1,426
Other assets	3,985	2,594	(3,861)	2	–	2,720
Total	81,666	24,806	(36,732)	2,852	55	72,647

	The Bank					
	2022					
	Opening balance	Charge/ (reversal) for the year	Write-offs and transfer-out for the year	Recovery for the year	Change in exchange rate	Ending balance
Due from banks	73	180	–	–	2	255
Placements with banks and other financial institutions	94	(3)	–	–	1	92
Financial assets purchased under agreements to resell	306	1	–	–	–	307
Loans and advances to customers measured at amortized cost	52,384	26,476	(23,821)	2,491	8	57,538
Loans and advances to customers measured at fair value through other comprehensive income	514	(431)	–	–	–	83
Debt investments	13,264	3,148	(4,057)	4,333	47	16,735
Other debt investments	193	26	–	–	8	227
Projected liabilities	2,338	101	–	–	5	2,444
Other assets	3,905	207	(132)	2	3	3,985
Total	73,071	29,705	(28,010)	6,826	74	81,666

18. Due to central banks

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Mid-term credit facility	141,200	93,000	141,200	93,000
Others	10,959	7,284	10,959	7,283
Accrued interest	1,402	552	1,402	552
Total	153,561	100,836	153,561	100,835

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. On 31 December 2023, the Bank held the facilities for an original term of one to twelve months at the interest rate of 2.50% to 2.75% which was pledged with its bonds worth of RMB151,227 million. On 31 December 2022, the Bank held the facilities for an original term of one to twelve months at the interest rate of 2.75% to 2.85% which was pledged with its bonds worth of RMB99,066 million.

19. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Due to domestic banks	192,422	134,267	192,496	134,344
Due to other domestic financial institutions	382,426	423,928	382,685	430,255
Accrued interest	1,543	1,762	1,543	1,762
Total	576,391	559,957	576,724	566,361

20. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Placements from domestic banks	153,774	123,207	23,937	24,260
Placements from overseas banks	40,827	33,372	40,827	33,372
Placements from other domestic financial institutions	9,200	9,319	–	–
Accrued interest	1,235	944	441	418
Total	205,036	166,842	65,205	58,050

21. Financial assets sold under agreements to repurchase

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Bonds	202,261	72,295	109,154	72,295
Bills	488	1,266	488	1,266
Accrued interest	78	70	78	70
Total	202,827	73,631	109,720	73,631

For details on the Group's assets taken as collateral for repurchase, please see Note XI-5 Collateral.

22. Deposits taken

		The Group		The Bank	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022
Demand deposits					
Corporate deposits		601,442	569,550	601,074	568,947
Personal deposits		144,310	137,877	144,228	137,762
Time deposits					
Corporate deposits		888,342	747,659	888,255	747,522
Personal deposits		368,465	337,846	367,360	336,663
Security deposit received	(1)	124,433	268,574	124,349	268,467
Outward remittances and remittances outstanding		2,950	2,364	2,950	2,360
Others		3	4	3	4
Sub-total		2,129,945	2,063,874	2,128,219	2,061,725
Accrued interest		35,936	30,795	35,873	30,720
Total		2,165,881	2,094,669	2,164,092	2,092,445

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Security deposit for bank acceptance	81,192	200,827	81,191	200,819
Security deposit for L/C issuance	19,402	43,198	19,402	43,198
Security deposit for L/G issuance and guarantee	2,681	4,212	2,681	4,199
Other security deposits	21,158	20,337	21,075	20,251
Total	124,433	268,574	124,349	268,467

23. Accrued payroll

	The Group			
	2023			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Wages and bonuses	6,742	11,650	(11,447)	6,945
Employee welfare	–	463	(463)	–
Social insurance	55	2,650	(2,656)	49
Housing provident fund	14	971	(976)	9
Labor union funds and employee education expense	249	440	(344)	345
Total	7,060	16,174	(15,886)	7,348

	The Group			
	2022			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Wages and bonuses	6,680	11,497	(11,435)	6,742
Employee welfare	–	454	(454)	–
Social insurance	51	2,511	(2,507)	55
Housing provident fund	11	921	(918)	14
Labor union funds and employee education expense	252	286	(289)	249
Total	6,994	15,669	(15,603)	7,060

	The Bank			
	2023			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Wages and bonuses	6,505	11,227	(11,050)	6,682
Employee welfare	–	447	(447)	–
Social insurance	44	2,577	(2,583)	38
Housing provident fund	14	949	(954)	9
Labor union funds and employee education expense	229	428	(335)	322
Total	6,792	15,628	(15,369)	7,051

	The Bank			
	2022			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Wages and bonuses	6,528	11,013	(11,036)	6,505
Employee welfare	–	442	(442)	–
Social insurance	39	2,466	(2,461)	44
Housing provident fund	11	901	(898)	14
Labor union funds and employee education expense	235	272	(278)	229
Total	6,813	15,094	(15,115)	6,792

24. Taxes and dues payable

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Enterprise income tax	1,588	5,931	1,305	5,494
VAT	1,487	1,615	1,465	1,594
Others	389	471	389	431
Total	3,464	8,017	3,159	7,519

25. Lease liabilities

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
No more than year	1,565	1,662	1,510	1,609
1 – 5 years	3,631	3,804	3,545	3,707
Over 5 years	998	1,130	968	1,094
Total undiscounted lease liabilities	6,194	6,596	6,023	6,410
Lease liabilities	5,627	5,982	5,471	5,815

26. Debt obligations payable

		The Group		The Bank	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022
Bonds payable					
Financial bonds	(1)	232,000	166,000	228,000	160,000
Tier-2 capital bonds	(2)	30,000	30,000	30,000	30,000
Sub-total		262,000	196,000	258,000	190,000
Certificates of deposit with banks and other financial institutions	(3)	327,044	331,911	327,044	331,911
Accrued interest		3,599	2,486	3,489	2,353
Total		592,643	530,397	588,533	524,264

(1) Financial bonds

(i) As approved by the former CBIRC and PBOC, the Bank issued the financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2021 on 16 March 2021 and the issuance volume was RMB27 billion. The bonds have a term of three years, the coupon rate is fixed at 3.45% and the interest will be paid annually. The value date is 18 March 2021 and the maturity date is 18 March 2024.

(ii) As approved by the former CBIRC and PBOC, the Bank issued the financial bond (series 2) of Hua Xia Bank Co., Ltd. for 2021 on 8 November 2021 and the issuance volume was RMB40 billion. The bonds have a term of three years, the coupon rate is fixed at 3.03% and the interest will be paid annually. The value date is 10 November 2021 and the maturity date is 10 November 2024.

(iii) As approved by the former CBIRC and PBOC, the Bank issued the financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2022 on 25 February 2022 and the issuance volume was RMB20 billion. The bonds have a term of three years, the coupon rate is fixed at 2.78%, with interest payable annually. The value date is 1 March 2022 and the maturity date is 1 March 2025.

(iv) As approved by the former CBIRC and PBOC, the Bank issued the financial bond (series 2) of Hua Xia Bank Co., Ltd. for 2022 on 20 April 2022 and the issuance volume was RMB10 billion. The bonds have a term of three years, the coupon rate is fixed at 2.83%, with interest payable annually. The value date is 22 April 2022 and the maturity date is 22 April 2025.

(v) As approved by the former CBIRC and PBOC, the Bank issued the financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2023 on 28 March 2023 and the issuance volume was RMB20 billion. The bond has a term of three years, the coupon rate is fixed at 2.80% and the interest will be paid annually. The value date is 30 March 2023 and the maturity date is 30 March 2026.

(vi) As approved by the former CBIRC and PBOC, the Bank issued the green financial bond of Hua Xia Bank Co., Ltd. for 2023 on 28 March 2023 and the issuance volume was RMB10 billion. The bond has a term of three years, the coupon rate is fixed at 2.79% and the interest will be paid annually. The value date is 30 March 2023 and the maturity date is 30 March 2026.

(vii) As approved by NFRA and PBOC, the Bank issued the financial bond (series 2) of Hua Xia Bank Co., Ltd. for 2023 on 26 May 2023 and the issuance volume was RMB40 billion. The bond has a term of three years, the coupon rate is fixed at 2.70% and the interest will be paid annually. The value date is 30 May 2023 and the maturity date is 30 May 2026.

(viii) As approved by NFRA and PBOC, the Bank issued the financial bond (series 3) of Hua Xia Bank Co., Ltd. for 2023 on 28 July 2023 and the issuance volume was RMB15 billion. The bond has a term of three years, the coupon rate is fixed at 2.60% and the interest will be paid annually. The value date is 1 August 2023 and the maturity date is 1 August 2026.

(ix) As approved by NFRA and PBOC, the Bank issued the financial bond (series 4) of Hua Xia Bank Co., Ltd. for 2023 on 26 October 2023 and the issuance volume was RMB13 billion. The bond has a term of three years, the coupon rate is fixed at 2.81% and the interest will be paid annually. The value date is 27 October 2023 and the maturity date is 27 October 2026.

(x) As approved by NFRA and PBOC, the Bank issued the financial bond (series 5) of Hua Xia Bank Co., Ltd. for 2023 on 23 November 2023 and the issuance volume was RMB23 billion. The bond has a term of three years, the coupon rate is fixed at 2.80% and the interest will be paid annually. The value date is 27 November 2023 and the maturity date is 27 November 2026.

(xi) As approved by NFRA and PBOC, the Bank issued the financial bond (series 6) of Hua Xia Bank Co., Ltd. for 2023 on 15 December 2023 and the issuance volume was RMB10 billion. The bond has a term of three years, the coupon rate is fixed at 2.79% and the interest will be paid annually. The value date is 19 December 2023 and the maturity date is 19 December 2026.

(xii) As approved by the former CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 1) for 2021 on 26 January 2021 and the issuance volume was RMB2 billion. The bonds have a term of three years, the coupon rate is fixed at 3.62% and the interest will be paid annually. The value date is 28 January 2021 and the maturity date is 28 January 2024.

(xiii) As approved by the former CBIRC Yunnan Office and PBOC, Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, issued the financial bond (series 2) for 2021 on 13 May 2021 and the issuance volume was RMB2 billion. The bonds have a term of three years, the coupon rate is fixed at 3.45% and the interest will be paid annually. The value date is 17 May 2021 and the maturity date is 17 May 2024.

(2) Tier-2 capital bonds

(i) As approved by the former CBIRC and PBOC, the Bank issued the Tier-2 capital bond (series 1) of Hua Xia Bank Co., Ltd. for 2022 from 20 to 23 April 2022 and the issuance volume was RMB30 billion. The bond is a 10-year fixed-rate bond attached with the issuer's conditional right to redeem the bond at face value in part or in whole at the end of the fifth year. The coupon rate is fixed at 3.10%. The value date is 25 August 2022. If the issuer does not exercise its redemption right, the interest period of the bond ranges between 25 August 2022 and 24 August 2032. If the issuer does exercise the redemption right, the interest period of the bond for the part redeemed ranges between 25 August 2022 and 24 August 2027.

(3) Certificates of deposit with banks and other financial institutions

As at 31 December 2023, there were 159 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB332,254 million and terms of 1 month to 1 year. Except six certificates of deposit with banks and other financial institutions issued at fixed rates and paid with interest upon maturity in a sum, others are issued in discount.

27. Projected liabilities

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Credit commitments	1,437	2,451	1,426	2,444
Pending legal proceedings	–	–	–	–
Total	**1,437**	**2,451**	**1,426**	**2,444**

ECL of loan commitments are classified into three stages:

	31 December 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
The Group	1,405	32	–	1,437
The Bank	1,394	32	–	1,426

	31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (Not credit-impaired)	Stage 3 Lifetime ECL (Credit-impaired)	Total
The Group	2,312	45	94	2,451
The Bank	2,305	45	94	2,444

28. Other liabilities

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Security deposit for financial lease	4,544	4,991	–	–
Funds to be settled and cleared payable	2,336	3,544	2,334	3,543
Others	8,009	12,109	6,471	11,161
Total	14,889	20,644	8,805	14,704

29. Share capital

	31 December 2023		31 December 2022	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	15,915	15,915	15,915	15,915

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

As at 31 December 2023, the Bank's paid-in capital had amounted to RMB15,915 million (31 December 2022: RMB15,915 million), with the par value of each share being RMB1.

30. Other equity instruments

(1) Preference shares

On 23 February 2016, the Bank was approved by CSRC to privately issue up to 200 million domestic preference shares and the par value of each share is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP.

Financial instruments	Issuing time	Accounting category	Dividend rate	Issuance price	Number	Amount	Maturity date	Share conversion condition	Conversion
				RMB/share	Million shares	RMB1 millions			
Preference shares	March 2016	Equity instrument	Note 1	100	200	20,000	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is an interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the Shareholders' General Meeting after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc. by way of inquiry. The coupon dividend rate consists of benchmark interest rate and fixed premium. The bench mark interest rate will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted. In the second dividend rate adjustment period, the value date is 28 March 2021 with a benchmark rate of 3.07% and coupon rate of 4.68%.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to above 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

(2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier-2 capital instruments is the earlier one in: (1) the former CBIRC determines that the issuer will not survive if it does not conduct write-down; and (2) the relevant authorities determine that the issuer will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

Information on outstanding preference shares:

	1 January 2023		Increase in the year		Decrease in the year		31 December 2023	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB1 millions	Million shares	RMB1 millions	Million shares	RMB1 millions	Million shares	RMB1 millions
Preference shares	200	20,000	–	–	200	20,000	–	–
Issuing cost		(22)						–
Total preference shares	200	19,978					–	–

As approved by the former CBIRC, the Bank redeemed all the above preference shares on 28 March 2023.

(2) Perpetual bonds

In June 2019, the Bank publicly issued RMB40 billion of perpetual bond (the "Bond") upon approval by the former CBIRC and PBOC in the national interbank bond market and completed the Bond registration and custody formalities with China Central Depository & Clearing Co., Ltd. (CCDC).

Information on issued and outstanding perpetual bonds at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Coupon rate	Issuance price	Number	Amount	Maturity date	Write-down clauses
				RMB yuan/ RMB100 par value	Million shares	RMB1 millions		
Perpetual bonds	June 2019	Equity instrument	Note 1	100	400	40,000	Duration of ongoing concern	Note 2

Note 1: The Bond will carry a coupon rate adjustable at regular intervals. Starting from the cut-off date for issue payments, every five years will be an interval for coupon rate adjustment. During each interval, interest will be paid at the fixed coupon rate agreed upon. The interest rate is 4.85% in the first interval. The coupon rate of the Bond consists of the benchmark rate and a fixed spread. The benchmark interest rate is the arithmetic mean (rounded to 0.01%) of the ChinaBond 5Y Treasury Bond YTM published by ChinaBond.com (or other website recognized by the CCDC) in the five trading days prior to the publication date of the Bond subscription documents. The fixed spread is the coupon rate determined at the time of this bond issue minus the benchmark rate at the time of this issue. Once determined, the fixed spread will remain constant. The non-cumulative interest payment method is adopted for the bond. The issuer may cancel all or part of the interest payment on the bond without constituting an event of default.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the issuer's core tier-1 capital adequacy ratio becomes as low as 5.125% (or below), the issuer is entitled, upon the approval by the former CBIRC and without the consent of bond holders, to write down all or part of the issued and outstanding bond based on the total par value so as to recover the core tier-1 capital adequacy ratio to above 5.125%. In the case of partial write-down, all the bond issued and outstanding and other tier-1 capital instruments of the issuer with a write-down feature under the same terms and conditions are written down in the same proportion of the par value. Before the total par value of the bond is fully written down, the issuer may conduct one or more write-downs so as to recover the core tier-1 capital adequacy ratio to above 5.125%.

