



# 威海市商业银行

WEIHAI CITY COMMERCIAL BANK

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

**Stock Short Name: Weihai Bank Stock Code: 9677**

## 2023 INTERIM REPORT



# CONTENTS

<b>2</b>	Chapter 1	Important Notice
<b>3</b>	Chapter 2	Definitions
<b>4</b>	Chapter 3	Corporate Information
<b>6</b>	Chapter 4	Summary of Accounting Data and Financial Indicators
<b>8</b>	Chapter 5	Management Discussion and Analysis
<b>58</b>	Chapter 6	Changes in Share Capital and Information on Shareholders
<b>65</b>	Chapter 7	Directors, Supervisors, Senior Management and Employees
<b>72</b>	Chapter 8	Corporate Governance
<b>77</b>	Chapter 9	Important Events
<b>80</b>	Chapter 10	Review Report on Interim Financial Information
<b>82</b>	Chapter 11	Unaudited Condensed Consolidated Financial Statements and Notes to the Unaudited Interim Condensed Consolidated Financial Statements
<b>177</b>	Chapter 12	Unaudited Supplementary Financial Information
<b>187</b>		List of Institutions

# CHAPTER 1 IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Bank warrant that there are no false representations, misleading statements or material omissions contained in the 2023 interim report (the "Report"), and they jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in the Report.
2. The Report and the interim results announcement of the Bank were approved unanimously at the twelfth meeting of the eighth session of the Board of the Bank held on August 30, 2023, which was considered and approved by way of valid voting. 15 directors were eligible to attend the meeting, and 15 directors attended such meeting in person. Supervisors of the Bank attended the meeting.
3. The 2023 interim financial report prepared in accordance with the International Financial Reporting Standards has been reviewed by BDO Limited. The Board and the Audit Committee under the Board have reviewed and approved the Report.
4. TAN Xianguo, the Chairman, MENG Dongxiao, the President, TAO Zunjian, the Vice President and Chief Accountant, and LU Guangming, the Head of the Finance Department of the Bank, warrant the truthfulness, accuracy and completeness of the financial report in the Report.
5. Forward-looking statements, including future plans, contained in the Report do not constitute any actual commitments of the Bank to investors. Investors and related persons are advised to maintain sufficient risk awareness and understand the difference between plans, forecasts and commitments.
6. During the Reporting Period, the Bank was not aware of any major risks that would adversely affect the Bank's future development strategies and business objectives. The principal risks exposed to the Bank in its operation and management as well as the corresponding measures adopted by the Bank are detailed in the Report. For details, please refer to "Risk Management" and "Future Prospects" in the section headed "Management Discussion and Analysis" of the Report.
7. For the financial data and indicators set out in the Report, save as stated otherwise, the monetary unit is denominated in RMB. Certain amounts and percentage figures set out in the Report are subject to rounding adjustments. Any discrepancy between the totals and sum of the amounts in any tables is due to such rounding.
8. The Report has been prepared in both Chinese and English. In the event of any discrepancy, the Chinese version shall prevail.

## CHAPTER 2 DEFINITIONS

In the Report, unless the context otherwise requires, the following expressions shall have the following meanings:

“Bank”, “our Bank” or “Weihai City Commercial Bank”	Weihai City Commercial Bank Co., Ltd., a joint stock limited company established in the PRC in July 1997 in accordance with the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
“CBIRC” or “NAFR”	National Administration of Financial Regulatory (國家金融監督管理總局), former China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Shandong Office”	National Administration of Financial Regulatory Shandong Office, former China Banking and Insurance Regulatory Commission Shandong Office
“Articles of Association”	the Bank’s existing Articles of Association of Weihai City Commercial Bank Co., Ltd.
“Company Law”	The Company Law of the People’s Republic of China (《中華人民共和國公司法》)
“Corporate Governance Code”	Corporate Governance Code under Appendix 14 to the Listing Rules
“Group”, “our Group”, “we” or “us”	the Bank and its subsidiary and, where the context requires, includes its predecessors, branches and sub-branches
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, the related standards, amendments and explanatory announcement, as issued by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Central Bank” or “PBOC”	the People’s Bank of China
“Reporting Period”	the six months ended June 30, 2023
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Hi-Speed”	Shandong Hi-Speed Company Limited (山東高速股份有限公司)
“Shandong Hi-Speed Group Company”	Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tongda Financial Leasing”	Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)

# CHAPTER 3 CORPORATE INFORMATION

## BASIC INFORMATION

### Legal Chinese Name

威海市商業銀行股份有限公司  
(Abbreviation “威海市商業銀行”)

### Legal English Name

Weihai City Commercial Bank Co., Ltd.  
(Abbreviation “Weihai City Commercial Bank”)

### Legal Representative

TAN Xianguo (譚先國)

### Secretary to the Board

ZHANG Jia'en (張家恩)  
Contact Number: (86) 631-5236187  
Facsimile: (86) 631-5210210  
E-mail: whccb@whccb.com

### Joint Company Secretaries

LU Jiliang (盧繼梁), TAM Pak Yu, Vivien (譚栢如)

### Registered Capital

RMB5,980,058,344

### Registered Address and Office Address

No. 9 Bao Quan Road, Weihai City,  
Shandong Province, the PRC  
Postcode: 264200  
Customer Service Hotline: (86) 40000-96636  
Complaint Hotline: (86) 631-5221290  
Website: www.whccb.com

### Principal Place of Business in Hong Kong

40th Floor, Dah Sing Financial Centre,  
248 Queen's Road East, Wanchai, Hong Kong

### H Share Registrar

Computershare Hong Kong Investor Services Limited

### Unified Social Credit Code

913700002671339534

### Financial License Institution Number

B0176H237100001

### Place of Listing of Shares, Stock Short Name and Stock Code

The Stock Exchange of Hong Kong Limited  
Stock Short Name: WEIHAI BANK  
Stock Code: 9677

### Interim Reports Available at:

Office of the Board and principal place of  
business of the Bank

### Legal Adviser

#### Mainland China

Beijing Dentons Law Offices, LLP  
16-21F, Tower B, ZT International Center,  
No.10 Chaoyangmen South Street,  
Chaoyang District, Beijing, China (100020)

#### Hong Kong, China

Paul Hastings  
22/F, Bank of China Tower, 1 Garden Road,  
Central, Hong Kong

### Auditor

#### Mainland China Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP  
9/F, 17-20/F, Tower A, China Overseas International  
Center, Building 7, No. 5 Anding Road,  
Chaoyang District, Beijing, the PRC