(2) When the trigger event of tier-2 capital instruments takes place, the issuer is entitled to write down all the issued and outstanding bonds based on the total par value at that time without the approval of bond holders. The trigger event of tier-2 capital instruments is the earlier one in: 1) the former CBIRC determines that the issuer will not survive if it does not conduct write-down; and 2) the relevant authorities determine that the issuer will not survive if it does not obtain capital injection from the public sector or the support with the same effect. The bond is permanently terminated upon write-down of its principal and will no longer recover under any conditions.

Information on changes in issued perpetual bonds:

	1 January 2023		Increase in the year		Decrease in the year		31 December 2023	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	Million shares	RMB1 millions	Million shares	RMB1 millions	Million shares	RMB1 millions	Million shares	RMB1 millions
Perpetual bonds	400	40,000	–	–	–	–	400	40,000
Issuing cost		(7)						(7)
Total perpetual bonds	400	39,993					400	39,993

Information on items attributable to holders of equity instruments is presented below:

	31 December 2023	31 December 2022
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	278,586	260,486
Equity attributable to other shareholders of parent company	39,993	59,971
Of which: Net profit	2,876	2,876
Distributed profit for the period	(2,876)	(2,876)
Equity attributable to minority shareholders	3,183	2,865
Total shareholders' equity	321,762	323,322

31. Capital reserve

	The Group			
	2023			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Capital premium	60,758	–	(22)	60,736
Investment by minority shareholders at premium	1	–	–	1
Total	60,759	–	(22)	60,737

	The Group			
	2022			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Capital premium	53,291	7,467	–	60,758
Investment by minority shareholders at premium	1	–	–	1
Total	53,292	7,467	–	60,759

	The Bank			
	2023			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Capital premium	60,758	–	(21)	60,737

	The Bank			
	2022			
	Opening balance	Increase in the year	Decrease in the year	Ending balance
Capital premium	53,291	7,467	–	60,758

32. Surplus reserve

	The Group and the Bank	
	31 December 2023	31 December 2022
Statutory surplus reserve	24,008	21,798
Discretionary surplus reserve	111	111
Total	24,119	21,909

(1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the Shareholders' General Meeting.

(2) As at 31 December 2023, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the surplus reserve in excess of 50% shall be subject to approval by the Shareholders' General Meeting.

(3) For details on surplus reserve, please refer to Note VIII-34 Retained Profit.

33. General risk reserve

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
General risk reserve	48,779	47,124	46,324	44,737

(1) As at 1 July 2012, the Bank has set aside general risk reserve in accordance with the *Administrative Measures for Reserve Provisioning of Financial Enterprises* (C.J. [2012] No. 20). The general risk reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle.

(2) For details on surplus reserve, please refer to Note VIII-34 Retained Profit.

(3) According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general risk reserve. Such general risk reserve is treated as profit distribution.

34. Retained profit

(1) Profit distribution for 2023

The profit distribution plan for 2023 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 26 April 2024 is as follows:

(i) Set aside statutory surplus reserve of RMB2,430 million based on the Bank's net profit for 2023 which is RMB24,302 million;

(ii) Set aside general risk reserve of RMB1,226 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2023;

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB3.84 (pre-tax) per 10 shares, totaling RMB6,111 million, based on the Bank's total ordinary share capital of 15,914,928,468 shares at the end of 2023.

The above profit distribution plan is subject to approval by the Bank's Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.

(iv) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2023 to 25 June 2024 (at an interest rate of 4.85%), and the accrued interest is RMB1,940 million.

(2) Profit distribution for 2022

The Bank has implemented the profit distribution plan for 2022 that was approved by the Shareholders' General Meeting on 19 May 2023. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB2,210 million based on the Bank's net profit for 2022 which is RMB22,097 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2023;

(ii) Set aside general risk reserve of RMB1,587 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2022; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2023;

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB3.83 (pre-tax) per 10 shares, totaling RMB6,095 million, based on the Bank's total ordinary share capital of 15,914,928,468 shares at the end of 2022. The dividend was distributed in 2023.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2022 to 27 March 2023 (at an annual dividend rate of 4.68%), and the dividends payable for these preference shares are RMB936 million. Dividends on preference shares were paid on 28 March 2023.

(v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2022 to 25 June 2023 (at an interest rate of 4.85%), and the accrued interest is RMB1,940 million. Such interest was paid in June 2023.

(3) Profit distribution for 2021

The Bank has implemented the profit distribution plan for 2021 that was approved by the Shareholders' General Meeting on 20 May 2022. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB2,162 million based on the Bank's net profit for 2021 which is RMB21,623 million; such statutory surplus has been recorded in the balance sheet of the Group and the Bank dated 31 December 2022;

(ii) Set aside general risk reserve of RMB2,633 million, after which the Bank's balance of general risk reserve reaches 1.5% of the outstanding risk assets on 31 December 2021; such general risk reserve has been recorded in the balance sheet of the Group and the Bank dated 31 December 2022;

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB3.38 (pre-tax) per 10 shares, totaling RMB5,201 million, based on the Bank's total ordinary share capital of 15,387,223,983 shares at the end of 2021. The dividend was distributed in 2022.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2021 to 27 March 2022 (at an annual dividend rate of 4.68%), and the dividends payable for these preference shares are RMB936 million. Dividends on preference shares were paid on 28 March 2022.

(v) The interest accrual period for RMB perpetual bonds issued in June 2019 is from 26 June 2021 to 25 June 2022 (at an interest rate of 4.85%), and the accrued interest is RMB1,940 million. Such interest was paid on 27 June 2022.

35. Net non-interest income

	The Group		The Bank	
	2023	2022	2023	2022
Interest income				
Loans and advances to customers	107,644	107,894	101,494	100,730
Of which: Corporate loans and advances to customers	64,141	66,677	58,038	59,574
Personal loans and advances to customers	41,957	38,631	41,910	38,570
Discounted bills	1,546	2,586	1,546	2,586
Financial investments	40,720	36,035	36,283	35,880
Of which: Debt investments	32,502	29,358	28,111	29,250
Other debt investments	8,218	6,677	8,172	6,630
Balances with central banks	2,545	2,570	2,544	2,568
Financial assets purchased under agreements to resell	2,285	1,861	2,247	1,841
Placements with banks and other financial institutions	2,167	2,840	2,489	3,099
Due from banks	250	115	132	69
Sub-total	155,611	151,315	145,189	144,187
Interest expense				
Deposits taken	(42,748)	(41,241)	(42,698)	(41,194)
Debt obligations payable	(15,443)	(14,752)	(15,249)	(14,519)
Due to banks and other financial institutions	(13,939)	(11,934)	(13,959)	(11,970)
Due to central banks	(3,568)	(3,626)	(3,568)	(3,625)
Placements from banks and other financial institutions	(6,863)	(4,143)	(3,834)	(1,421)
Financial assets sold under agreements to repurchase	(2,476)	(1,285)	(2,474)	(1,283)
Others	(132)	(41)	(132)	(41)
Sub-total	(85,169)	(77,022)	(81,914)	(74,053)
Net non-interest income	70,442	74,293	63,275	70,134
Of which: Interest income from impaired financial assets identified	1,431	2,114	1,412	2,100

36. Net fee and commission income

	Note	The Group 2023	The Group 2022	The Bank 2023	The Bank 2022
Fee and commission income					
Bank card business		4,991	5,229	4,991	5,229
Agency business	(1)	2,528	4,707	1,793	3,589
Credit commitments		1,597	2,243	1,598	2,244
Custody and other fiduciary services		815	839	815	839
Other business		1,688	1,291	1,722	1,330
Sub-total		11,619	14,309	10,919	13,231
Fee and commission expenses					
Fee expense	(2)	(5,217)	(3,940)	(5,186)	(4,243)
Net fee and commission income		6,402	10,369	5,733	8,988

(1) The Group provides asset management services for wealth management products. The management fees of wealth management products are recognized to the extent that the uncertainty related to the management fee amount is eliminated and there will be no significant reversal in the future.

The Group distributes financial products for other financial institutions. A performance obligation is established when the customer enters into a contract with the relevant financial institution. The Group usually collects commissions from these financial institutions on a monthly or quarterly basis.

The Group provides underwriting, clearing and settlement services to its customers, and the performance obligation is satisfied at a point in time. The underwriting fee is usually collected within three months following the issuance of securities.

The original terms of contracts between the Group and its customers are mostly shorter than one year, so the remaining performance obligations under such contracts are not disclosed.

(2) Fee and commission expenses mainly include expenses for third-party services, UnionPay card services and credit card services.

37. Investment loss/(gain)

	The Group 2023	The Group 2022	The Bank 2023	The Bank 2022
Held-for-trading financial assets	6,428	4,437	6,398	4,412
Disposal of debt instruments measured at fair value through other comprehensive income	2,047	1,644	2,043	1,635
Gains on derecognition of financial assets measured at amortized cost	8	13	8	13
Other equity instrument investments	39	81	39	81
Derivative financial instruments	1,060	186	1,060	186
Long-term equity investments	–	–	626	–
Others	(157)	(114)	(157)	(114)
Total	9,425	6,247	10,017	6,213

In 2023 and 2022, all the net gains on derecognition of financial assets measured at amortized cost came from profits/losses on trading.

38. Gains on changes in fair value

	The Group		The Bank	
	2023	2022	2023	2022
Held-for-trading financial assets	2,680	1,898	6,918	1,907
Derivative financial instruments	(71)	260	(71)	260
Others	–	3	–	3
Total	2,609	2,161	6,847	2,170

39. Other operating income/expenses

The Group's other business income/expenses are mainly the income/expenses arising from the operating lease business of Huaxia Financial Leasing, a subsidiary of the Group.

40. Exchange gains

The exchange gains of the Group and the Bank mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities and the gains/losses on foreign exchange derivatives.

41. Tax and surcharges

	The Group		The Bank	
	2023	2022	2023	2022
Urban maintenance and construction tax	473	493	457	473
Education fee and surcharges	341	355	330	341
Others	252	205	223	183
Total	1,066	1,053	1,010	997

42. General and administrative expenses

		The Group		The Bank	
		2023	2022	2023	2022
Staff remuneration and welfare	(1)	16,174	15,669	15,628	15,094
Business expenses	(2)	8,446	8,215	8,378	8,165
Depreciation and amortization		4,616	4,380	4,450	4,195
Total		29,236	28,264	28,456	27,454

(1) Staff remuneration and welfare

	The Group		The Bank	
	2023	2022	2023	2022
Wages and bonuses	11,650	11,497	11,227	11,013
Employee welfare	463	454	447	442
Social insurance	2,650	2,511	2,577	2,466
Housing provident fund	971	921	949	901
Labor union funds and employee education expense	440	286	428	272
Total	16,174	15,669	15,628	15,094

(2) In the general and administrative expenses of the Group and the Bank in 2023, the lease expenses including short-term leases and low-value asset leases stood at RMB180 million (2022: RMB204 million) and RMB178 million (2022: RMB202 million).

43. Impairment losses on credit

	The Group		The Bank	
	2023	2022	2023	2022
Impairment losses of loans and advances to customers	25,520	26,992	24,614	26,045
Impairment losses of due from banks	29	180	29	180
Impairment losses of placements with banks and other financial institutions	1	(3)	1	(3)
Impairment losses of financial assets purchased under agreements to resell	–	1	–	1
Impairment losses of debt investments	(1,402)	3,248	(1,432)	3,148
Impairment losses of other debt investments	19	26	19	26
Projected liabilities	(1,015)	91	(1,019)	101
Other assets	2,149	198	2,112	179
Total	25,301	30,733	24,324	29,677

44. Income tax expense

	The Group		The Bank	
	2023	2022	2023	2022
Current income tax expense	5,460	9,961	4,730	9,017
Deferred income tax expense	3,134	(1,868)	3,210	(1,635)
Total	8,594	8,093	7,940	7,382

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2023	2022	2023	2022
Pre-tax profit	35,439	33,583	32,242	29,479
Income tax at statutory tax rate of 25%	8,860	8,396	8,061	7,370
Tax effect of tax-exempt income	(3,516)	(3,473)	(3,490)	(3,461)
Effect of different tax rates applicable to subsidiaries	(425)	(407)	–	–
Non-deductible expenses and other adjustments	3,675	3,577	3,369	3,473
Total	**8,594**	**8,093**	**7,940**	**7,382**

45. Other comprehensive income

Changes in other comprehensive income

	2023				
The Group	Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss					
Changes in fair value of other debt investments	(373)	1,770	(221)	–	1,176
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(336)	(380)	336	–	(380)
Allowance for credit losses on other debt investments	227	23	–	–	250
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	83	(39)	–	–	44
Difference from foreign currency translation	(5)	(3)	–	–	(8)
Income tax influence	102	(344)	(29)	–	(271)
Sub-total	(302)	1,027	86	–	811
Other comprehensive income not to be classified as profit/loss					
Changes in fair value of other equity instrument investments	(1,704)	(509)	–	61	(2,152)
Income tax influence	425	128	–	(15)	538
Total	**(1,581)**	**646**	**86**	**46**	**(803)**

The Group	2022 Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner’s equity	Ending balance
Other comprehensive income to be classified as profit/loss					
Changes in fair value of other debt investments	1,758	135	(2,266)	–	(373)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(78)	(336)	78	–	(336)
Allowance for credit losses on other debt investments	193	34	–	–	227
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	514	(431)	–	–	83
Difference from foreign currency translation	6	(11)	–	–	(5)
Income tax influence	(596)	152	546	–	102
Sub-total	1,797	(457)	(1,642)	–	(302)
Other comprehensive income not to be classified as profit/loss					
Changes in fair value of other equity instrument investments	(1,286)	(918)	–	500	(1,704)
Income tax influence	322	229	–	(126)	425
Total	833	(1,146)	(1,642)	374	(1,581)

The Bank	2023 Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss					
Changes in fair value of other debt investments	(369)	1,757	(225)	–	1,163
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(336)	(380)	336	–	(380)
Allowance for credit losses on other debt investments	227	23	–	–	250
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	83	(39)	–	–	44
Difference from foreign currency translation	(11)	6	–	–	(5)
Income tax influence	107	(343)	(31)	–	(267)
Sub-total	(299)	1,024	80	–	805
Other comprehensive income not to be classified as profit/loss					
Changes in fair value of other equity instrument investments	(1,700)	(511)	–	61	(2,150)
Income tax influence	425	127	–	(15)	537
Total	(1,574)	640	80	46	(808)

The Bank	2022 Opening balance	Amount in the year	Transferred from other comprehensive income to profit or loss	Internal transfer of owner's equity	Ending balance
Other comprehensive income to be classified as profit/loss					
Changes in fair value of other debt investments	1,756	137	(2,262)	–	(369)
Changes in fair value of loans and advances to customers measured at fair value through other comprehensive income	(78)	(336)	78	–	(336)
Allowance for credit losses on other debt investments	193	34	–	–	227
Allowance for credit losses on loans and advances to customers measured at fair value through other comprehensive income	514	(431)	–	–	83
Difference from foreign currency translation	6	(17)	–	–	(11)
Income tax influence	(595)	153	549	–	107
Sub-total	1,796	(460)	(1,635)	–	(299)
Other comprehensive income not to be classified as profit/loss					
Changes in fair value of other equity instrument investments	(1,284)	(916)	–	500	(1,700)
Income tax influence	321	230	–	(126)	425
Total	833	(1,146)	(1,635)	374	(1,574)

46. Earnings per share

	2023	2022
Net profit attributable to shareholders of the parent company in the year	26,363	25,035
Net profit attributable to ordinary shareholders of the parent company	23,487	22,159
Weighted average ordinary shares in issue (million shares)	15,915	15,475
Basic earnings per share (RMB yuan)	1.48	1.43

The Group has no potential ordinary share issued and outstanding in 2023 or 2022. Thus there is no need to disclose diluted earnings per share.

47. Cash and cash equivalents

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Cash on hand	2,131	2,035	2,125	2,024
Balances with central banks	57,631	21,154	57,518	20,925
Due from banks, placements with banks and other financial institutions and financial assets purchased under agreements to resell with the original term less than three months	42,360	64,518	40,730	64,144
Total	102,122	87,707	100,373	87,093

48. Supplementary information on the statement of cash flows

	The Group		The Bank	
	2023	2022	2023	2022
Net profit adjusted into cash flows from operating activities:				
Net profit	26,845	25,490	24,302	22,097
Plus: Impairment losses on credit	25,301	30,733	24,324	29,677
Other impairment losses on assets	666	36	482	28
Depreciation of fixed assets	2,290	1,160	1,237	1,153
Depreciation of right-of-use assets	1,863	1,917	1,802	1,854
Amortization of intangible assets	42	40	37	36
Amortization on long-term prepaid expenses	1,512	1,263	1,421	1,152
Interest income from investment and investment gains	(48,527)	(41,038)	(44,682)	(40,850)
Net gains or losses on disposal of fixed assets, intangible assets and other long-term assets	(39)	3	(39)	3
Unrealized exchange loss/(gain) and loss/(gain) on changes in fair value	(2,900)	(3,241)	(7,096)	(3,256)
Deferred income tax	3,134	(1,868)	3,210	(1,635)
Interest income from credit-impaired financial assets identified	(1,431)	(2,114)	(1,412)	(2,100)
Interest expense on bonds issued	7,244	5,954	7,050	5,722
Interest expenses on lease liabilities	210	226	204	219
Increase of operating receivables	(55,920)	(114,791)	(43,249)	(114,924)
Increase of operating payables	292,887	175,205	163,126	165,183
Net cash flows from operating activities	**253,177**	**78,975**	**130,717**	**64,359**
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	102,122	87,707	100,373	87,093
Less: Opening balance of cash and cash equivalents	(87,707)	(74,629)	(87,093)	(68,156)
Net change of cash and cash equivalents	**14,415**	**13,078**	**13,280**	**18,937**

Changes in liabilities arising from financing activities were as follows:

The Group	Bonds issued	Lease liabilities	Dividends and interest payable	Total
1 January 2023	198,478	5,982	–	204,460
Non-cash activities				
Interest expense	7,244	210	–	7,454
Profit distribution	–	–	9,109	9,109
Increase in lease liabilities in the year	–	1,462	–	1,462
Cash activities				
Cash inflows from financing activities	131,000	–	–	131,000
Cash outflows from financing activities	(65,000)	–	–	(65,000)
Dividends and interest paid	(6,142)	–	(9,109)	(15,251)
Cash payments for repayment of lease liabilities	–	(2,027)	–	(2,027)
31 December 2023	265,580	5,627	–	271,207

The Group	Bonds issued	Lease liabilities	Dividends and interest payable	Total
1 January 2022	170,926	6,053	–	176,979
Non-cash activities				
Interest expense	5,954	226	–	6,180
Profit distribution	–	–	8,077	8,077
Increase in lease liabilities in the year	–	1,711	–	1,711
Cash activities				
Cash inflows from financing activities	60,000	–	–	60,000
Cash outflows from financing activities	(32,500)	–	–	(32,500)
Dividends and interest paid	(5,902)	–	(8,077)	(13,979)
Cash payments for repayment of lease liabilities	–	(2,008)	–	(2,008)
31 December 2022	198,478	5,982	–	204,460

The Bank	Bonds issued	Lease liabilities	Dividends and interest payable	Total
1 January 2023	192,346	5,815	–	198,161
Non-cash activities				
Interest expense	7,050	204	–	7,254
Profit distribution	–	–	8,971	8,971
Increase in lease liabilities in the year	–	1,405	–	1,405
Cash activities				
Cash inflows from financing activities	131,000	–	–	131,000
Cash outflows from financing activities	(63,000)	–	–	(63,000)
Dividends and interest paid	(5,927)	–	(8,971)	(14,898)
Cash payments for repayment of lease liabilities	–	(1,953)	–	(1,953)
31 December 2023	261,469	5,471	–	266,940

The Bank	Bonds issued	Lease liabilities	Dividends and interest payable	Total
1 January 2022	162,222	5,835	–	168,057
Non-cash activities				
Interest expense	5,722	219	–	5,941
Profit distribution	–	–	8,077	8,077
Increase in lease liabilities in the year	–	1,701	–	1,701
Cash activities				
Cash inflows from financing activities	60,000	–	–	60,000
Cash outflows from financing activities	(30,000)	–	–	(30,000)
Dividends and interest paid	(5,598)	–	(8,077)	(13,675)
Cash payments for repayment of lease liabilities	–	(1,940)	–	(1,940)
31 December 2022	192,346	5,815	–	198,161

IX. SEGMENT REPORT

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include the Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, Central and Eastern China, Western China, Northern China and subsidiaries. Particularly speaking:

(1) Beijing-Tianjin-Hebei Region: Head Office, Credit Card Center, Beijing, Tianjin, Shijiazhuang, Tianjin FTZ and Beijing Municipal Administrative Center;

(2) Yangtze River Delta: Nanjing, Hangzhou, Shanghai, Wenzhou, Ningbo, Shaoxing, Changzhou, Suzhou, Wuxi, Hefei and Shanghai FTZ;

(3) Guangdong-Hong Kong-Macao Greater Bay Area: Shenzhen, Guangzhou, Hong Kong and Haikou;

(4) Central and Eastern China: Jinan, Wuhan, Qingdao, Taiyuan, Fuzhou, Changsha, Xiamen, Zhengzhou and Nanchang;

(5) Western China: Kunming, Chongqing, Chengdu, Xi'an, Urumqi, Hohhot, Nanning, Yinchuan, Guiyang, Xining and Lanzhou;

(6) Northeastern China: Shenyang, Dalian, Changchun and Harbin;

(7) Subsidiaries: Huaxia Financial Leasing Co., Ltd., Huaxia Wealth Management Co., Ltd., Kunming Chenggong Hua Xia Rural Bank Co., Ltd. and Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2023	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	36,777	20,268	6,530	11,501	10,127	1,355	7,280	(631)	93,207
Net non-interest income	19,593	20,185	5,683	10,883	9,876	1,304	2,918	–	70,442
Of which:									
Net external interest income	23,504	20,417	4,926	8,745	8,600	1,332	2,918	–	70,442
Segmental net interest income	(3,911)	(232)	757	2,138	1,276	(28)	–	–	–
Net fee and commission income	5,272	(254)	70	455	169	21	672	(3)	6,402
Other net operating income	11,912	337	777	163	82	30	3,690	(628)	16,363
Operating expenses	(27,130)	(8,027)	(4,335)	(8,008)	(5,531)	(1,259)	(3,476)	2	(57,764)
Operating profit	9,647	12,241	2,195	3,493	4,596	96	3,804	(629)	35,443
Net non-operating income	(47)	22	5	5	(5)	(6)	22	–	(4)
Total profit	9,600	12,263	2,200	3,498	4,591	90	3,826	(629)	35,439
Supplementary information									
1. Depreciation and amortization expenses	2,297	619	373	613	443	152	1,210	–	5,707
2. Capital expenditures	5,838	146	69	310	65	34	26,426	–	32,888
3. Impairment losses on credit	13,689	2,206	1,894	3,824	2,357	354	977	–	25,301
31 December 2023									
Segment assets	3,429,537	1,034,562	410,999	562,473	447,201	85,013	175,606	(1,900,069)	4,245,322
Undistributed assets									9,444
Total assets									4,254,766
Segment liabilities	3,155,167	1,022,664	409,860	559,689	444,324	86,798	154,615	(1,900,113)	3,933,004
Undistributed liabilities									–
Total liabilities									3,933,004

2022	Beijing-Tianjin-Hebei Region	Yangtze River Delta	Guangdong-Hong Kong-Macao Greater Bay Area	Central and Eastern China	Western China	Northeastern China	Subsidiaries	Offset among segments	Total
Operating income	34,223	21,428	6,364	12,585	11,411	1,764	6,038	(5)	93,808
Net non-interest income	18,178	21,322	5,910	11,957	11,047	1,720	4,159	–	74,293
Of which:									
Net external interest income	22,936	21,208	4,054	10,317	9,853	1,766	4,159	–	74,293
Segmental net interest income	(4,758)	114	1,856	1,640	1,194	(46)	–	–	–
Net fee and commission income	7,774	25	312	532	320	26	1,385	(5)	10,369
Other net operating income	8,271	81	142	96	44	18	494	–	9,146
Operating expenses	(25,571)	(9,044)	(3,146)	(11,572)	(5,615)	(3,233)	(1,935)	3	(60,113)
Operating profit	8,652	12,384	3,218	1,013	5,796	(1,469)	4,103	(2)	33,695
Net non-operating income	(74)	(11)	10	(3)	(23)	(12)	1	–	(112)
Total profit	8,578	12,373	3,228	1,010	5,773	(1,481)	4,104	(2)	33,583
Supplementary information									
1. Depreciation and amortization expenses	2,017	646	375	554	439	164	185	–	4,380
2. Capital expenditures	3,538	166	73	1,251	93	36	16,797	–	21,954
3. Impairment losses on credit	12,992	3,364	661	7,682	2,646	2,332	1,056	–	30,733
31 December 2022									
Segment assets	3,119,191	907,959	369,707	523,391	448,497	82,971	148,889	(1,713,276)	3,887,329
Undistributed assets									12,838
Total assets									3,900,167
Segment liabilities	2,842,287	896,482	367,328	523,441	444,224	86,193	130,113	(1,713,223)	3,576,845
Undistributed liabilities									–
Total liabilities									3,576,845

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank by the year end

Name of related shareholder	Place of registration	Legal representative／CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Group	Beijing	Zhao Minge	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technological service, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB 28.755 billion	21.68	21.68
State Grid Yingda International Holdings Group Ltd.	Beijing	Yang Dongwei	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB 19.9 billion	19.33	19.33
PICC Property and Casualty Company Limited	Beijing	Yu Ze	RMB and foreign currency insurance and related reinsurance; services and consultancy of property insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB 22.243 billion	16.11	16.11
Beijing Infrastructure Investment Co., Ltd.	Beijing	Hao Weiya	Manufacturing of metro vehicles and equipment; investment and investment management; planning, construction and operation management of metro lines; proprietary and agent import & export business of various commodities and technologies; design and repair of metro vehicles; design and installation of metro equipment; project supervision; property management; real estate development; and design and production of metro ads	RMB 173.159 billion	10.86	10.86

(2) Subsidiaries of the Bank

Please refer to Note VII Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties mainly include:

(i) Key management personnel (directors, supervisors and senior executives), and their close family members;

(ii) Enterprises controlled or jointly controlled by key management personnel and their close family members;

(iii) Companies, their subsidiaries and related companies which directors, supervisors and senior executives of the Bank control or can exert significant influence on;

(iv) State Grid Corporation of China (parent company of State Grid Yingda International Holdings Group Ltd., the related shareholder of the Bank) and its subsidiaries; The People's Insurance Company (Group) of China (parent company of PICC Property and Casualty Company Limited, the related shareholder of the Bank) and its subsidiaries;

(v) Other incorporated organizations, unincorporated organizations and natural persons exerting significant influence on operation and management of the Bank.

2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2023		31 December 2022	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Assets				
Due from banks	6	0.03	463	2.53
Loans and advances to customers	14,488	0.64	14,592	0.66
Other assets(ii)	5	0.02	2,716	11.93
Financial investments	30,006	1.87	31,550	2.44
Liabilities				
Deposits taken	14,870	0.69	4,418	0.23
Placements from banks and other financial institutions	4,202	2.05	–	–
Due to banks and other financial institutions	441	0.08	1,163	0.21
Off-balance-sheet items				
L/Gs and other payment commitments issued	394	1.35	593	1.93
L/Cs issued	3	0.01	–	–
Bank acceptance drafts	386	0.09	501	0.11
Non-principal-guaranteed wealth management products issued by the Bank	582	0.10	91	0.02
Capital expenditure commitments(ii)	1,356	19.78	1,808	37.90

	2023		2022	
	Transaction amount	Percentage (%)(i)	Transaction amount	Percentage (%)(i)
Interest income	562	0.36	683	0.45
Interest expense	170	0.20	160	0.21
Fee and commission income	103	0.89	55	0.38
Investment loss/(gain)	691	7.33	379	6.07
Gains on changes in fair value	191	7.32	439	20.31
General and administrative expenses	132	0.45	41	0.15

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(ii) The Bank purchased the tailor-made Digital Technology Building from Beijing Shouqiao Innovation Real Estate Co., Ltd. at a price of RMB4.52 billion. As of 31 December 2023, the Company had paid RMB3,164 million of the contract price, and the outstanding amount will be paid in installments according to the progress of project construction, certification and licensing.

(2) Related party transactions with other related legal persons

	31 December 2023		31 December 2022	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Assets				
Due from banks	640	3.60	773	4.23
Loans and advances to customers	446	0.02	457	0.02
Placements with banks and other financial institutions	5,506	10.94	1,502	2.62
Financial investments	9,132	0.57	37,874	2.92
Other assets	759	2.91	477	2.09
Liabilities				
Deposits taken	7,082	0.33	15,924	0.76
Due to banks and other financial institutions	833	0.14	1,127	0.2
Placements from banks and other financial institutions	2,130	1.04	3,453	2.07
Other liabilities	4	0.03	3	0.01
Off-balance-sheet items				
L/Gs and other payment commitments issued	–	–	6	0.02
L/Cs issued	200	0.13	900	0.53
Bank acceptance drafts	462	0.11	214	0.05
Non-principal-guaranteed wealth management products issued by the Bank	349	0.06	374	0.07

	2023		2022	
	Transaction amount	Percentage (%)(i)	Transaction amount	Percentage (%)(i)
Interest income	210	0.13	765	0.51
Interest expense	197	0.23	310	0.4
Fee and commission income	5	0.04	57	0.4
Investment loss/(gain)	133	1.41	345	5.52
profit or loss on changes in fair value	104	3.99	(41)	1.9
General and administrative expenses	903	3.09	889	3.15

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(3) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2023	2022
Remunerations	17	17

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2023.

(4) Transactions with related natural persons

As at 31 December 2023, the Bank's balance of loans to related natural persons totaled RMB132.62 million (31 December 2022: RMB137.64 million).

(5) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Group and general banking businesses, the Group has no related party transactions in 2023 and 2022.

XI. CONTINGENCIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2023, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB2,409 million (31 December 2022: RMB1,936 million). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

2. Capital expenditure commitments

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Capital commitments signed but not confirmed in the financial statements – commitment to purchase long-term assets	6,854	4,771	4,291	4,771

3. Credit commitments

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Bank acceptance drafts	420,564	468,421	420,672	468,617
L/Cs issued	149,424	170,757	149,424	170,757
L/Gs and other payment commitments issued	29,173	30,742	29,173	30,726
Irrevocable loan commitments	14,095	4,881	14,095	4,881
Unused credit card limit	343,372	307,094	343,372	307,094
Total	956,628	981,895	956,736	982,075

4. Financial lease commitments

On the balance sheet date, the minimum lease receipts under the irrevocable financial lease contracts signed by the Group as the leaser is as follows:

	The Group	
	31 December 2023	31 December 2022
Financial lease commitments	7,332	4,259
Total	7,332	4,259

5. Collateral

(1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Bonds	202,704	73,592	109,598	73,592
Bills	491	1,277	491	1,277
Total	203,195	74,869	110,089	74,869

On 31 December 2023, the book value of financial assets sold under agreements to repurchase of the Group was RMB202,827 million (31 December 2022: RMB73,631 million). On 31 December 2023, the book value of financial assets sold under agreements to repurchase of the Bank was RMB109,720 million (31 December 2022: RMB73,631 million).