#### International Auditor

BDO Limited  
25th Floor, Wing On Centre, 111 Connaught Road  
Central, Sheung Wan, Hong Kong

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

### COMPANY PROFILE

Since its establishment in 1997, the Bank has always kept in mind its original intention and mission of serving the real economy, adhered to the market positioning of “serving the local economy, serving small and micro enterprises, and serving urban and rural residents”, adhered to the service concept of “mutual support and delightful growth”, insisted on innovation in reform, and surpassed in development, thus moving out a unique development path. The Bank currently has 126 branches and sub-branches in Jinan, Tianjin, Qingdao, etc., and is the first local legal person bank in Shandong Province to achieve “full coverage of the province”. In 2016, the Bank was the first financial institution in Shandong Province to initiate the establishment of a financial leasing company, marking a substantial step in its integrated operation. On October 12, 2020, the Bank was successfully listed on the Main Board of the Hong Kong Stock Exchange. The Bank formally adopted the “Equator Principle” (“赤道原則”) in 2021 and became the first “Equator Bank” (“赤道銀行”) in Shandong Province, making breakthroughs in terms of green finance.

Our quality services and good performance have been highly recognized and well received by all sectors of the society. The Bank has been awarded the “Top 10 City Commercial Banks in China” (Chinese Financial Institution Gold Medal List – Golden Dragon Prize), “Leader” (“領跑者”) of Corporate Standards in Bank Outlet Service in China for several years in a row. The Bank was successively awarded the “Best Special Bank in China” (“中國最佳特色銀行”), “Best Retail Bank in China” (“中國最佳零售銀行”), “Best Financial Service Institution for Small and Medium Enterprises in China” (“中國最佳中小企業金融服務機構”), “Demonstration Unit for Corporate Culture Construction in China’s Financial Industry” (“中國金融行業企業文化建設示範單位”), “Socially Responsible Enterprise of Shandong” (“山東社會責任企業”), “First Batch of A-Grade Taxpaying Financial Institutions in Shandong Province” (“山東省首批A級納稅金融單位”), “Outstanding Enterprise in Management and Innovation in Shandong Province” (“山東省管理創新優秀企業”), “Top 10 Mobile Banking Innovation in China” (“全國十佳手機銀行創新獎”) and “ESG Level A Company in Shandong Banking industry” (“山東省銀行業ESG A類單位”). The brand reputation and social influence were significantly improved.

# CHAPTER 4 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Unit: RMB million

	January to June 2023	January to June 2022	Current period compared to the same period last year
<b>Operating results</b>			Change (%)
Net interest income	<b>3,291.7</b>	3,208.2	2.60
Net fee and commission income	<b>343.9</b>	370.0	(7.05)
Net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses	<b>713.4</b>	658.4	8.35
<b>Operating income</b>	<b>4,349.0</b>	4,236.6	2.65
Operating expenses	<b>(868.3)</b>	(870.3)	(0.23)
Impairment losses on assets	<b>(2,192.2)</b>	(2,162.6)	1.37
<b>Profit before tax</b>	<b>1,288.5</b>	1,203.7	7.04
<b>Net profit</b>	<b>1,154.7</b>	1,090.2	5.92
Including: Net profit attributable to equity shareholders of the Bank	<b>1,047.5</b>	992.2	5.57
<b>Per share</b> (RMB/share)			
Earnings per share attributable to equity shareholders of the Bank	<b>0.18</b>	0.17	5.88

	June 30, 2023	December 31, 2022	As at the end of current period compared to the end of previous year
<b>Key indicators of assets and liabilities</b>			Change (%)
<b>Total assets</b>	<b>376,481.3</b>	343,703.0	9.54
Including: Total loans	<b>181,421.0</b>	164,297.2	10.42
Add: Interests accrued	<b>1,388.3</b>	1,090.4	27.33
Less: Impairment allowances for loans and advances to customers measured at amortised costs	<b>4,050.9</b>	3,637.2	11.37
Loans and advances to customers	<b>178,758.4</b>	161,750.4	10.52
<b>Total liabilities</b>	<b>349,340.1</b>	317,970.4	9.87
Including: Total deposits	<b>259,034.3</b>	229,493.7	12.87
Add: Interests accrued	<b>6,111.3</b>	4,993.8	22.38
Deposits from customers	<b>265,145.6</b>	234,487.5	13.07
<b>Total equity</b>	<b>27,141.2</b>	25,732.6	5.47
Share capital	<b>5,980.1</b>	5,980.1	0.00
Total equity attributable to equity shareholders of the Bank	<b>21,349.3</b>	20,048.0	6.49
<b>Per share</b> (RMB/share)			
Net assets per share attributable to equity shareholders of the Bank	<b>3.57</b>	3.35	6.57

## Chapter 4 Summary of Accounting Data and Financial Indicators

	January to June 2023	January to June 2022	Current period compared to the same period last year
<b>Profitability indicators (%)</b>			Change
Return on average total assets <sup>(1)</sup>	<b>0.65</b>	0.69	(0.04)
Weighted average return on net assets <sup>(2)</sup>	<b>10.20</b>	10.29	(0.09)
Net interest spread <sup>(3)</sup>	<b>1.81</b>	2.03	(0.22)
Net interest margin <sup>(4)</sup>	<b>1.95</b>	2.14	(0.19)
Net fee and commission income to operating income ratio	<b>7.91</b>	8.73	(0.82)
Cost-to-income ratio <sup>(5)</sup>	<b>19.03</b>	19.45	(0.42)

	June 30, 2023	December 31, 2022	As at the end of current period compared to the end of previous year
<b>Asset quality indicators (%)</b>			Change
Non-performing loan ratio <sup>(6)</sup>	<b>1.45</b>	1.46	(0.01)
Provision coverage ratio <sup>(7)</sup>	<b>155.99</b>	154.68	1.31
Allowance-to-borrowing ratio <sup>(8)</sup>	<b>2.26</b>	2.26	0.00
<b>Capital adequacy indicators (%)</b>			
Core tier-one capital adequacy ratio	<b>8.74</b>	8.81	(0.07)
Tier-one capital adequacy ratio	<b>10.41</b>	10.61	(0.20)
Capital adequacy ratio	<b>13.44</b>	13.83	(0.39)
Total equity to total assets ratio	<b>7.21</b>	7.49	(0.28)
<b>Other indicators (%)</b>			
Liquidity ratio	<b>78.26</b>	79.09	(0.83)
Loan-to-deposit ratio <sup>(9)</sup>	<b>70.04</b>	71.59	(1.55)

### Notes:

- (1) Calculated by dividing net profit for the period by the average balance of total assets as at the beginning and the end of the period, and adjusted on an annualised basis.
- (2) Calculated in accordance with the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂)), and adjusted on an annualised basis.
- (3) Net interest spread = the average yield on total interest-earning assets – the average cost of total interest-bearing liabilities, and adjusted on an annualised basis.
- (4) Net interest margin = net interest income/average balance of total interest-earning assets, and adjusted on an annualised basis.
- (5) Cost-to-income ratio = operating and management fees (exclusive of tax and surcharge)/operating income.
- (6) Calculated by dividing total non-performing loans by total loans.
- (7) Calculated by dividing total impairment allowances for loans by total non-performing loans.
- (8) Calculated by dividing total impairment allowances for loans by total loans.
- (9) Calculated by dividing total loans by total deposits. Prior to October 1, 2015, commercial banks in the PRC were required to maintain a loan-to-deposit ratio of no more than 75%. Since October 1, 2015, the 75% maximum loan-to-deposit ratio requirement has been cancelled under the revised PRC Commercial Banking Law.



# CHAPTER 5 MANAGEMENT DISCUSSION AND ANALYSIS

## I. REVIEW OF ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

In the first half of 2023, the factors of uncertainty and instability were increasing, the global economic recovery was clearly differentiated along with international situation remained extremely complicated. In response to the complex and volatile situation, China adhered to the basic tone of seeking progress while maintaining stability and coordinated efforts to stabilize growth, employment and prices. Normal economic and social operations were restored in all respects. Based on the preliminary calculation by the National Bureau of Statistics, China recorded its GDP of RMB59,303.4 billion for the first half of the year, representing a year-on-year increase of 5.5% in terms of constant prices. The production and supply of Shandong Province had been continuously improved, market demand had steadily expanded, employment and price remained generally stable and the economy showed a general trend of accelerated recovery, rebound and improvement. According to the unified GDP calculation results for the region, Shandong Province recorded a GDP of RMB4,412.5 billion for the first half of the year, registering a year-on-year uptick of 6.2% in terms of comparable prices.

In the first half of 2023, positive fiscal policies increased its effectiveness, certain preferential tax policies continued to be optimized, and the precision and pertinence of policies serving small and medium-sized enterprises and individual industrial and commercial households continued to increase. A prudent monetary policy had been targeted and effective, and liquidity remained reasonable and abundant. The Central Bank had promoted the reduction under the steady financing costs in the real economy making integrated use of interest rate cuts, reserve requirement cuts and carbon emission reduction support tools, to support key areas such as green and low-carbon, scientific and technological innovation, and inclusive small and micro businesses, thus enhancing economic growth momentum. With the financial regulatory system kept pace with the times and continued to improve, the Central Committee of the Communist Party of China (CPC) and the State Council have issued the Plan for the Reform of Party and State Institutions, adjusting the financial regulatory framework, including the establishment of the CPC Central Financial Commission, the establishment of the CPC Central Financial Work Commission, the establishment of the National Financial Regulatory Administration and deepening the reform of the local financial regulatory system. With the continuous advancement of the reform of financial regulators, finance will play a better role in promoting high-quality development of services.

### II. SUMMARY OF OVERALL OPERATIONS

During the Reporting Period, in the face of the complicated macroeconomic and financial situation, we have always adhered to the basic tone of “making progress while maintaining stability” by continuously innovating our service mode, increasing credit supply and actively participating in economic and social development, thereby achieving steady and healthy growth in all businesses.

**Steady expansion of business scale.** The total assets amounted to RMB376,481 million, representing an increase of RMB32,778 million as compared to the end of 2022; total deposits increased by RMB29,541 million as compared to the end of 2022; and total loans grew by RMB17,124 million as compared to the end of 2022.

**Steady improvement in quality.** Non-performing loan ratio was 1.45%, representing a decrease of 0.01 percentage point as compared to the end of 2022, the capital adequacy ratio was 13.44% and the allowance coverage ratio was 155.99%, with continuous compliance with all regulatory indicators.

**Constantly increasing efficiency.** Net profit for the first half of the year amounted to RMB1,155 million, representing an increase of RMB65 million or 5.92% as compared to the same period last year.

**Steadily strengthened Compliance.** We designated 2023 as the “Compliance Year”, organized all staff to sign the Compliance Pledge, established a “handsome reward and severe punishment” mechanism, strengthened training, inspection, rectification and accountability, carried out “combative rectification” on violations, constantly created a combative compliance atmosphere, and consolidated the foundation of stable development.

**Steady transformation.** Pursuant to the three concepts of “data standardization, online standardization and online intelligence”, we promoted digital transformation and strengthened technology empowerment. Currently, most of the transformation projects have been put into operation and are in the key stage of the successful conclusion of the three-year plan.

**Steadily intensified management.** We held fast to the approach of “respecting growth and efficiency”. We deepened the reform of system and mechanism, fostered the transformation of management modes, and constantly improved the vertical, professional, refined and grid management capability to ensure effective management and control and effective growth by benchmarking against our outstanding peers.

**Stable structural adjustment.** Adhering to the principle approach of “transiting to retail business, inclusive business and featured business”, we optimised the business structure, accelerated the business transformation and constantly cultivated new core competitiveness under the support of customer-centred retail business, platform-based inclusive business, and the supply-chain-centred featured business.

**Constant and efficient services.** Closely in line with the national strategic orientation and the requirements of national macro policies, we implemented various economic and financial policies from a detailed perspective, firmly carried out the activities of “Green Development Year” and “Inclusiveness Year” and was approved to issue green financial bonds with an amount of RMB5,000 million. Inclusiveness has achieved the goal of “two-sphere increase” and continued to improve its ability to serve the real economy.

### III. ANALYSIS OF INCOME STATEMENT

#### 3.1 Financial Highlights

During the Reporting Period, our operating income amounted to RMB4,349 million, representing an increase of RMB112 million or 2.65% as compared to the same period last year; profit before tax amounted to RMB1,289 million, representing an increase of RMB85 million or 7.04% as compared to the same period last year; net profit amounted to RMB1,155 million, representing an increase of RMB65 million or 5.92% as compared to the same period last year, mainly due to the continuing development of corporate and retail banking businesses, resulting in increases in net interest income as compared to the same period last year.