In addition, partial bond investment of the Group is used as collateral for time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2023, the book value of the above collateral was RMB346,873 million (31 December 2022: RMB237,962 million).

Subsidiary of the Group Huaxia Financial Leasing took out a loan of RMB4,193 million (31 December 2022: RMB2,329 million) secured by a certificate of deposit worth RMB5,825 million (31 December 2022: RMB3,042 million).

(2) Collateral received

The Group accepts such pledge as securities in relevant business of purchase under agreements to resell. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2023 and 31 December 2022, the Group and the Bank held neither the pledged assets available for sale in the absence of counterparty's default nor the assets available for re-pledge in other transactions.

6. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance, the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2023, the Group was obliged to redeem the savings government bond principal of RMB6,996 million (31 December 2022: RMB7,138 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

7. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Entrusted loans	86,718	104,832	86,678	103,712
Entrusted loan funds	86,718	104,832	86,678	103,712

(2) Entrusted investments

	The Group and the Bank	
	31 December 2023	31 December 2022
Entrusted investments	591,948	513,397

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

XII. TRANSFER OF FINANCIAL ASSETS

Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors. The Group decides whether to combine the special-purpose trusts by taking into the following into full account: whether exercising power over such trusts, whether being entitled to variable returns by participating in the activities relating to such trusts; and whether being able to influence its returns by wielding its power over such trusts.

The Group transferred the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors, so the Group derecognized such financial assets. The Group conducted no asset-backed securities transactions in 2023. (as at the transfer date, the book value of the above securitized/structured financial assets of the Group for 2022 totaled RMB2 billion). As at 31 December 2023 and 31 December 2022, the Group held none of the above securities.

In case that the Group neither transfers nor retains substantially all the risks and rewards related to ownership of the financial asset and it does not waive control over the financial asset, the Group continues to recognize the asset based on the degree of subsequent involvement. The Group retained certain degree of continuing involvement in the transferred financial assets by holding some investments. On 31 December 2023, the value of assets the Group continued to recognize was RMB785 million (31 December 2022: RMB785 million).

Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT when the above financial assets are being transferred. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Group according to law, assets under the SPT shall not be subject to the liquidation. As the issuance consideration equaled to the book value of the transferred financial assets, the Group did not recognize any gains or losses from the transfer of such assets. The Group will charge certain fees as financial assets service provider subsequently. Please see Note XIII Structured Entities.

Repurchase agreements

A repurchase agreement means a deal in which the Group sells a financial asset while agreeing with the counterparty to buy back the asset (or substantially the same financial asset) at fixed price on a specified date in the future. As the buy-back price is fixed, the Group still takes nearly all the risk and return related to the ownership of the sold asset and thus the asset is not derecognized in financial statements. The Group recognizes a financial liability for the received consideration and records it as financial asset sold under agreements to repurchase at the same time.

For the book value of bond assets and bill assets sold by the Group under repurchase agreements as at 31 December 2023 and 31 December 2022, please see Note XI-5(1).

Credit assets transfer

In 2023, the Group disposed of loans with an original value of RMB3,013 million via transfer to third parties (2022: RMB11,471 million). The Group has transferred almost all the risk and return relating to the ownership of the above loans, and therefore they have been derecognized.

XIII. STRUCTURED ENTITIES

1. Interests and rights enjoyed in structured entities sponsored excluded from the consolidated financial statements

1.1 Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include asset-backed securities and non-principal-guaranteed wealth management products issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

The Group

	31 December 2023				
	Balance of products	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	591,948	873	873	1,407	Fee income, investment income and loss/(gain) on changes in fair value
Total	591,948	873	873	1,407	

	31 December 2022				
	Balance of products	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	513,397	1,275	1,275	3,368	Fee income, investment income and loss/(gain) on changes in fair value
Total	513,397	1,275	1,275	3,368	

As at 31 December 2023 and 31 December 2022, for the information on the Group's interests in unconsolidated structured entities set up in asset-backed transactions, please see Note "XII. Asset-backed securities". For the years 2023 and 2022, the Group's income from the above structured entities was not material.

As at 31 December 2023 and 31 December 2022, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

1.2 Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments. These structured entities mainly include asset-backed securities, wealth management products, financial institutions' asset management plans, fund investments and beneficiary rights of assets, whose nature and purpose are to manage investors' assets and charge management fees. They raise funds by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

	31 December 2023			
The Group	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	1,137	4,304	5,441
Asset management plan of financial institutions	25,449	115,408	–	140,857
Fund investments	194,767	–	–	194,767
Beneficiary rights of assets and others	3,609	22,696	–	26,305
Total	223,825	139,241	4,304	367,370

	31 December 2022			
The Group	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Asset-backed securities	–	1,157	19,938	21,095
Asset management plan of financial institutions	130,063	123,916	–	253,979
Fund investments	147,778	–	–	147,778
Beneficiary rights of assets and others	1,883	16,831	–	18,714
Total	279,724	141,904	19,938	441,566

Note: On 31 December 2023 and 31 December 2022, asset-backed securities were included in financial institution bonds under Note VIII-8 Debt Investments and financial institution bonds and bonds of public entities and quasi-governments under Note VIII-9 Other Debt Investments.

2. Consolidated structured entities

Consolidated structured entities of the Group are ABS trust plans and asset management plans of financial institutions. As the Group has power over such structured entities and is entitled to variable return by participating the relevant activities and able to influence the return amount through its right on the investee, the Group has control over such structured entities. The Group provided no financial support for consolidated structured entities.

XIV. RISK MANAGEMENT

1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Among them, market risk includes exchange rate risk, interest rate risk and other price risks.

2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework includes the following: The Group keeps improving its organizational structure for risk management organization structure that covers all types of business and risks, with clear responsibilities and effective checks and balances. The Board of Directors, the Board of Supervisors and the Senior Management assume the ultimate responsibility, supervisory responsibility and implementation responsibility for comprehensive risk management, respectively. The business departments, risk and compliance management departments audit departments play their respective roles to ensure that the "three lines of defense" for risk management are full-functioning to prevent and control risks through the business process.

3. Credit risk

3.1 Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances to customers, placements with banks and other financial institutions, interbank lending, bond investments, bill acceptance, letters of credit, and letters of guarantee. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk mitigation include acquisition of collateral and warranty. As for the off-balance-sheet businesses, the Group will charge security deposit in corresponding proportion based on the credit status of customers and business risk level to reduce the credit risk.

The Group classifies loans and advances to customers into five categories, namely pass, special – mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group measures and sets aside allowance for impairment losses using the ECL model method.

According to the *Rules on Risk Classification of Financial Assets of Commercial Banks* (Order No. 1 of China Banking and Insurance Regulatory Commission and People's Bank of China in 2023) issued by the former CBIRC and PBOC, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- Pass: The debtor is capable of meeting its contractual obligations and there is no objective evidence indicating that the principal, interests, and income cannot be paid in full and on time;
- Special-Mention: The debtor is currently capable of paying the principal, interests, and income notwithstanding a number of factors that might adversely affect its capacity to meet its contractual obligations;
- Substandard: The debtor is incapable of paying the principal, interests, or income in full or the financial assets have undergone credit impairment;
- Doubtful: The debtor is incapable of paying the principal, interests, or income in full and the financial assets have undergone significant credit impairment;
- Loss: None or only a minimum fraction of the financial assets can be recovered after exhausting all available options.

Measurement of expected credit loss

As from 1 January 2019, the Group measures the credit losses on debt instruments-related financial assets measured at amortized cost and those measured at fair value through other comprehensive income using the "ECL Model" in accordance with the New Financial Instrument Standards.

For financial assets subject to ECL measurement, the Group assesses whether the credit risk of relevant financial assets has increased significantly since initial recognition and uses the "three-stage" impairment model to measure their allowance for impairment losses respectively and recognize the ECL and its changes:

Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition, their ECL amount over the next 12 months should be recognized;

Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition, but there is no objective evidence of impairment, their ECL amount over the remaining life should be recognized;

Stage 3: For financial assets that have objective evidence of impairment on the balance sheet date, their ECL amount over the remaining life should be recognized.

Risk grouping

The Group classifies credit risk exposure into risk groups based on credit risk characteristics such as product type, customer type, customer industry and market distribution. Non-retail business risks are mainly grouped into "transportation, manufacturing, construction, real estate, wholesale and retail, financials, services and other industries". Retail business risks are mainly grouped into "residential mortgages, personal consumption loans, personal business loans, micro and small retail loans, internet loans, credit card (qualifying revolving retail) and others".

Significant increase in credit risk

The Group monitors all financial assets that meet impairment requirements to assess whether their credit risk has increased significantly or not since initial recognition. If the credit risk has increased significantly, the Group will measure allowance for impairment losses according to lifetime ECL rather than 12-month ECL.

If a financial instrument triggers one or more of the following criteria, the Group deems that the financial instrument has had a significant increase in credit risk:

i. The principal or interest is overdue for more than 30 days;

ii. The credit transaction is risk-classified as special mention;

iii. The debtor has undergone a deterioration in key financial indicators, with a marked rise in default risk;

iv. The credit risk has increased significantly in other circumstances.

Default and credit impairment

Where a financial instrument meets one or more of the following conditions, the Group will define the financial asset as credit-impaired:

i. The principal or interest is overdue for more than 90 days;

ii. The debtor goes bankrupt or suffers serious financial difficulties, expected to incur a major loss;

iii. The financial asset is classified by risk category as Substandard, Doubtful or Loss;

iv. Other objective evidences indicating impairment of the financial assets.

The financial instrument in Stage 1 that has experienced significant deterioration in credit risk should be moved to Stage 2. The financial instrument in Stage 2 can move back to Stage 1 if it has improved to the extent of no longer showing significant deterioration in credit risk. The financial instrument in Stage 3 cannot be moved directly to Stage 1.

Parameters of ECL measurement

According to whether credit risk has increased significantly and whether the asset has been credit-impaired or not, the Group measures allowance for impairment losses for different assets at an amount equal to 12-month or lifetime ECL. Relevant terms are defined as follows:

i. Probability of default means the likelihood that the borrower will be unable to meet its debt obligations in the coming 12 months or remaining lifetime;

ii. Loss given default means the Group's projected level of loss on exposure at the time of default. LGD varies with the type of counterparty, the way and priority of recourse and availability of collateral and other credit enhancements. LGD is the loss expressed as a percentage of total exposure at the time of default, which is measured based on the coming 12 months or lifetime;

iii. Exposure at default means the total amount of projected exposure of on-balance-sheet and off-balance-sheet items at the time of default. It reflects the total amount of possible losses. EAD generally includes used balance of credit, outstanding interest receivable and expected drawdown of unused credit limit and related possible expenses.

The Group has grouped exposures with similar risk characteristics into different categories to estimate the PD, LGD and EAD separately. The Group has acquired sufficient information to ensure their statistical reliability. The Group regularly monitors and back-tests the model rating outcomes according to actual defaults and losses of customers.

Forward-looking information

The Group uses forward-looking information that is available without undue cost or effort to measure ECL. The Group uses historical data on macroeconomic indicators and systemic factors and establishes the relationship between macroeconomic indicators or systemic factors and actual default rate using statistical methods, so as to adjust the default rate parameters of the expected loss model. The macroeconomic indicators or systemic factors used by the Group includes macro indicators such as gross domestic product (GDP), consumer price index (CPI) and producer price index (PPI). According to the predicted values of relevant indicators, the relationship between the macroeconomic indicators or systemic factors and actual default rate is established and different scenario weights are set to adjust the impact on the expected credit losses. The expected credit loss calculation involves forward-looking information.

In 2023, the significant macroeconomic indicators used by the Group in various macroeconomic scenarios included the quarterly year-on-year growth rate of GDP, cumulative year-on-year growth rate of GDP, CPI and PPI. When it comes to the quarterly year-on-year growth rate of GDP, its average forecast was about 5.57% under the baseline scenario at the end of 2023, which is 2.39 percentage points higher than that under the optimistic scenario and 0.97 percentage points lower than the forecast under the pessimistic scenario.

The Group determine economic forecasts and their weights under a variety of scenarios in the light of statistical analysis and expert judgment. The economic scenarios determined include baseline, optimistic and pessimistic scenarios, with stress scenarios also considered. In 2023, the baseline scenarios had the biggest weight, with other scenarios weighted between 26% and 35%. The Group measures the allowance for impairment losses according to the expected credit losses weighted by different scenarios.

The Group conducts sensitivity analysis on the major economic indicators used in the forward-looking information. When the predicted value of a major economic indicator changes by 10%, the expected credit loss changes by no more than 5% of the current expected credit loss measurement.

3.2 Maximum credit risk exposure

Without regard to the available collateral or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	The Group	
	31 December 2023	31 December 2022
Balances with central banks	200,303	173,348
Due from banks	17,758	18,277
Placements with banks and other financial institutions	50,314	57,234
Derivative financial assets	3,803	7,505
Financial assets purchased under agreements to resell	20,157	58,442
Loans and advances to customers	2,256,596	2,217,691
Held-for-trading financial assets	91,888	78,585
Debt investments	986,805	680,111
Other debt investments	295,408	248,105
Other financial assets	19,062	17,943
Sub-total	3,942,094	3,557,241
Off-balance-sheet credit risk exposure	962,523	983,703
Total	4,904,617	4,540,944

	The Bank	
	31 December 2023	31 December 2022
Balances with central banks	200,105	173,013
Due from banks	17,015	17,859
Placements with banks and other financial institutions	52,322	63,234
Derivative financial assets	3,803	7,505
Financial assets purchased under agreements to resell	18,558	58,442
Loans and advances to customers	2,147,887	2,106,464
Held-for-trading financial assets	91,888	78,585
Debt investments	747,542	677,795
Other debt investments	293,442	245,922
Other financial assets	5,191	7,191
Sub-total	3,577,753	3,436,010
Off-balance-sheet credit risk exposure	955,310	979,631
Total	4,533,063	4,415,641

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Among them, common methods include asking the borrower to pay security deposit or providing collateral or warranty. The amount and type of collateral required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collateral, the Group has formulated relevant guidelines and it takes the acceptable type and its value as the specific implementation standard.

The types of collateral accepted by the Group are as follows:

(1) Reverse repurchase transactions: bills, bonds, etc.;

(2) Corporate loans: house property, machinery equipment, land use rights, certificate of deposits and equity, etc.;

(3) Personal loan: house property and certificate of deposits, etc.

The Management regularly inspects the value of collateral and requires the counterparty to increase the collateral if necessary.

3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off – balance-sheet businesses such as bank acceptance drafts, L/Cs and L/Gs, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/Gs and other high-risk off-balance-sheet businesses.

3.5 Credit quality of financial instruments subject to impairment assessment

Allowances for impairment losses on financial assets measured at fair value through other comprehensive income are not included in book value.