Unit: RMB million

	January to June 2023	January to June 2022	Change	Rate of change (%)
<b>Net interest income</b>	<b>3,291.7</b>	3,208.2	83.5	2.60
Interest income	<b>7,678.8</b>	7,092.5	586.3	8.27
Interest expenses	<b>(4,387.1)</b>	(3,884.3)	(502.8)	12.94
<b>Net fee and commission income</b>	<b>343.9</b>	370.0	(26.1)	(7.05)
Fee and commission income	<b>384.9</b>	423.0	(38.1)	(9.01)
Fee and commission expenses	<b>(41.0)</b>	(53.0)	12.0	(22.64)
<b>Net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses</b>	<b>713.4</b>	658.4	55.0	8.35
<b>Operating income</b>	<b>4,349.0</b>	4,236.6	112.4	2.65
Operating expenses	<b>(868.3)</b>	(870.3)	2.0	(0.23)
Impairment losses on assets	<b>(2,192.2)</b>	(2,162.6)	(29.6)	1.37
<b>Profit before tax</b>	<b>1,288.5</b>	1,203.7	84.8	7.04
Income tax expense	<b>(133.8)</b>	(113.5)	(20.3)	17.89
<b>Net profit</b>	<b>1,154.7</b>	1,090.2	64.5	5.92
Including: Net profit attributable to equity shareholders of the Bank	<b>1,047.5</b>	992.2	55.3	5.57
Net profit attributable to non- controlling interests	<b>107.2</b>	98.0	9.2	9.39

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.2 Net Interest Income

Net interest income was the largest component of our operating income, representing 75.73% and 75.69% of our operating income in the first half of 2022 and 2023, respectively. Our net interest income amounted to RMB3,292 million during the Reporting Period, representing an increase of RMB84 million or 2.60% as compared to the same period last year, mainly attributable to the larger scale of our business. The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, related interest income or expense and the average yields on related assets or the average costs of related liabilities for the periods indicated.

Unit: RMB million

	January to June 2023			January to June 2022		
	Average balance	Interest income/expense	Average yield/cost (%) <sup>(1)</sup>	Average balance	Interest income/expense	Average yield/cost (%) <sup>(1)</sup>
<b>Interest-earning assets</b>						
Loans and advances to customers	169,333.7	4,506.5	5.37	151,940.1	4,087.0	5.42
Financial investments	121,545.7	2,201.6	3.65	102,693.1	2,180.0	4.28
Deposits with the Central Bank <sup>(2)</sup>	23,613.8	158.2	1.35	20,732.7	138.3	1.35
Deposits with banks and other financial institutions	1,198.7	1.7	0.29	3,686.8	3.3	0.18
Placements with banks	3,944.5	78.1	3.99	4,154.4	54.5	2.65
Finance lease receivables	20,915.2	729.1	7.03	18,857.2	624.3	6.68
Financial assets held under resale agreements	324.5	3.6	2.24	468.1	5.1	2.20
<b>Total interest-earning assets</b>	<b>340,876.1</b>	<b>7,678.8</b>	<b>4.54</b>	<b>302,532.4</b>	<b>7,092.5</b>	<b>4.73</b>
<b>Interest-bearing liabilities</b>						
Deposits from customers	237,679.5	3,184.1	2.68	215,513.7	2,763.7	2.59
Deposits from banks	5,408.7	67.9	2.53	3,925.5	61.4	3.15
Placements from banks and other financial institutions	21,141.4	414.9	3.96	18,066.9	370.6	4.14
Borrowings from the Central Bank	10,701.7	107.5	2.03	10,950.8	113.7	2.09
Financial assets sold under repurchase agreements	10,889.1	93.0	1.72	6,097.7	57.4	1.90
Discounted bills	189.3	2.1	2.24	318.3	4.0	2.53
Debt securities issued <sup>(3)</sup>	38,504.5	517.6	2.71	34,972.0	513.5	2.96
<b>Total interest-bearing liabilities</b>	<b>324,514.2</b>	<b>4,387.1</b>	<b>2.73</b>	<b>289,844.9</b>	<b>3,884.3</b>	<b>2.70</b>
<b>Net interest income</b>		<b>3,291.7</b>			<b>3,208.2</b>	
<b>Net interest spread</b>			<b>1.81</b>			<b>2.03</b>
<b>Net interest margin</b>			<b>1.95</b>			<b>2.14</b>

Notes:

- (1) Calculated as interest income (expense)/average balance.
- (2) Consisted primarily of statutory deposit reserves and surplus deposit reserves.
- (3) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.2 Net Interest Income (Cont'd)

The following table sets forth the allocation of changes in our interest income and interest expenses due to changes in volume and changes in rate for the periods indicated. Changes in volume are measured by changes in average balances, and changes in rate are measured by changes in average rates.

Unit: RMB million

	January to June 2023 vs January to June 2022 Increase/(decrease) due to		
	Volume <sup>(1)</sup>	Rate <sup>(2)</sup>	Net increase/ (decrease) <sup>(3)</sup>
<b>Assets</b>			
Loans and advances to customers	462.9	(43.4)	419.5
Financial investments	341.5	(319.9)	21.6
Deposits with the Central Bank	19.3	0.6	19.9
Deposits with banks and other financial institutions	(3.5)	1.9	(1.6)
Placements with banks	(4.2)	27.8	23.6
Finance leases receivables	71.7	33.1	104.8
Financial assets held under resale agreements	(1.6)	0.1	(1.5)
<b>Changes in interest income</b>	<b>886.1</b>	<b>(299.8)</b>	<b>586.3</b>
<b>Liabilities</b>			
Deposits from customers	294.6	125.8	420.4
Deposits from banks	18.6	(12.1)	6.5
Placements from banks and other financial institutions	60.3	(16.0)	44.3
Borrowings from the Central Bank	(2.5)	(3.7)	(6.2)
Financial assets sold under repurchase agreements	40.9	(5.3)	35.6
Discounted bills	(1.4)	(0.5)	(1.9)
Debt securities issued	47.5	(43.4)	4.1
<b>Changes in interest expenses</b>	<b>458.0</b>	<b>44.8</b>	<b>502.8</b>
<b>Changes in net interest income</b>	<b>428.1</b>	<b>(344.6)</b>	<b>83.5</b>

Notes:

- (1) Represented the average balance for this Reporting Period minus the average balance for the same period last year, multiplied by the average yield/cost for this Reporting Period.
- (2) Represented the average yield/cost for this Reporting Period minus the average yield/cost for the same period last year, multiplied by the average balance for the same period last year.
- (3) Represented interest income/expense for this Reporting Period minus interest income/expense for the same period last year.