	31 December 2023				
The Group	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	200,303	–	–	–	200,303
Due from banks	18,039	–	5	(286)	17,758
Placements with banks and other financial institutions	50,325	–	30	(41)	50,314
Financial assets purchased under agreements to resell	20,158	–	306	(307)	20,157
Loans and advances to customers measured at amortized cost	2,113,877	78,201	42,313	(61,587)	2,172,804
Debt investments	962,130	13,472	24,107	(12,904)	986,805
Other financial assets	18,920	1,955	1,031	(2,844)	19,062
Sub-total	3,383,752	93,628	67,792	(77,969)	3,467,203
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	83,792	–	–	(44)	83,792
Other debt investments	295,373	–	35	(250)	295,408
Sub-total	379,165	–	35	(294)	379,200
Off-balance-sheet items	962,193	1,321	446	(1,437)	962,523
Total	**4,725,110**	**94,949**	**68,273**	**(79,700)**	**4,808,926**

The Group	31 December 2022 Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	173,348	–	–	–	173,348
Due from banks	18,527	–	5	(255)	18,277
Placements with banks and other financial institutions	57,243	–	83	(92)	57,234
Financial assets purchased under agreements to resell	58,443	–	306	(307)	58,442
Loans and advances to customers measured at amortized cost	2,054,423	83,228	40,970	(63,661)	2,114,960
Debt investments	651,531	25,474	20,121	(17,015)	680,111
Other financial assets	16,193	912	3,856	(3,018)	17,943
Sub-total	3,029,708	109,614	65,341	(84,348)	3,120,315
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	102,731	–	–	(83)	102,731
Other debt investments	248,105	–	–	(227)	248,105
Sub-total	350,836	–	–	(310)	350,836
Off-balance-sheet items	984,027	1,487	640	(2,451)	983,703
Total	4,364,571	111,101	65,981	(87,109)	4,454,854

The Bank	31 December 2023				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	200,105	–	–	–	200,105
Due from banks	17,296	–	5	(286)	17,015
Placements with banks and other financial institutions	52,333	–	30	(41)	52,322
Financial assets purchased under agreements to resell	18,559	–	306	(307)	18,558
Loans and advances to customers measured at amortized cost	2,016,596	62,081	40,397	(54,979)	2,064,095
Debt investments	723,457	12,572	24,107	(12,594)	747,542
Other financial assets	5,202	1,760	949	(2,720)	5,191
Sub-total	3,033,548	76,413	65,794	(70,927)	3,104,828
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	83,792	–	–	(44)	83,792
Other debt investments	293,407	–	35	(250)	293,442
Sub-total	377,199	–	35	(294)	377,234
Off-balance-sheet items	954,969	1,321	446	(1,426)	955,310
Total	4,365,716	77,734	66,275	(72,647)	4,437,372

The Bank	31 December 2022 Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Book value
Financial assets measured at amortized cost:					
Balances with central banks	173,013	–	–	–	173,013
Due from banks	18,109	–	5	(255)	17,859
Placements with banks and other financial institutions	63,243	–	83	(92)	63,234
Financial assets purchased under agreements to resell	58,443	–	306	(307)	58,442
Loans and advances to customers measured at amortized cost	1,952,013	69,691	39,567	(57,538)	2,003,733
Debt investments	649,835	24,574	20,121	(16,735)	677,795
Other financial assets	7,948	897	1,263	(2,917)	7,191
Sub-total	2,922,604	95,162	61,345	(77,844)	3,001,267
Financial assets measured at fair value through other comprehensive income:					
Loans and advances to customers measured at fair value through other comprehensive income	102,731	–	–	(83)	102,731
Other debt investments	245,922	–	–	(227)	245,922
Sub-total	348,653	–	–	(310)	348,653
Off-balance-sheet items	979,948	1,487	640	(2,444)	979,631
Total	4,251,205	96,649	61,985	(80,598)	4,329,551

3.6 Loans and advances to customers

(1) The Loans and advances to customers are distributed by industry as follows:

	The Group			
	31 December 2023		31 December 2022	
Industry	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	451,697	19.56	431,098	18.97
Manufacturing	234,265	10.14	212,827	9.36
Water conservancy, environment and public facilities management	143,314	6.21	152,195	6.70
Wholesale and retail	136,057	5.89	139,364	6.13
Construction industry	105,762	4.58	104,395	4.59
Real estate	96,736	4.19	109,219	4.81
Electric power, heat, gas and water production and supply industry	68,781	2.98	64,644	2.84
Transportation, warehousing and post industry	65,982	2.86	60,599	2.67
Financial services	55,164	2.39	43,655	1.92
Mining industry	32,390	1.40	30,991	1.36
Other corporate industries	97,778	4.22	96,724	4.26
Discounted bills	96,787	4.19	120,261	5.29
Personal loans	724,870	31.39	707,001	31.10
Total	2,309,583	100.00	2,272,973	100.00

Industry	The Bank			
	31 December 2023		31 December 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Leasing and commercial services	427,704	19.49	412,972	19.16
Manufacturing	227,951	10.39	208,151	9.66
Wholesale and retail	134,605	6.13	137,499	6.38
Water conservancy, environment and public facilities management	111,759	5.09	109,169	5.06
Construction industry	102,567	4.67	102,147	4.74
Real estate	96,709	4.41	109,191	5.07
Financial services	55,164	2.51	43,655	2.03
Transportation, warehousing and post industry	49,154	2.24	44,967	2.09
Electric power, heat, gas and water production and supply industry	46,421	2.12	43,428	2.01
Mining industry	30,656	1.40	28,428	1.32
Other corporate industries	94,708	4.32	93,789	4.34
Discounted bills	96,787	4.41	120,261	5.58
Personal loans	720,086	32.82	701,982	32.56
Total	2,194,271	100.00	2,155,639	100.00

For breakdown of personal loans, please see Note VIII-6(1).

(2) The loans and advances to customers are distributed by region as follows:

Regions	The Group			
	31 December 2023		31 December 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	690,854	29.91	661,870	29.12
Beijing-Tianjin-Hebei Region	560,832	24.28	560,897	24.68
Central and Eastern China	354,765	15.36	345,359	15.19
Western China	284,608	12.32	284,960	12.54
Guangdong-Hong Kong-Macao Greater Bay Area	252,791	10.95	242,127	10.65
Northeastern China	50,421	2.19	60,426	2.66
Subsidiaries	115,312	4.99	117,334	5.16
Total	2,309,583	100.00	2,272,973	100.00

Regions	The Bank			
	31 December 2023		31 December 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Yangtze River Delta	690,854	31.48	661,870	30.71
Beijing-Tianjin-Hebei Region	560,832	25.56	560,897	26.02
Central and Eastern China	354,765	16.17	345,359	16.02
Western China	284,608	12.97	284,960	13.22
Guangdong-Hong Kong-Macao Greater Bay Area	252,791	11.52	242,127	11.23
Northeastern China	50,421	2.30	60,426	2.80
Total	2,194,271	100.00	2,155,639	100.00

(3) The loans and advances to customers are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Unsecured loans	641,308	563,093	617,386	537,784
Guaranteed loans	696,231	672,486	612,956	587,465
Collateral loans	972,044	1,037,394	963,929	1,030,390
Of which: Mortgage loans	713,081	735,100	706,557	729,867
Pledged loans	258,963	302,294	257,372	300,523
Total	2,309,583	2,272,973	2,194,271	2,155,639

(4) Overdue loans

	The Group				
	31 December 2023				
	Overdue for 1 day to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	4,715	5,229	2,112	581	12,637
Guaranteed loans	2,761	4,086	2,554	1,359	10,760
Mortgage loans	4,042	8,950	4,394	1,103	18,489
Pledged loans	501	1,758	1,001	161	3,421
Total	12,019	20,023	10,061	3,204	45,307

	The Group				
	31 December 2022				
	Overdue for 1 day to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	5,302	4,861	2,568	1,015	13,746
Guaranteed loans	2,514	3,398	4,863	1,509	12,284
Mortgage loans	2,728	4,246	5,587	1,586	14,147
Pledged loans	353	830	701	375	2,259
Total	10,897	13,335	13,719	4,485	42,436

	The Bank				
	31 December 2023				
	Overdue for 1 day to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	4,713	5,229	1,697	581	12,220
Guaranteed loans	1,965	3,368	2,554	1,358	9,245
Mortgage loans	3,833	8,805	4,379	1,103	18,120
Pledged loans	501	1,758	1,001	161	3,421
Total	11,012	19,160	9,631	3,203	43,006

	The Bank				
	31 December 2022				
	Overdue for 1 day to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	3,508	4,447	2,569	1,015	11,539
Guaranteed loans	2,327	3,212	4,333	1,508	11,380
Mortgage loans	2,701	4,236	5,575	1,586	14,098
Pledged loans	353	830	695	375	2,253
Total	8,889	12,725	13,172	4,484	39,270

Note: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(5) Credit quality of loans and advances to customers

	The Group				
	31 December 2023				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,404,917	66,407	29,597	(41,058)	1,459,863
Personal loans and advances to customers	700,667	11,487	12,716	(20,529)	704,341
Sub-total:	2,105,584	77,894	42,313	(61,587)	2,164,204
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	83,792	–	–	(44)	83,792
Total	2,189,376	77,894	42,313	(61,631)	2,247,996

	The Group				
	31 December 2022				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,356,002	76,928	30,311	(46,001)	1,417,240
Personal loans and advances to customers	690,368	5,974	10,659	(17,660)	689,341
Sub-total:	2,046,370	82,902	40,970	(63,661)	2,106,581
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	102,731	–	–	(83)	102,731
Total	2,149,101	82,902	40,970	(63,744)	2,209,312

	The Bank				
	31 December 2023				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,312,333	50,354	27,706	(34,559)	1,355,834
Personal loans and advances to customers	695,925	11,470	12,691	(20,420)	699,666
Sub-total:	2,008,258	61,824	40,397	(54,979)	2,055,500
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	83,792	–	–	(44)	83,792
Total	2,092,050	61,824	40,397	(55,023)	2,139,292

	The Bank				
	31 December 2022				
	Stage 1	Stage 2	Stage 3	Allowance for impairment losses	Amount at year end
Loans and advances to customers measured at amortized cost					
Corporate loans and advances to customers	1,258,515	63,483	28,928	(40,019)	1,310,907
Personal loans and advances to customers	685,423	5,920	10,639	(17,519)	684,463
Sub-total:	1,943,938	69,403	39,567	(57,538)	1,995,370
Loans and advances to customers measured at fair value through other comprehensive income					
Corporate loans and advances to customers	102,731	–	–	(83)	102,731
Total	2,046,669	69,403	39,567	(57,621)	2,098,101

Impairment of loans and advances to customers measured at fair value through other comprehensive income does not affect their book value.

Credit-impaired loans and advances to customers

	The Group		
	31 December 2023		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	29,597	12,716	42,313
Less: Allowance for impairment losses	(18,013)	(10,727)	(28,740)
Book value	**11,584**	**1,989**	**13,573**
Collateral value	**32,252**	**11,035**	**43,287**

	The Group		
	31 December 2022		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	30,311	10,659	40,970
Less: Allowance for impairment losses	(21,046)	(9,238)	(30,284)
Book value	**9,265**	**1,421**	**10,686**
Collateral value	**29,384**	**8,158**	**37,542**

	The Bank		
	31 December 2023		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	27,706	12,691	40,397
Less: Allowance for impairment losses	(16,444)	(10,712)	(27,156)
Book value	**11,262**	**1,979**	**13,241**
Collateral value	**32,008**	**10,977**	**42,985**

	The Bank		
	31 December 2022		
	Corporate loans and advances to customers	Personal loans and advances to customers	Total
Original value of credit-impaired loans	28,928	10,639	39,567
Less: Allowance for impairment losses	(20,116)	(9,226)	(29,342)
Book value	**8,812**	**1,413**	**10,225**
Collateral value	**29,323**	**8,113**	**37,436**

3.7 Credit quality of debt instruments

	The Group			
	31 December 2023			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	79	311,601	39,610	351,290
Bonds of public entities and quasi-governments	3,189	323,101	102,326	428,616
Bonds of financial institutions	8,355	12,344	95,656	116,355
Corporate bonds	51,465	152,315	53,936	257,716
Certificates of deposit with banks and other financial institutions	28,057	–	–	28,057
Asset management plan of financial institutions	–	120,141	–	120,141
Debt financing plans	–	38,073	–	38,073
Beneficiary rights of assets and others	–	27,307	–	27,307
Sub-total	91,145	984,882	291,528	1,367,555
Accrued interest	743	14,827	3,880	19,450
Allowance for impairment losses	–	(12,904)	–	(12,904)
Total	91,888	986,805	295,408	1,374,101

	The Group			
	31 December 2022			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	16	281,780	37,673	319,469
Bonds of public entities and quasi-governments	1,173	89,917	117,044	208,134
Bonds of financial institutions	7,676	21,610	56,665	85,951
Corporate bonds	52,085	84,216	27,440	163,741
Certificates of deposit with banks and other financial institutions	17,054	–	6,209	23,263
Asset management plan of financial institutions	–	131,865	–	131,865
Debt financing plans	–	55,558	–	55,558
Beneficiary rights of assets	–	22,368	–	22,368
Sub-total	78,004	687,314	245,031	1,010,349
Accrued interest	581	9,812	3,074	13,467
Allowance for impairment losses	–	(17,015)	–	(17,015)
Total	78,585	680,111	248,105	1,006,801

The Bank				
	31 December 2023			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	79	302,246	37,674	339,999
Bonds of public entities and quasi-governments	3,189	104,506	102,326	210,021
Bonds of financial institutions	8,355	12,344	95,656	116,355
Corporate bonds	51,465	144,812	53,936	250,213
Certificates of deposit with banks and other financial institutions	28,057	–	–	28,057
Asset management plan of financial institutions	–	120,141	–	120,141
Debt financing plans	–	38,073	–	38,073
Beneficiary rights of assets	–	26,308	–	26,308
Sub-total	91,145	748,430	289,592	1,129,167
Accrued interest	743	11,706	3,850	16,299
Allowance for impairment losses	–	(12,594)	–	(12,594)
Total	91,888	747,542	293,442	1,132,872

The Bank				
	31 December 2022			
	Held-for-trading financial assets	Debt investments	Other debt investments	Total
Government bonds	16	280,435	35,516	315,967
Bonds of public entities and quasi-governments	1,173	89,583	117,044	207,800
Bonds of financial institutions	7,676	21,610	56,665	85,951
Corporate bonds	52,085	83,316	27,440	162,841
Certificates of deposit with banks and other financial institutions	17,054	–	6,209	23,263
Asset management plan of financial institutions	–	131,865	–	131,865
Debt financing plans	–	55,558	–	55,558
Beneficiary rights of assets	–	22,368	–	22,368
Sub-total	78,004	684,735	242,874	1,005,613
Accrued interest	581	9,795	3,048	13,424
Allowance for impairment losses	–	(16,735)	–	(16,735)
Total	78,585	677,795	245,922	1,002,302

The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

	The Group					
	31 December 2023					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	230,403	120,707	180	–	–	351,290
Bonds of public entities and quasi-governments	421,191	7,425	–	–	–	428,616
Bonds of financial institutions	21,821	73,301	228	13,163	7,842	116,355
Corporate bonds	175,232	42,604	21,900	4,501	13,479	257,716
Certificates of deposit with banks and other financial institutions	28,057	–	–	–	–	28,057
Asset management plan of financial institutions	119,901	90	150	–	–	120,141
Debt financing plans	38,073	–	–	–	–	38,073
Beneficiary rights of assets and others	27,307	–	–	–	–	27,307
Total	1,061,985	244,127	22,458	17,664	21,321	1,367,555