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.3 Interest Income

During the Reporting Period, our interest income increased by RMB586 million or 8.27% to RMB7,679 million as compared to the same period last year, primarily due to an increase in the average balance of our interest-earning assets from RMB302,532 million in the first half of 2022 to RMB340,876 million in the first half of 2023. The increase in the average balance of interest-earning assets was primarily attributable to an increase in the average balance of loans and advances to customers and the average balance of financial investments. The following table sets forth a breakdown of our interest income for the periods indicated.

Unit: RMB million

	January to June 2023		January to June 2022	
	Amount	% of total	Amount	% of total
<b>Interest income</b>				
Loans and advances to customers	<b>4,506.5</b>	<b>58.69</b>	4,087.0	57.62
Financial investments	<b>2,201.6</b>	<b>28.67</b>	2,180.0	30.74
Deposits with banks and other financial institutions	<b>1.7</b>	<b>0.02</b>	3.3	0.05
Placements with banks	<b>78.1</b>	<b>1.02</b>	54.5	0.77
Financial assets held under resale agreements	<b>3.6</b>	<b>0.05</b>	5.1	0.07
Finance lease receivables	<b>729.1</b>	<b>9.49</b>	624.3	8.80
Deposits with the Central Bank	<b>158.2</b>	<b>2.06</b>	138.3	1.95
<b>Total interest income</b>	<b>7,678.8</b>	<b>100.00</b>	7,092.5	100.00

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.3 Interest Income (Cont'd)

##### *Interest income from loans and advances to customers*

Our interest income from loans and advances to customers represented 57.62% and 58.69% of our interest income in the first half of 2022 and 2023, respectively. During the Reporting Period, our interest income from loans and advances to customers amounted to RMB4,507 million, representing an increase of RMB420 million or 10.26% as compared with the same period last year, primarily due to our increased placements of loans to support the real economy, and the average balance of loans and advances to customers increased from RMB151,940 million in the first half of 2022 to RMB169,334 million in the first half of 2023; meanwhile, the average yield on loans and advances to customers declined from 5.42% in the first half of 2022 to 5.37% in the first half of 2023 under the impact of decline in loan prime rate (LPR).

##### *Interest income from financial investments*

During the Reporting Period, our interest income from financial investments amounted to RMB2,202 million, representing an increase of RMB22 million or 0.99% as compared with the same period last year, primarily due to our increased efforts in bond investments and steady expansion in the scale of business, the average balance of the financial investment business increased from RMB102,693 million in the first half of 2022 to RMB121,546 million in the first half of 2023, partially offset by a decrease in the average yield on financial investments from 4.28% in the first half of 2022 to 3.65% in the first half of 2023.

##### *Interest income from placements with banks*

During the Reporting Period, our interest income from placements with banks amounted to RMB78 million, representing an increase of RMB24 million or 43.30% as compared with the same period last year, mainly due to the increase in the average yield of placements with banks from 2.65% in the first half of 2022 to 3.99% in the first half of 2023, influenced by an increased interest rate of US dollars.

##### *Interest income from finance lease receivables*

During the Reporting Period, our interest income from finance lease receivables was RMB729 million, representing an increase of RMB105 million or 16.79% as compared with the same period last year, primarily due to the continuing expansion of our financial leasing business in the first half of the year, which resulted in an increase in the average balance of our financial leasing business from RMB18,857 million in the first half of 2022 to RMB20,915 million in the first half of 2023.

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.4 Interest Expenses

During the Reporting Period, our interest expenses amounted to RMB4,387 million, representing an increase of RMB503 million or 12.94% as compared with the same period last year, primarily due to an increase in the average balance of interest-bearing liabilities from RMB289,845 million in the first half of 2022 to RMB324,514 million in the first half of 2023, and a decrease in the average cost on interest-bearing liabilities from 2.70% in the first half of 2022 to 2.73% in the first half of 2023. The following table sets forth a breakdown of our interest expenses for the periods indicated.

Unit: RMB million

	January to June 2023		January to June 2022	
	Amount	% of total	Amount	% of total
<b>Interest expenses</b>				
Deposits from customers	<b>3,184.1</b>	<b>72.58</b>	2,763.7	71.15
Deposits from banks	<b>67.9</b>	<b>1.55</b>	61.4	1.58
Placements from banks and other financial institutions	<b>414.9</b>	<b>9.46</b>	370.6	9.54
Borrowings from the Central Bank	<b>107.5</b>	<b>2.45</b>	113.7	2.93
Financial assets sold under repurchase agreements	<b>93.0</b>	<b>2.12</b>	57.4	1.48
Discounted bills	<b>2.1</b>	<b>0.04</b>	4.0	0.10
Debt securities issued	<b>517.6</b>	<b>11.80</b>	513.5	13.22
<b>Total interest expenses</b>	<b>4,387.1</b>	<b>100.00</b>	3,884.3	100.00



### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.4 Interest Expenses (Cont'd)

##### *Interest expenses on deposits from customers*

Deposits from customers were our primary source of funding. Interest expenses on deposits from customers represented 71.15% and 72.58% of our interest expenses in the first half of 2022 and 2023, respectively. Our interest expenses on deposits from customers increased by RMB420 million or 15.21% to RMB3,184 million in the first half of 2023 as compared with the same period last year, primarily due to our enhanced efforts to develop the deposit business, contributing to the increase in average balance of deposits from customers from RMB215,514 million in the first half of 2022 to RMB237,680 million in the first half of 2023.

##### *Interest expenses on debt securities issued*

Interest expenses on debt securities issued accounted for 13.22% and 11.80% of our interest expenses in the first half of 2022 and 2023, respectively. Our interest expenses on debt securities issued increased by RMB4 million or 0.80% to RMB518 million in the first half of 2023 as compared with the same period last year, primarily due to the increase in average balance of debt securities issued from RMB34,972 million in the first half of 2022 to RMB38,505 million in the first half of 2023 as a result of the increase of the issuance of bonds, and the decrease in the average interest rates of debt securities payable from 2.96% in the first half of 2022 to 2.71% in the first half of 2023 under the impact of lower market interest rates.