	The Group					
	31 December 2022					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	203,144	116,309	–	16	–	319,469
Bonds of public entities and quasi-governments	176,669	31,319	146	–	–	208,134
Bonds of financial institutions	4,465	73,939	280	1,831	5,436	85,951
Corporate bonds	96,653	30,663	21,055	4,176	11,194	163,741
Certificates of deposit with banks and other financial institutions	21,158	–	–	688	1,417	23,263
Asset management plan of financial institutions	131,715	150	–	–	–	131,865
Debt financing plans	55,558	–	–	–	–	55,558
Beneficiary rights of assets	22,368	–	–	–	–	22,368
Total	711,730	252,380	21,481	6,711	18,047	1,010,349

	The Bank					
	31 December 2023					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	219,424	120,395	180	–	–	339,999
Bonds of public entities and quasi-governments	202,596	7,425	–	–	–	210,021
Bonds of financial institutions	21,821	73,301	228	13,163	7,842	116,355
Corporate bonds	167,729	42,604	21,900	4,501	13,479	250,213
Certificates of deposit with banks and other financial institutions	28,057	–	–	–	–	28,057
Asset management plan of financial institutions	119,901	90	150	–	–	120,141
Debt financing plans	38,073	–	–	–	–	38,073
Beneficiary rights of assets	26,308	–	–	–	–	26,308
Total	823,909	243,815	22,458	17,664	21,321	1,129,167

	The Bank					
	31 December 2022					
	Unrated	AAA	AA	A	Below A	Total
Government bonds	199,744	116,207	–	16	–	315,967
Bonds of public entities and quasi-governments	176,335	31,319	146	–	–	207,800
Bonds of financial institutions	4,465	73,939	280	1,831	5,436	85,951
Corporate bonds	95,754	30,663	21,055	4,175	11,194	162,841
Certificates of deposit with banks and other financial institutions	21,158	–	–	688	1,417	23,263
Asset management plan of financial institutions	131,715	150	–	–	–	131,865
Debt financing plans	55,558	–	–	–	–	55,558
Beneficiary rights of assets	22,368	–	–	–	–	22,368
Total	707,097	252,278	21,481	6,710	18,047	1,005,613

3.8 Renegotiated financial assets

The book balance of the financial assets which have been subject to the Group's concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2023	31 December 2022
Loans and advances to customers	7,630	2,662

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

4.1 Liquidity analysis

(1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	141,849	60,585	–	–	–	–	–	202,434
Due from banks	–	17,610	–	–	148	–	–	17,758
Placements with banks and other financial institutions	–	–	7,826	15,385	17,807	9,296	–	50,314
Derivative financial assets	–	–	1,117	1,226	1,059	401	–	3,803
Financial assets purchased under agreements to resell	–	–	15,476	4,503	178	–	–	20,157
Loans and advances to customers	18,171	–	222,334	168,248	721,581	720,795	405,467	2,256,596
Held-for-trading financial assets	1,379	221,247	4,402	5,022	53,078	22,958	8,500	316,586
Debt investments	7,760	–	19,543	30,865	147,837	442,553	338,247	986,805
Other debt investments	–	–	2,301	7,434	36,382	173,084	76,207	295,408
Other equity instrument investments	6,489	–	–	–	–	–	–	6,489
Other financial assets	2,555	9,704	–	–	–	6,803	–	19,062
Total financial assets	178,203	309,146	272,999	232,683	978,070	1,375,890	828,421	4,175,412

	The Group							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	10,267	26,921	116,373	–	–	153,561
Due to banks and other financial institutions	–	82,844	82,376	150,346	260,825	–	–	576,391
Placements from banks and other financial institutions	–	–	50,730	48,436	100,330	5,540	–	205,036
Derivative financial assets	–	–	855	1,348	1,140	557	–	3,900
Financial assets sold under agreements to repurchase	–	–	201,891	642	294	–	–	202,827
Deposits taken	–	947,227	197,817	170,308	457,721	392,808	–	2,165,881
Lease liabilities	–	–	195	223	1,040	3,303	866	5,627
Debt obligations payable	–	–	10,935	123,311	264,835	163,234	30,328	592,643
Other financial liabilities	–	6,589	1,125	326	808	3,597	2,054	14,499
Total financial liabilities	–	1,036,660	556,191	521,861	1,203,366	569,039	33,248	3,920,365
Net position	178,203	(727,514)	(283,192)	(289,178)	(225,296)	806,851	795,173	255,047

	The Group							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	151,907	23,476	–	–	–	–	–	175,383
Due from banks	–	18,277	–	–	–	–	–	18,277
Placements with banks and other financial institutions	–	–	13,183	12,141	20,610	11,300	–	57,234
Derivative financial assets	–	–	1,430	3,691	2,312	72	–	7,505
Financial assets purchased under agreements to resell	–	–	41,459	8,580	8,403	–	–	58,442
Loans and advances to customers	14,311	–	213,254	161,277	691,916	702,365	434,568	2,217,691
Held-for-trading financial assets	1,047	172,146	5,204	11,316	40,101	21,950	107,820	359,584
Debt investments	7,333	–	9,818	27,968	143,114	378,034	113,844	680,111
Other debt investments	–	–	3,751	9,841	33,879	135,446	65,188	248,105
Other equity instrument investments	7,131	–	–	–	–	–	–	7,131
Other financial assets	1,780	8,004	–	–	–	8,159	–	17,943
Total financial assets	183,509	221,903	288,099	234,814	940,335	1,257,326	721,420	3,847,406

	The Group							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	5,138	–	95,698	–	–	100,836
Due to banks and other financial institutions	–	46,599	109,142	169,396	234,820	–	–	559,957
Placements from banks and other financial institutions	–	–	21,542	29,985	113,378	1,937	–	166,842
Derivative financial assets	–	–	990	2,647	2,676	46	–	6,359
Financial assets sold under agreements to repurchase	–	–	69,359	250	4,022	–	–	73,631
Deposits taken	–	1,013,523	89,111	111,458	489,016	391,561	–	2,094,669
Lease liabilities	–	–	221	219	1,116	3,461	965	5,982
Debt obligations payable	–	–	15,848	126,811	254,725	102,684	30,329	530,397
Other financial liabilities	–	12,374	1,090	319	790	3,562	2,020	20,155
Total financial liabilities	–	1,072,496	312,441	441,085	1,196,241	503,251	33,314	3,558,828
Net position	183,509	(850,593)	(24,342)	(206,271)	(255,906)	754,075	688,106	288,578

	The Bank							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	141,764	60,466	–	–	–	–	–	202,230
Due from banks	–	16,995	–	20	–	–	–	17,015
Placements with banks and other financial institutions	–	–	9,834	15,385	17,807	9,296	–	52,322
Derivative financial assets	–	–	1,117	1,226	1,059	401	–	3,803
Financial assets purchased under agreements to resell	–	–	13,877	4,503	178	–	–	18,558
Loans and advances to customers	17,511	–	222,055	167,573	717,717	658,099	364,932	2,147,887
Held-for-trading financial assets	1,379	219,680	4,402	5,022	53,078	31,649	141,387	456,597
Debt investments	7,760	–	18,412	30,762	147,032	430,880	112,696	747,542
Other debt investments	–	–	2,297	7,424	36,325	171,546	75,850	293,442
Other equity instrument investments	6,081	–	–	–	–	–	–	6,081
Other financial assets	2,328	1,884	–	–	–	979	–	5,191
Total financial assets	176,823	299,025	271,994	231,915	973,196	1,302,850	694,865	3,950,668

	The Bank							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	10,267	26,921	116,373	–	–	153,561
Due to banks and other financial institutions	–	83,177	82,376	150,346	260,825	–	–	576,724
Placements from banks and other financial institutions	–	–	36,914	17,842	10,449	–	–	65,205
Derivative financial assets	–	–	855	1,348	1,140	557	–	3,900
Financial assets sold under agreements to repurchase	–	–	108,784	642	294	–	–	109,720
Deposits taken	–	946,703	197,628	170,172	457,367	392,222	–	2,164,092
Lease liabilities	–	–	190	217	1,000	3,224	840	5,471
Debt obligations payable	–	–	8,891	123,311	262,769	163,234	30,328	588,533
Other financial liabilities	–	6,059	1,088	167	435	40	626	8,415
Total financial liabilities	–	1,035,939	446,993	490,966	1,110,652	559,277	31,794	3,675,621
Net position	176,823	(736,914)	(174,999)	(259,051)	(137,456)	743,573	663,071	275,047

	The Bank							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	151,801	23,236	–	–	–	–	–	175,037
Due from banks	–	17,778	–	81	–	–	–	17,859
Placements with banks and other financial institutions	–	–	13,183	12,141	26,610	11,300	–	63,234
Derivative financial assets	–	–	1,430	3,691	2,312	72	–	7,505
Financial assets purchased under agreements to resell	–	–	41,459	8,580	8,403	–	–	58,442
Loans and advances to customers	12,171	–	213,031	160,893	688,860	632,651	398,858	2,106,464
Held-for-trading financial assets	1,047	170,457	5,204	11,316	40,102	21,950	107,820	357,896
Debt investments	7,333	–	9,818	27,968	143,073	377,679	111,924	677,795
Other debt investments	–	–	3,727	9,828	33,869	134,508	63,990	245,922
Other equity instrument investments	6,726	–	–	–	–	–	–	6,726
Other financial assets	1,744	4,409	–	–	–	1,038	–	7,191
Total financial assets	180,822	215,880	287,852	234,498	943,229	1,179,198	682,592	3,724,071

	The Bank							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	5,138	–	95,697	–	–	100,835
Due to banks and other financial institutions	–	53,003	109,142	169,396	234,820	–	–	566,361
Placements from banks and other financial institutions	–	–	18,541	21,674	17,835	–	–	58,050
Derivative financial assets	–	–	990	2,647	2,676	46	–	6,359
Financial assets sold under agreements to repurchase	–	–	69,359	250	4,022	–	–	73,631
Deposits taken	–	1,012,569	89,013	111,344	488,620	390,899	–	2,092,445
Lease liabilities	–	–	215	212	1,080	3,372	936	5,815
Debt obligations payable	–	–	15,848	126,811	252,703	98,573	30,329	524,264
Other financial liabilities	–	11,936	1,052	161	421	39	606	14,215
Total financial liabilities	–	1,077,508	309,298	432,495	1,097,874	492,929	31,871	3,441,975
Net position	180,822	(861,628)	(21,446)	(197,997)	(154,645)	686,269	650,721	282,096

(2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

	The Group							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	141,849	60,585	–	799	2,417	–	–	205,650
Due from banks	–	17,610	–	–	152	–	–	17,762
Placements with banks and other financial institutions	–	–	7,900	15,673	18,347	9,439	–	51,359
Financial assets purchased under agreements to resell	–	–	15,477	4,523	180	–	–	20,180
Loans and advances to customers	18,228	–	230,244	180,925	769,783	848,240	505,347	2,552,767
Held-for-trading financial assets	1,379	221,247	4,420	5,099	54,534	24,857	8,813	320,349
Debt investments	7,760	–	20,598	36,276	170,301	512,751	387,629	1,135,315
Other debt investments	–	–	2,356	8,506	40,291	192,912	86,415	330,480
Other equity instrument investments	6,489	–	–	–	–	–	–	6,489
Other financial assets	2,555	9,705	–	1	41	7,195	–	19,497
Total financial assets	178,260	309,147	280,995	251,802	1,056,046	1,595,394	988,204	4,659,848

	The Group							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	10,279	27,039	118,714	–	–	156,032
Due to banks and other financial institutions	–	83,297	83,357	151,889	262,708	–	–	581,251
Placements from banks and other financial institutions	–	–	50,828	48,759	102,096	5,758	–	207,441
Financial assets sold under agreements to repurchase	–	–	201,910	647	296	–	–	202,853
Deposits taken	–	947,227	201,786	174,967	474,588	431,207	–	2,229,775
Lease liabilities	–	–	210	239	1,116	3,631	998	6,194
Debt obligations payable	–	–	10,942	124,295	271,053	163,234	30,328	599,852
Other financial liabilities	–	6,589	1,125	326	808	3,597	2,054	14,499
Total financial liabilities	–	1,037,113	560,437	528,161	1,231,379	607,427	33,380	3,997,897
Net position	178,260	(727,966)	(279,442)	(276,359)	(175,333)	987,967	954,824	661,951
Derivative financial instruments settled on a net basis	–	–	97	(235)	(50)	(154)	–	(342)
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	115,593	138,048	153,339	2,468	–	409,448
Cash outflows	–	–	(115,428)	(137,935)	(153,370)	(2,470)	–	(409,203)

	The Group							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	151,907	23,476	–	687	2,077	–	–	178,147
Due from banks	–	18,278	–	–	–	–	–	18,278
Placements with banks and other financial institutions	–	–	13,278	12,444	21,291	11,427	–	58,440
Financial assets purchased under agreements to resell	–	–	41,822	8,692	8,512	–	–	59,026
Loans and advances to customers	14,460	–	221,649	174,637	742,871	835,060	536,599	2,525,276
Held-for-trading financial assets	1,047	172,146	5,227	11,357	41,105	23,588	107,937	362,407
Debt investments	7,333	–	10,624	31,193	160,292	417,538	142,885	769,865
Other debt investments	–	–	3,812	10,371	38,248	153,102	75,279	280,812
Other equity instrument investments	7,131	–	–	–	–	–	–	7,131
Other financial assets	1,780	8,010	–	–	–	8,404	–	18,194
Total financial assets	183,658	221,910	296,412	249,381	1,014,396	1,449,119	862,700	4,277,576

	The Group							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	5,145	10	97,848	–	–	103,003
Due to banks and other financial institutions	–	46,610	110,018	170,680	235,707	–	–	563,015
Placements from banks and other financial institutions	–	–	21,697	30,341	114,998	2,040	–	169,076
Financial assets sold under agreements to repurchase	–	–	69,426	253	4,113	–	–	73,792
Deposits taken	–	1,013,524	91,065	114,353	506,253	432,936	–	2,158,131
Lease liabilities	–	–	237	235	1,190	3,804	1,130	6,596
Debt obligations payable	–	–	15,872	127,998	258,952	116,614	30,329	549,765
Other financial liabilities	–	12,377	1,090	319	790	3,562	2,020	20,158
Total financial liabilities	–	1,072,511	314,550	444,189	1,219,851	558,956	33,479	3,643,536
Net position	183,658	(850,601)	(18,138)	(194,808)	(205,455)	890,163	829,221	634,040
Derivative financial instruments settled on a net basis	–	–	287	959	(327)	17	–	936
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	17,112	36,867	25,755	2,893	–	82,627
Cash outflows	–	–	(16,959)	(36,782)	(25,792)	(2,884)	–	(82,417)

	The Bank							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	141,764	60,466	–	799	2,416	–	–	205,445
Due from banks	–	17,002	–	20	–	–	–	17,022
Placements with banks and other financial institutions	–	–	9,913	15,673	18,347	9,439	–	53,372
Financial assets purchased under agreements to resell	–	–	13,878	4,523	180	–	–	18,581
Loans and advances to customers	17,567	–	229,955	180,233	765,869	785,486	464,775	2,443,885
Held-for-trading financial assets	1,379	219,680	4,420	5,099	54,534	33,549	141,698	460,359
Debt investments	7,760	–	19,041	34,836	163,547	471,118	141,501	837,803
Other debt investments	–	–	2,352	8,494	40,209	191,203	86,031	328,289
Other equity instrument investments	6,081	–	–	–	–	–	–	6,081
Other financial assets	2,328	1,884	–	–	–	979	–	5,191
Total financial assets	176,879	299,032	279,559	249,677	1,045,102	1,491,774	834,005	4,376,028

	The Bank							
	31 December 2023							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	10,279	27,039	118,714	–	–	156,032
Due to banks and other financial institutions	–	83,631	83,357	151,889	262,707	–	–	581,584
Placements from banks and other financial institutions	–	–	36,980	18,003	10,668	–	–	65,651
Financial assets sold under agreements to repurchase	–	–	108,803	647	296	–	–	109,746
Deposits taken	–	946,703	201,590	174,823	474,204	430,553	–	2,227,873
Lease liabilities	–	–	204	233	1,073	3,545	968	6,023
Debt obligations payable	–	–	8,898	124,295	268,986	163,234	30,328	595,741
Other financial liabilities	–	6,059	1,088	167	435	40	626	8,415
Total financial liabilities	–	1,036,393	451,199	497,096	1,137,083	597,372	31,922	3,751,065
Net position	176,879	(737,361)	(171,640)	(247,419)	(91,981)	894,402	802,083	624,963
Derivative financial instruments settled on a net basis	–	–	97	(235)	(50)	(154)	–	(342)
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	115,593	138,048	153,339	2,468	–	409,448
Cash outflows	–	–	(115,428)	(137,935)	(153,370)	(2,470)	–	(409,203)

	The Bank							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	151,801	23,236	–	686	2,075	–	–	177,798
Due from banks	–	17,779	–	81	–	–	–	17,860
Placements with banks and other financial institutions	–	–	13,322	12,444	27,335	11,427	–	64,528
Financial assets purchased under agreements to resell	–	–	41,822	8,692	8,512	–	–	59,026
Loans and advances to customers	12,312	–	221,413	174,231	739,746	765,256	500,835	2,413,793
Held-for-trading financial assets	1,047	170,457	5,227	11,357	41,105	23,588	107,937	360,718
Debt investments	7,333	–	10,624	31,193	160,252	417,183	140,971	767,556
Other debt investments	–	–	3,788	10,353	38,209	151,955	73,966	278,271
Other equity instrument investments	6,726	–	–	–	–	–	–	6,726
Other financial assets	1,744	4,409	–	–	–	1,038	–	7,191
Total financial assets	180,963	215,881	296,196	249,037	1,017,234	1,370,447	823,709	4,153,467

	The Bank							
	31 December 2022							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial liabilities								
Due to central banks	–	–	5,144	9	97,848	–	–	103,001
Due to banks and other financial institutions	–	53,014	110,018	170,680	235,707	–	–	569,419
Placements from banks and other financial institutions	–	–	18,557	21,819	18,247	–	–	58,623
Financial assets sold under agreements to repurchase	–	–	69,426	253	4,113	–	–	73,792
Deposits taken	–	1,012,569	90,963	114,232	505,815	432,174	–	2,155,753
Lease liabilities	–	–	230	228	1,151	3,707	1,094	6,410
Debt obligations payable	–	–	15,872	127,910	256,929	112,080	30,329	543,120
Other financial liabilities	–	11,937	1,052	161	421	39	606	14,216
Total financial liabilities	–	1,077,520	311,262	435,292	1,120,231	548,000	32,029	3,524,334
Net position	180,963	(861,639)	(15,066)	(186,255)	(102,997)	822,447	791,680	629,133
Derivative financial instruments settled on a net basis	–	–	287	959	(327)	17	–	936
Derivative financial instruments settled on a gross basis								
Of which: Cash inflows	–	–	17,112	36,867	25,755	2,893	–	82,627
Cash outflows	–	–	(16,959)	(36,782)	(25,792)	(2,884)	–	(82,417)

4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance drafts, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

	The Group			
	31 December 2023			
	No more than one year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	420,564	–	–	420,564
L/Cs issued	149,197	227	–	149,424
L/Gs and other payment commitments issued	15,426	13,564	183	29,173
Irrevocable loan commitments	11,318	9,040	1,069	21,427
Unused credit card limit	343,372	–	–	343,372
Total	939,877	22,831	1,252	963,960

	The Group			
	31 December 2022			
	No more than one year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	468,421	–	–	468,421
L/Cs issued	169,766	991	–	170,757
L/Gs and other payment commitments issued	16,693	13,828	221	30,742
Irrevocable loan commitments	7,223	1,004	913	9,140
Unused credit card limit	307,094	–	–	307,094
Total	969,197	15,823	1,134	986,154

	The Bank			
	31 December 2023			
	No more than one year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	420,672	–	–	420,672
L/Cs issued	149,197	227	–	149,424
L/Gs and other payment commitments issued	15,426	13,564	183	29,173
Irrevocable loan commitments	3,986	9,040	1,069	14,095
Unused credit card limit	343,372	–	–	343,372
Total	932,653	22,831	1,252	956,736

	The Bank			
	31 December 2022			
	No more than one year	1-5 years	Over 5 years	Total
Bank acceptance drafts	468,617	–	–	468,617
L/Cs issued	169,766	991	–	170,757
L/Gs and other payment commitments issued	16,677	13,828	221	30,726
Irrevocable loan commitments	2,964	1,004	913	4,881
Unused credit card limit	307,094	–	–	307,094
Total	965,118	15,823	1,134	982,075

5. Market risk

Market risk means the possibility of loss to the Group's on – and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

	The Group				
	31 December 2023				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash on hand and balances with central banks	195,342	7,037	25	30	202,434
Due from banks	5,601	7,518	168	4,471	17,758
Placements with banks and other financial institutions	46,415	3,899	–	–	50,314
Derivative financial assets	347	3,232	76	148	3,803
Financial assets purchased under agreements to resell	20,157	–	–	–	20,157
Loans and advances to customers	2,202,977	30,360	18,501	4,758	2,256,596
Held-for-trading financial assets	311,398	5,184	–	4	316,586
Debt investments	949,348	33,597	–	3,860	986,805
Other debt investments	252,549	36,789	3,695	2,375	295,408
Other equity instrument investments	6,469	15	5	–	6,489
Other financial assets	15,340	2,848	195	679	19,062
Total financial assets	4,005,943	130,479	22,665	16,325	4,175,412

	The Group				
	31 December 2023				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Due to central banks	153,561	–	–	–	153,561
Due to banks and other financial institutions	573,930	1,271	–	1,190	576,391
Placements from banks and other financial institutions	139,268	53,072	9,810	2,886	205,036
Derivative financial assets	360	3,303	57	180	3,900
Financial assets sold under agreements to repurchase	199,496	3,331	–	–	202,827
Deposits taken	2,075,898	70,181	2,868	16,934	2,165,881
Lease liabilities	5,586	–	40	1	5,627
Debt obligations payable	589,419	2,781	–	443	592,643
Other financial liabilities	13,296	736	459	8	14,499
Total financial liabilities	3,750,814	134,675	13,234	21,642	3,920,365
Net exposure	255,129	(4,196)	9,431	(5,317)	255,047

	The Group				
	31 December 2022				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash on hand and balances with central banks	154,498	20,824	32	29	175,383
Due from banks	4,854	6,827	226	6,370	18,277
Placements with banks and other financial institutions	50,487	6,371	177	199	57,234
Derivative financial assets	50	6,971	85	399	7,505
Financial assets purchased under agreements to resell	58,442	–	–	–	58,442
Loans and advances to customers	2,177,056	27,835	9,745	3,055	2,217,691
Held-for-trading financial assets	357,835	1,749	–	–	359,584
Debt investments	640,713	35,325	–	4,073	680,111
Other debt investments	220,038	27,409	176	482	248,105
Other equity instrument investments	7,098	11	22	–	7,131
Other financial assets	16,028	1,795	79	41	17,943
Total financial assets	3,687,099	135,117	10,542	14,648	3,847,406

	The Group				
	31 December 2022				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Due to central banks	100,836	–	–	–	100,836
Due to banks and other financial institutions	559,948	7	–	2	559,957
Placements from banks and other financial institutions	114,778	46,233	1,908	3,923	166,842
Derivative financial assets	50	5,851	85	373	6,359
Financial assets sold under agreements to repurchase	68,196	5,435	–	–	73,631
Deposits taken	2,042,619	38,515	1,801	11,734	2,094,669
Lease liabilities	5,912	–	70	–	5,982
Debt obligations payable	525,190	2,338	–	2,869	530,397
Other financial liabilities	15,918	991	18	3,228	20,155
Total financial liabilities	3,433,447	99,370	3,882	22,129	3,558,828
Net exposure	253,652	35,747	6,660	(7,481)	288,578

	The Bank				
	31 December 2023				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash on hand and balances with central banks	195,137	7,037	25	31	202,230
Due from banks	5,099	7,297	168	4,451	17,015
Placements with banks and other financial institutions	48,423	3,899	–	–	52,322
Derivative financial assets	347	3,232	76	148	3,803
Financial assets purchased under agreements to resell	18,558	–	–	–	18,558
Loans and advances to customers	2,095,312	29,316	18,501	4,758	2,147,887
Held-for-trading financial assets	451,409	5,184	–	4	456,597
Debt investments	710,085	33,597	–	3,860	747,542
Other debt investments	250,582	36,789	3,695	2,376	293,442
Other equity instrument investments	6,061	15	5	–	6,081
Other financial assets	3,633	1,145	195	218	5,191
Total financial assets	3,784,646	127,511	22,665	15,846	3,950,668

	The Bank				
	31 December 2023				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Due to central banks	153,561	–	–	–	153,561
Due to banks and other financial institutions	573,910	1,271	–	1,543	576,724
Placements from banks and other financial institutions	3,669	48,840	9,810	2,886	65,205
Derivative financial assets	360	3,303	57	180	3,900
Financial assets sold under agreements to repurchase	106,389	3,331	–	–	109,720
Deposits taken	2,077,727	70,181	2,868	13,316	2,164,092
Lease liabilities	5,430	–	40	1	5,471
Debt obligations payable	585,308	2,781	–	444	588,533
Other financial liabilities	7,346	602	459	8	8,415
Total financial liabilities	3,513,700	130,309	13,234	18,378	3,675,621
Net exposure	270,946	(2,798)	9,431	(2,532)	275,047

	The Bank				
	31 December 2022				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Cash on hand and balances with central banks	154,153	20,824	32	28	175,037
Due from banks	4,447	6,816	226	6,370	17,859
Placements with banks and other financial institutions	56,487	6,371	177	199	63,234
Derivative financial assets	50	6,971	85	399	7,505
Financial assets purchased under agreements to resell	58,442	–	–	–	58,442
Loans and advances to customers	2,066,475	27,190	9,745	3,054	2,106,464
Held-for-trading financial assets	356,147	1,749	–	–	357,896
Debt investments	638,397	35,325	–	4,073	677,795
Other debt investments	217,855	27,409	176	482	245,922
Other equity instrument investments	6,693	11	22	–	6,726
Other financial assets	6,319	758	79	35	7,191
Total financial assets	3,565,465	133,424	10,542	14,640	3,724,071

	The Bank				
	31 December 2022				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	Total
Due to central banks	100,835	–	–	–	100,835
Due to banks and other financial institutions	566,352	7	–	2	566,361
Placements from banks and other financial institutions	8,016	44,203	1,908	3,923	58,050
Derivative financial assets	50	5,851	85	373	6,359
Financial assets sold under agreements to repurchase	68,196	5,435	–	–	73,631
Deposits taken	2,040,395	38,515	1,801	11,734	2,092,445
Lease liabilities	5,745	–	70	–	5,815
Debt obligations payable	519,057	2,338	–	2,869	524,264
Other financial liabilities	10,031	938	18	3,228	14,215
Total financial liabilities	**3,318,677**	**97,287**	**3,882**	**22,129**	**3,441,975**
Net exposure	**246,788**	**36,137**	**6,660**	**(7,489)**	**282,096**

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

	The Group and the Bank			
	31 December 2023		31 December 2022	
	Pre-tax profit	Interests	Pre-tax profit	Interests
Appreciation by 5%	893	892	(793)	(794)
Depreciation by 5%	(893)	(892)	793	794

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

5.2 Interest rate risk

Interest rate risk is defined as the risk of loss in the overall gain and economic value arising from adverse movements in interest rate and term structure. Interest rate risks are divided into interest rate risk in the trading book and interest rate risk in the banking book.

Interest rate risk in the trading book

During the reporting period, the Group controlled the interest rate risk in the trading book by setting limits on exposure, stop-loss, interest rate sensitivity and value at risk (VaR), strengthening market assessment and mark-to-market management, conducting stress tests in a timely manner and flexibly adjusting durations. During the reporting period, all the indicators fell within the market risk appetite and limit and the interest rate risk in the trading book remained under control.

Interest rate risk in the banking book (IRRBB)

During the reporting period, the Group implemented a prudent IRRBB appetite and risk management strategy. The Group controlled the IRRBB by closely monitoring the movements in domestic and foreign policies and interest rates and making well-timed improvements in the structure of assets and liabilities through gap analysis, sensitivity analysis and stress testing and other methods in coordination with the internal fund transfer pricing (FTP) policy. During the reporting period, the Group maintained stability in all monitoring indicators and the IRRBB was basically kept under control.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

	The Group						
	31 December 2023						
	Within 1 month	1 – 3 months	3 – 12 month	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	197,497	–	–	–	–	4,937	202,434
Due from banks	15,620	–	148	–	–	1,990	17,758
Placements with banks and other financial institutions	7,817	15,349	17,807	9,296	–	45	50,314
Derivative financial assets	–	–	–	–	–	3,803	3,803
Financial assets purchased under agreements to resell	15,450	4,496	178	–	–	33	20,157
Loans and advances to customers	806,663	321,628	843,616	199,729	58,189	26,771	2,256,596
Held-for-trading financial assets	219,645	4,866	52,642	22,929	8,501	8,003	316,586
Debt investments	18,634	29,021	145,143	437,259	334,161	22,587	986,805
Other debt investments	1,716	6,399	34,126	173,080	76,207	3,880	295,408
Other equity instrument investments	–	–	–	–	–	6,489	6,489
Other financial assets	250	–	–	6,062	–	12,750	19,062
Total financial assets	1,283,292	381,759	1,093,660	848,355	477,058	91,288	4,175,412
Due to central banks	10,000	26,367	115,792	–	–	1,402	153,561
Due to banks and other financial institutions	165,297	150,083	259,468	–	–	1,543	576,391
Placements from banks and other financial institutions	50,480	48,176	99,677	5,468	–	1,235	205,036
Derivative financial assets	–	–	–	–	–	3,900	3,900
Financial assets sold under agreements to repurchase	201,818	637	294	–	–	78	202,827
Deposits taken	1,139,653	166,199	446,190	377,905	–	35,934	2,165,881
Lease liabilities	195	223	1,040	3,303	866	–	5,627
Debt obligations payable	10,891	122,556	264,597	161,000	30,000	3,599	592,643
Other financial liabilities	–	–	–	–	–	14,499	14,499
Total financial liabilities	1,578,334	514,241	1,187,058	547,676	30,866	62,190	3,920,365
Net position	(295,042)	(132,482)	(93,398)	300,679	446,192	29,098	255,047