##### *Interest expenses on placements from banks and other financial institutions*

Interest expenses on placements from banks and other financial institutions accounted for 9.54% and 9.46% of our interest expenses in the first half of 2022 and 2023, respectively. Interest expenses on placements from banks and other financial institutions amounted to RMB415 million in the first half of 2023, representing an increase of RMB44 million or 11.95% as compared with the same period last year, primarily due to more placements from banks and other financial institutions as a result of the larger scale of our finance leasing business.

##### *Interest expenses on Borrowings from the Central Bank*

Interest expenses on borrowings from the Central Bank represented 2.93% and 2.45% of our interest expenses in the first half of 2022 and 2023, respectively. Interest expenses on borrowings from the Central Bank amounted to RMB108 million in the first half of 2023, representing a decrease of RMB6 million or 5.45% as compared with the same period last year, primarily due to the decrease in the average interest rate of borrowings from the Central Bank from 2.09% to 2.03%.

## III. ANALYSIS OF INCOME STATEMENT (CONT'D)

### 3.5 Net Fee and Commission Income

During the Reporting Period, our net fee and commission income amounted to RMB344 million, representing a decrease of RMB26 million or 7.05% as compared with the same period last year, of which our fee income decreased by RMB38 million as compared with the same period last year, primarily because that the agency service fees increased by RMB125 million as compared with the same period last year as a result of the steady growth of wealth management fees; the consultancy service fees and bank card service fees of the Bank decreased by RMB141 million as compared with the same period last year due to finance leases service fees decreased affected by regulatory policies; the fee expenses decreased by RMB12 million or 22.64% as compared with the same period last year primarily as a result of the decrease in bank card business fees as compared to the same period last year. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

Unit: RMB million

	January to June 2023	January to June 2022
<b>Fee and commission income</b>		
Agency service fees	284.4	159.8
Settlement and clearing fees	45.5	48.9
Consultancy service fees	–	120.8
Bank card service fees	11.0	31.2
Acceptance and guarantee service fees	22.5	39.0
Finance leases service fees	13.1	19.1
Others <sup>(1)</sup>	8.4	4.2
<b>Sub-total</b>	<b>384.9</b>	423.0
<b>Fee and commission expenses</b>		
Settlement and clearing fees	(36.3)	(25.0)
Bank card service fees	(4.2)	(24.3)
Others <sup>(2)</sup>	(0.5)	(3.7)
<b>Sub-total</b>	<b>(41.0)</b>	(53.0)
<b>Net fee and commission income</b>	<b>343.9</b>	370.0

Notes:

(1) Consisted primarily of income from payment and collection clearance accounts and safekeeping business.

(2) Consisted primarily of safekeeping fees and other expenses.

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.6 Net Trading Gains and Losses, Net Gains and Losses Arising from Investment Securities and Other Net Operating Gains and Losses

During the Reporting Period, our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses amounted to RMB713 million, representing an increase of RMB55 million or 8.35% as compared with the same period last year, of which net trading gains and losses increased by RMB77 million as compared with the same period last year, primarily due to an increase in the fair value of the held-for-trading financial assets. The following table sets forth the details of our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses for the periods indicated:

Unit: RMB million

	January to June 2023	January to June 2022
Net trading gains and losses	132.6	55.8
Net gains and losses arising from investment securities	558.3	595.8
Other net operating gains and losses	22.5	6.8
<b>Total</b>	<b>713.4</b>	658.4

#### 3.7 Operating Expenses

During the Reporting Period, our operating expenses amounted to RMB868 million, representing a decrease of RMB2 million or 0.23% as compared with the same period last year, primarily due to the decrease in the general and administrative expenses. The following table sets forth the principal components of our total operating expenses for the periods indicated.

Unit: RMB million

	January to June 2023	January to June 2022
Staff costs	481.1	473.0
Depreciation and amortisation	113.0	108.6
Taxes and surcharges	40.6	46.1
Rental and property management expenses	9.7	7.4
Interest expenses on lease liabilities	6.8	8.1
Other general and administrative expenses	217.1	227.1
<b>Total operating expenses</b>	<b>868.3</b>	870.3
<b>Cost-to-income ratio</b>	<b>19.03%</b>	19.45%

Our cost-to-income ratio (excluding taxes and surcharges) was 19.45% and 19.03% in the first half of 2022 and 2023, respectively. The decrease in cost-to-income ratio was primarily due to our enhanced cost control and higher operating income.

### III. ANALYSIS OF INCOME STATEMENT (CONT'D)

#### 3.8 Impairment Losses on Assets

During the Reporting Period, our impairment losses on assets amounted to RMB2,192 million, representing an increase of RMB30 million or 1.37% as compared with the same period last year, primarily due to the increased loan loss allowances as the increased allowance for loan of our Bank during the Reporting Period. The table below sets forth the principal components of our impairment losses on assets for the periods indicated.

Unit: RMB million

	January to June 2023	January to June 2022
Financial assets held under resale agreements	–	–
Loans and advances to customers	1,940.2	1,505.6
Financial investments	138.1	520.1
Financial lease receivables	83.8	98.5
Credit commitments	15.9	(8.5)
Others	14.2	46.9
<b>Total</b>	<b>2,192.2</b>	<b>2,162.6</b>

#### 3.9 Income Tax Expense

During the Reporting Period, our income tax expense was RMB134 million, representing an increase of RMB20 million or 17.89% as compared with the same period last year, primarily due to a year-on-year increase in profit before tax as a result of the steady growth of our various business income in the first half of 2023. The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the periods indicated.

Unit: RMB million

	January to June 2023	January to June 2022
Profit before tax	1,288.5	1,203.8
Income tax calculated at statutory tax rate	322.1	300.9
Non-deductible expenses	9.0	2.1
Non-taxable income <sup>(1)</sup>	(197.3)	(189.5)
<b>Income tax expense</b>	<b>133.8</b>	<b>113.5</b>

Note:

- (1) Non-taxable income mainly represents interest income from PRC government bonds, which is exempt from income tax in accordance with PRC tax regulations.