	The Group						
	31 December 2022						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	169,763	–	–	–	–	5,620	175,383
Due from banks	16,959	–	–	–	–	1,318	18,277
Placements with banks and other financial institutions	13,164	12,100	20,610	11,300	–	60	57,234
Derivative financial assets	–	–	–	–	–	7,505	7,505
Financial assets purchased under agreements to resell	41,400	8,493	8,359	–	–	190	58,442
Loans and advances to customers	780,119	314,022	815,153	227,875	57,832	22,690	2,217,691
Held-for-trading financial assets	173,514	11,139	39,769	21,950	107,819	5,393	359,584
Debt investments	9,137	26,471	140,717	374,110	112,531	17,145	680,111
Other debt investments	3,185	8,713	32,498	135,446	65,189	3,074	248,105
Other equity instrument investments	–	–	–	–	–	7,131	7,131
Other financial assets	188	–	–	3,049	–	14,706	17,943
Total financial assets	1,207,429	380,938	1,057,106	773,730	343,371	84,832	3,847,406
Due to central banks	5,000	–	95,284	–	–	552	100,836
Due to banks and other financial institutions	155,189	168,825	234,181	–	–	1,762	559,957
Placements from banks and other financial institutions	22,100	29,757	112,783	1,258	–	944	166,842
Derivative financial assets	–	–	–	–	–	6,359	6,359
Financial assets sold under agreements to repurchase	69,314	248	3,999	–	–	70	73,631
Deposits taken	1,035,351	131,769	490,143	406,725	1	30,680	2,094,669
Lease liabilities	221	219	1,116	3,461	965	–	5,982
Debt obligations payable	15,848	126,809	254,254	101,000	30,000	2,486	530,397
Other financial liabilities	3,897	–	–	–	–	16,258	20,155
Total financial liabilities	1,306,920	457,627	1,191,760	512,444	30,966	59,111	3,558,828
Net position	(99,491)	(76,689)	(134,654)	261,286	312,405	25,721	288,578

	The Bank						
	31 December 2023						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	197,299	–	–	–	–	4,931	202,230
Due from banks	15,008	20	–	–	–	1,987	17,015
Placements with banks and other financial institutions	9,817	15,349	17,807	9,296	–	53	52,322
Derivative financial assets	–	–	–	–	–	3,803	3,803
Financial assets purchased under agreements to resell	13,851	4,496	178	–	–	33	18,558
Loans and advances to customers	806,384	320,953	839,755	137,034	17,655	26,106	2,147,887
Held-for-trading financial assets	218,999	4,866	52,642	31,622	141,385	7,083	456,597
Debt investments	17,505	28,921	144,342	425,810	111,498	19,466	747,542
Other debt investments	1,716	6,399	34,085	171,542	75,850	3,850	293,442
Other equity instrument investments	–	–	–	–	–	6,081	6,081
Other financial assets	250	–	–	238	–	4,703	5,191
Total financial assets	1,280,829	381,004	1,088,809	775,542	346,388	78,096	3,950,668
Due to central banks	10,000	26,367	115,792	–	–	1,402	153,561
Due to banks and other financial institutions	165,630	150,083	259,468	–	–	1,543	576,724
Placements from banks and other financial institutions	36,729	17,689	10,346	–	–	441	65,205
Derivative financial assets	–	–	–	–	–	3,900	3,900
Financial assets sold under agreements to repurchase	108,711	637	294	–	–	78	109,720
Deposits taken	1,138,950	166,070	445,856	377,345	–	35,871	2,164,092
Lease liabilities	190	217	1,000	3,224	840	–	5,471
Debt obligations payable	8,891	122,556	262,597	161,000	30,000	3,489	588,533
Other financial liabilities	–	–	–	–	–	8,415	8,415
Total financial liabilities	1,469,101	483,619	1,095,353	541,569	30,840	55,139	3,675,621
Net position	(188,272)	(102,615)	(6,544)	233,973	315,548	22,957	275,047

	The Bank						
	31 December 2022						
	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	169,539	–	–	–	–	5,498	175,037
Due from banks	16,505	80	–	–	–	1,274	17,859
Placements with banks and other financial institutions	13,164	12,100	26,610	11,300	–	60	63,234
Derivative financial assets	–	–	–	–	–	7,505	7,505
Financial assets purchased under agreements to resell	41,400	8,493	8,359	–	–	190	58,442
Loans and advances to customers	779,896	313,639	812,104	158,169	22,122	20,534	2,106,464
Held-for-trading financial assets	172,826	11,139	39,769	21,950	107,819	4,393	357,896
Debt investments	9,137	26,471	140,676	373,759	110,624	17,128	677,795
Other debt investments	3,164	8,713	32,498	134,508	63,991	3,048	245,922
Other equity instrument investments	–	–	–	–	–	6,726	6,726
Other financial assets	188	–	–	471	–	6,532	7,191
Total financial assets	1,205,819	380,635	1,060,016	700,157	304,556	72,888	3,724,071
Due to central banks	5,000	–	95,283	–	–	552	100,835
Due to banks and other financial institutions	161,593	168,825	234,181	–	–	1,762	566,361
Placements from banks and other financial institutions	18,431	21,517	17,684	–	–	418	58,050
Derivative financial assets	–	–	–	–	–	6,359	6,359
Financial assets sold under agreements to repurchase	69,314	248	3,999	–	–	70	73,631
Deposits taken	1,034,307	131,662	489,770	406,100	1	30,605	2,092,445
Lease liabilities	215	212	1,080	3,372	936	–	5,815
Debt obligations payable	15,848	126,809	252,254	97,000	30,000	2,353	524,264
Other financial liabilities	3,897	–	–	–	–	10,318	14,215
Total financial liabilities	1,308,605	449,273	1,094,251	506,472	30,937	52,437	3,441,975
Net position	(102,786)	(68,638)	(34,235)	193,685	273,619	20,451	282,096

The Group measures the possible effects of interest rate changes on the Group's net interest income and equity through sensitivity analysis. The table below presents the results of interest rate sensitivity analysis based on assets and liabilities on 31 December 2023 and 31 December 2022.

	The Group			
	31 December 2023		31 December 2022	
Change in interest rate (basis points)	Net non-interest income	Interests	Net non-interest income	Interests
Up 100 bps	(4,282)	(10,333)	(2,097)	(8,012)
Down 100 bps	4,282	11,136	2,097	8,656

	The Bank			
	31 December 2023		31 December 2022	
Change in interest rate (basis points)	Net non-interest income	Interests	Net non-interest income	Interests
Up 100 bps	(2,684)	(10,328)	(1,685)	(7,902)
Down 100 bps	2,684	11,131	1,685	8,538

The above sensitivity analysis is conditional upon the static interest rate risk structure of assets and liabilities.

The relevant analysis only measures interest rate changes in one year, reflecting the impact of the Group's non-derivative asset and liability repricing within one year on annualized interest income of the Group upon the following assumptions: (i) the 100 bps change in interest rate represents the interest rate change over the next full year commencing on the balance sheet date; (ii) the yield curve moves in parallel with interest rate changes; (iii) no other changes occur to the asset and liability portfolios.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate financial assets measured at fair value through other comprehensive income held on balance sheet dates after revaluation.

This analysis will not take into account the impact of risk management methods the Management may take. Given the above assumptions, the actual changes in the Group's net interest income resulting from interest rate changes may be different from the sensitivity analysis results.

6. Capital management

The Group managed capital in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (CBRC No. 1 Decree in 2012, hereinafter referred to as the "Capital Measures") and relevant regulatory rules in 2013. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Net core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from other equity instruments and minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the Capital Regulation.

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guidelines of the Basel Committee and the Capital Regulation and relevant regulatory requirements.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expands the capital supplementary channel to promote the capital strength, reasonably controls the growth rate of risk assets, vigorously optimizes the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculates the net capital at all levels and the capital adequacy ratio in accordance with the *Capital Regulation*. Particulars are as follows:

	31 December 2023	31 December 2022
Net core tier-1 capital	280,828	262,499
Net tier-1 capital	321,128	322,724
Net capital	374,867	377,107
Core tier-1 capital adequacy ratio	9.16%	9.24%
Tier-1 capital adequacy ratio	10.48%	11.36%
Capital adequacy ratio	12.23%	13.27%

7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements. The Group measures and discloses the fair value of financial instruments on the following levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1. Most bond investments classified on Level 2 are RMB bonds. The fair value of these bonds is determined on the valuation results provided by CCDC. Also on the level are most OTC derivatives. Valuation techniques include forward pricing, swap modeling and option pricing & modeling. The entered parameters come from the observable open markets such as Bloomberg, Wind and Reuters trading systems.

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

Fair value measurement of financial assets and financial liabilities of the Group did not shift between Level 1 or Level 2 and Level 3.

7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

	The Group			
	31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	3,803	–	3,803
Loans and advances to customers measured at fair value through other comprehensive income	–	83,792	–	83,792
Held-for-trading financial assets	33,405	277,802	5,379	316,586
Other debt investments	–	295,408	–	295,408
Other equity instrument investments	1,188	–	5,301	6,489
Financial liabilities				
Derivative financial assets	–	3,900	–	3,900

	The Group			
	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	7,505	–	7,505
Loans and advances to customers measured at fair value through other comprehensive income	–	102,731	–	102,731
Held-for-trading financial assets	94,437	261,427	3,720	359,584
Other debt investments	–	248,105	–	248,105
Other equity instrument investments	1,542	–	5,589	7,131
Financial liabilities				
Derivative financial assets	–	6,359	–	6,359

	The Bank			
	31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	3,803	–	3,803
Loans and advances to customers measured at fair value through other comprehensive income	–	83,792	–	83,792
Held-for-trading financial assets	33,265	417,953	5,379	456,597
Other debt investments	–	293,442	–	293,442
Other equity instrument investments	1,080	–	5,001	6,081
Financial liabilities				
Derivative financial assets	–	3,900	–	3,900

	The Bank			
	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	–	7,505	–	7,505
Loans and advances to customers measured at fair value through other comprehensive income	–	102,731	–	102,731
Held-for-trading financial assets	93,506	260,670	3,720	357,896
Other debt investments	–	245,922	–	245,922
Other equity instrument investments	1,437	–	5,289	6,726
Financial liabilities				
Derivative financial assets	–	6,359	–	6,359

Fair value measurement of financial assets and financial liabilities of the Group neither materially shifted between Level 1 and Level 2 nor shifted between Level 1 or Level 2 and Level 3 in the year and the previous year. For financial assets and liabilities stipulated by standard articles and traded on the active market, their fair value shall be determined separately with reference to the buy-in and sell-out prices available on the market. When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments and the market comparison method for other equity instrument investments. Parameters used by the cash flow discounting model mainly include recent transaction prices and related yield curve while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and volatility of underlying assets, etc. The main parameters used by the market comparison method include industry price-to-book ratio, price-to-earnings ratio and other industry ratios and liquidity discount.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method. No major changes occurred to the valuation techniques the Group used for fair value measurement in 2023 or 2022.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

The table below presents the changes between opening balance and ending balance of fair value measured at Level 3 of fair value.

The Group	2023 Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2023	3,720	5,589	9,309
Additions	1,793	70	1,863
Decrease	–	(148)	(148)
Losses recorded in profit or loss	(134)	–	(134)
Losses recorded in other comprehensive income	–	(210)	(210)
31 December 2023	5,379	5,301	10,680

The Group	2022 Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2022	3,406	6,315	9,721
Additions	1,872	126	1,998
Decrease	–	(628)	(628)
Losses recorded in profit or loss	(1,558)	–	(1,558)
Losses recorded in other comprehensive income	–	(224)	(224)
31 December 2022	3,720	5,589	9,309

The Bank	2023 Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2023	3,720	5,289	9,009
Additions	1,793	70	1,863
Decrease	–	(148)	(148)
Losses recorded in profit or loss	(134)	–	(134)
Losses recorded in other comprehensive income	–	(210)	(210)
31 December 2023	5,379	5,001	10,380

The Bank	2022 Held-for-trading financial assets	Other equity instrument investments	Total
1 January 2022	3,406	6,015	9,421
Additions	1,872	126	1,998
Decrease	–	(628)	(628)
Losses recorded in profit or loss	(1,558)	–	(1,558)
Losses recorded in other comprehensive income	–	(224)	(224)
31 December 2022	3,720	5,289	9,009

Effects of Level 3 assets on profit or loss for the year:

	2023			2022		
The Group and the Bank	Realized	Unrealized	Total	Realized	Unrealized	Total
Effect on net gains	–	(134)	(134)	–	(1,558)	(1,558)

7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from banks, placements with banks and other financial institutions, financial assets purchased under agreements to resell, loans and advances to customers measured at amortized costs, due to central banks, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under agreements to repurchase, deposits taken etc.

	The Group			
	31 December 2023		31 December 2022	
Financial assets	Book value	Fair value	Book value	Fair value
Debt investments	986,805	991,199	680,111	680,085

	The Group			
	31 December 2023		31 December 2022	
Financial liabilities	Book value	Fair value	Book value	Fair value
Debt obligations payable	592,643	593,629	530,397	529,663

Financial assets	The Bank			
	31 December 2023		31 December 2022	
	Book value	Fair value	Book value	Fair value
Debt investments	747,542	753,345	677,795	677,727

Financial liabilities	The Bank			
	31 December 2023		31 December 2022	
	Book value	Fair value	Book value	Fair value
Debt obligations payable	588,533	589,511	524,264	523,482

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

	The Group			
	31 December 2023			
	Level 1	Level 2	Level 3	Tota
Financial assets				
Debt investments	–	816,076	175,123	991,199
Financial liabilities				
Debt obligations payable	–	593,629	–	593,629

	The Group			
	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	487,178	192,907	680,085
Financial liabilities				
Debt obligations payable	–	529,663	–	529,663

	The Bank			
	31 December 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	578,222	175,123	753,345
Financial liabilities				
Debt obligations payable	–	589,511	–	589,511

	The Bank			
	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	–	485,441	192,286	677,727
Financial liabilities				
Debt obligations payable	–	523,482	–	523,482

As for the financial institutions' asset management plans and beneficiary rights of assets classified as debt investments, its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

XV. POST BALANCE SHEET DATE EVENTS

1. The Bank held a meeting of the Board of Directors on 26 April 2024, approving to distribute dividend of RMB3.84 (pre-tax tax) per 10 shares after setting aside statutory surplus reserve and general risk reserve. Calculated based on the shares issued by the Bank as at 31 December 2023, the dividends distributed totaled RMB6,111 million. The above profit distribution plan is subject to approval by the Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general risk reserve and dividend distribution.
2. The Bank issued the financial bond (series 1) of Hua Xia Bank Co., Ltd. for 2024 on 15 March 2024 and the issuance volume was RMB30 billion. The bonds have a term of three years, the coupon rate is fixed at 2.43%. The value date is 19 March 2024 and the maturity date is 18 March 2027.

XVI. COMPARATIVE DATA

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

XVII. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by the Board of Directors of the Bank on 26 April 2024.

UNAUDITED SUPPLEMENTARY INFORMATION

1 January to 31 December 2023 (In RMB millions, unless otherwise stated)

1. DETAIL LIST OF EXTRAORDINARY PROFIT AND LOSS

The table below is prepared in accordance with the *Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit and Loss* (CSRC Announcement [2023] No. 65) issued by CSRC.

	2023	2022
Profit/loss from the disposal of assets	39	(3)
Government subsidies	159	78
Other net operating income and expenses	(44)	(139)
Income tax influence of extraordinary profit and loss	(60)	(34)
Less: Extraordinary profit and loss attributable to minority shareholders	(4)	(1)
Total extraordinary profit and loss attributable to ordinary shareholders of the parent company	90	(99)

Extraordinary profit and loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

2. RETURN ON EQUITY AND EARNINGS PER SHARE

The table below is prepared in accordance with the *Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 Revision)* issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2023	2022
Net profit attributable to ordinary shareholders of the parent company	23,487	22,159
Weighted average return on equity, %	8.71	9.00
Basic earnings per share (RMB yuan, share)	1.48	1.43
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit and loss	23,397	22,258
Weighted average return on equity, %	8.68	9.04
Basic earnings per share (RMB yuan, share)	1.47	1.44

The Group has no potential diluted ordinary share.

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