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

##### 4.1 Assets

As of the end of the Reporting Period, our total assets amounted to RMB376,481 million, representing an increase of RMB32,778 million or 9.54% as compared to the end of 2022, primarily due to an increase of RMB17,008 million or 10.52% in loans and advances to customers as compared to the end of 2022, and an increase of RMB12,588 million or 9.82% in financial investments as compared to the end of 2022. The following table sets forth the composition of our total assets as of the dates indicated.

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Loans and advances to customers	178,758.4	47.48	161,750.4	47.06
Financial investments	140,778.5	37.39	128,191.3	37.30
Cash and deposits with the Central Bank	25,316.6	6.72	27,209.3	7.92
Financial assets held under resale agreements	–	–	–	–
Deposits with banks and other financial institutions	1,367.7	0.36	1,096.3	0.32
Placements with banks	–	–	–	–
Property and equipment	1,117.9	0.30	1,032.5	0.30
Right-of-use assets	296.0	0.08	335.4	0.10
Deferred tax assets	2,350.7	0.62	2,340.1	0.68
Other assets <sup>(1)</sup>	26,495.5	7.05	21,747.7	6.32
<b>Total assets</b>	<b>376,481.3</b>	<b>100.00</b>	<b>343,703.0</b>	<b>100.00</b>

Note:

- (1) Other assets consist primarily of interest receivable, prepayments for acquisition of property and equipment, finance lease receivables and other receivables.

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.1 Assets (Cont'd)

###### 4.1.1 Loans and advances to customers

As of the end of the Reporting Period, our total loans and advances to customers amounted to RMB181,421 million, representing an increase of RMB17,124 million or 10.42% as compared to the end of 2022. In particular, the balance of corporate loans amounted to RMB126,278 million, representing an increase of RMB15,234 million or 13.72% as compared to the end of 2022; the balance of personal loans amounted to RMB44,533 million, representing an increase of RMB1,605 million or 3.74% as compared to the end of 2022; discounted bills amounted to RMB10,610 million, representing an increase of RMB285 million or 2.76% as compared to the end of 2022.

##### Loans by business type

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Corporate loans	<b>126,278.2</b>	<b>69.60</b>	111,043.9	67.59
Personal loans	<b>44,532.5</b>	<b>24.55</b>	42,927.5	26.13
Discounted bills	<b>10,610.3</b>	<b>5.85</b>	10,325.8	6.28
<b>Total loans and advances to customers</b>	<b>181,421.0</b>	<b>100.00</b>	164,297.2	100.00
Add: Interest accrued	<b>1,388.3</b>	–	1,090.4	–
Less: Provision for loans and advances to customers measured at amortised cost	<b>4,050.9</b>	–	3,637.2	–
<b>Net loans and advances to customers</b>	<b>178,758.4</b>	–	161,750.4	–

## IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

## 4.1 Assets (Cont'd)

## 4.1.1 Loans and advances to customers (Cont'd)

## Corporate loans by industry

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
<b>Industry:</b>				
Leasing and business services	29,830.2	23.62	27,227.8	24.52
Water conservancy, environment and public facilities management	20,293.6	16.07	18,453.3	16.62
Manufacturing	18,830.0	14.91	17,607.7	15.86
Construction	17,337.9	13.73	15,351.3	13.82
Wholesale and retail	11,825.4	9.37	8,189.4	7.37
Real estate	7,071.8	5.60	6,724.6	6.06
Electricity, heat, gas and water production and supply	6,473.7	5.13	4,648.5	4.19
Transportation, warehousing and postal services	3,150.0	2.49	2,678.0	2.41
Agriculture, forestry, animal husbandry and fishery	2,474.9	1.96	2,367.5	2.13
Hygiene and social welfare	1,019.3	0.81	1,022.2	0.92
Culture, sports and entertainment	213.8	0.17	200.4	0.18
Others <sup>(1)</sup>	7,757.6	6.14	6,573.2	5.92
<b>Total corporate loans</b>	<b>126,278.2</b>	<b>100.00</b>	<b>111,043.9</b>	<b>100.00</b>

Note:

- (1) Others consist primarily of information transmission, software and information technology services, education, resident services, maintenance, financial industry and other services and accommodation and catering.

As of the end of the Reporting Period, the top five industries to which we distributed loans were leasing and business services, water conservancy, environment and public facilities management, manufacturing, construction and wholesale and retail; loans to customers in these five industries totaled RMB29,830 million, RMB20,294 million, RMB18,830 million, RMB17,338 million and RMB11,825 million, respectively, accounting for 23.62%, 16.07%, 14.91%, 13.73% and 9.37% of our total corporate loans, respectively.

## IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

## 4.1 Assets (Cont'd)

## 4.1.1 Loans and advances to customers (Cont'd)

**Corporate loans by product type**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Working capital loans	84,308.9	66.76	73,464.2	66.16
Fixed asset loans	36,444.3	28.86	32,761.8	29.50
Other loans <sup>(1)</sup>	5,525.0	4.38	4,817.9	4.34
<b>Total corporate loans</b>	<b>126,278.2</b>	<b>100.00</b>	111,043.9	100.00

Note:

(1) Other loans consisted primarily of trade financing and advances.

**Personal loans by product type**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Residential mortgage loans	15,952.8	35.82	16,618.6	38.71
Personal consumption loans	9,854.6	22.13	7,433.4	17.32
Personal business loans	18,725.1	42.05	18,875.5	43.97
<b>Total personal loans</b>	<b>44,532.5</b>	<b>100.00</b>	42,927.5	100.00



**IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)****4.1 Assets (Cont'd)***4.1.1 Loans and advances to customers (Cont'd)***Discounted bills**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Bank acceptance bills	7,779.0	73.32	6,969.9	67.50
Commercial acceptance bills	2,831.3	26.68	3,355.9	32.50
<b>Total discounted bills</b>	<b>10,610.3</b>	<b>100.00</b>	10,325.8	100.00

**Distribution of loans and advances to customers by collateral**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Pledged loans	13,688.3	7.54	9,303.7	5.66
Collateralised loans	65,317.9	36.00	62,976.5	38.33
Guaranteed loans	69,298.2	38.20	64,609.9	39.33
Unsecured loans	22,506.3	12.41	17,081.3	10.40
Discounted bills	10,610.3	5.85	10,325.8	6.28
<b>Gross loans and advances to customers</b>	<b>181,421.0</b>	<b>100.00</b>	164,297.2	100.00

## IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

## 4.1 Assets (Cont'd)

## 4.1.1 Loans and advances to customers (Cont'd)

**Distribution of loans and advances to customers by geographical region**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
<b>Region:</b>				
Weihai City	<b>58,886.9</b>	<b>32.46</b>	52,132.7	31.73
Outside Weihai City	<b>122,534.1</b>	<b>67.54</b>	112,164.5	68.27
<b>Gross loans and advances to customers</b>	<b>181,421.0</b>	<b>100.00</b>	164,297.2	100.00

## 4.1.2 Financial investments

As of the end of the Reporting Period, the carrying value of our financial investments was RMB140,779 million, representing an increase of RMB12,588 million or 9.82% as compared with the end of 2022. The following table sets forth the composition of our financial investment portfolio as of the dates indicated.

**Classification of financial investments by business model and cash flow characteristics**

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Financial investments measured at amortised cost	<b>85,230.3</b>	<b>60.54</b>	81,937.1	63.92
Financial investments measured at fair value through other comprehensive income	<b>46,345.6</b>	<b>32.92</b>	37,083.4	28.93
Financial investments measured at fair value through profit or loss	<b>9,202.6</b>	<b>6.54</b>	9,170.8	7.15
<b>Total financial investments</b>	<b>140,778.5</b>	<b>100.00</b>	128,191.3	100.00

**IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)****4.1 Assets (Cont'd)****4.1.2 Financial investments (Cont'd)****Financial investments measured at amortised cost**

As of the end of the Reporting Period, the carrying value of our financial investments measured at amortised cost amounted to RMB85,230 million, representing an increase of RMB3,293 million or 4.02% as compared with that as of the end of 2022. In the first half of 2023, the increase in such assets was mainly due to our active risk management and adjustment of investment structure by moderately increasing the investment in low-risk treasury bonds and policy financial bonds according to the situation of bond markets; and the reduction in the non-standard investments, trust business and local property rights exchange business, which had not been resumed when due. The following table sets forth the components of our financial investments measured at amortised cost as of the dates indicated.

Unit: RMB million

	June 30, 2023	December 31, 2022
Debt securities issued by the following institutions in Mainland China		
Central government	9,368.2	7,768.9
Policy banks	21,424.3	13,285.5
Banks and other financial institutions	910.0	1,220.0
Corporates	20,570.5	22,605.6
Government-backed institutions	1,410.0	1,210.4
Local governments	23,933.4	26,870.1
Interests accrued	1,364.1	1,400.2
<b>Sub-total</b>	<b>78,980.5</b>	74,360.7
Investment management products	7,531.0	8,636.8
Asset-backed securities	649.7	734.2
Less: Provision for impairment losses	(1,930.9)	(1,794.6)
<b>Total</b>	<b>85,230.3</b>	81,937.1

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.1 Assets (Cont'd)

##### 4.1.2 Financial investments (Cont'd)

##### Financial investments measured at fair value through other comprehensive income

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through other comprehensive income amounted to RMB46,346 million, representing an increase of RMB9,263 million or 24.98% as compared with that of the end of 2022. Such increase was mainly due to the following reasons: firstly, the increase in holding of policy financial bonds for both liquidity and efficiency; secondly, the adjustment in investment structure by increasing the investment in non-financial corporate bonds to support the real economy; and thirdly, the reduction in holding of some local government bonds with unrealised profits. The following table sets forth the components of our financial investments measured at fair value through other comprehensive income as of the dates indicated.

Unit: RMB million

	June 30, 2023	December 31, 2022
Debt securities issued by the following institutions in Mainland China		
Central government	540.3	1,888.4
Policy banks	23,291.5	16,596.4
Banks and other financial institutions	5,282.9	2,881.1
Corporates	9,915.5	5,016.4
Government-backed institutions	256.4	258.7
Local governments	5,315.5	8,692.7
Interests accrued	714.8	684.1
<b>Sub-total</b>	<b>45,316.9</b>	<b>36,017.8</b>
Interbank deposits	590.3	669.4
Asset-backed securities	121.2	83.6
Equity investments	317.2	312.6
<b>Total</b>	<b>46,345.6</b>	<b>37,083.4</b>

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.1 Assets (Cont'd)

##### 4.1.2 Financial investments (Cont'd)

##### Financial investments measured at fair value through profit or loss

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through profit or loss amounted to RMB9,203 million, representing an increase of RMB32 million or 0.35% as compared with that of the end of 2022. Such increase was mainly due to the increase in the investment in financial corporate bonds by comprehensively considering the revenue situation; and the reduction in holding of public funds with average performance. The following table sets forth the components of our financial investments measured at fair value through profit or loss as of the dates indicated.

Unit: RMB million

	June 30, 2023	December 31, 2022
Debt securities issued by the following institutions in Mainland China		
– Policy banks	–	–
– Banks and other financial institutions	1,454.4	1,230.7
– Corporates	822.2	834.7
<b>Sub-total</b>	<b>2,276.6</b>	2,065.4
Asset-backed securities	402.8	412.2
Investment funds	5,723.9	5,865.6
Investment management products	799.3	789.8
Equity investments	–	37.8
<b>Total</b>	<b>9,202.6</b>	9,170.8

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.2 Liabilities

As of the end of the Reporting Period, our total liabilities amounted to RMB349,340 million, representing an increase of RMB31,370 million or 9.87% as compared to the end of 2022, mainly due to an increase of RMB30,658 million or 13.07% in deposits from customers as compared to the end of 2022 and an increase of RMB1,317 million or 12.08% in borrowing from the Central Bank as compared to the end of 2022. The following table sets forth the composition of our total liabilities as of the dates indicated.

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Deposits from customers	265,145.6	75.90	234,487.5	73.75
Financial assets sold under repurchase agreements	9,801.0	2.81	9,805.0	3.08
Deposits from banks	3,411.5	0.98	4,802.4	1.51
Placements from banks and other financial institutions	21,934.3	6.28	20,038.7	6.30
Debt securities issued	34,507.1	9.88	35,428.2	11.14
Borrowings from the Central Bank	11,609.9	3.32	10,292.8	3.24
Income tax payable	56.7	0.02	450.1	0.14
Deferred tax liabilities	–	–	2.6	0.00
Lease liabilities	295.2	0.08	322.9	0.10
Other liabilities <sup>(1)</sup>	2,578.8	0.73	2,340.2	0.74
<b>Total liabilities</b>	<b>349,340.1</b>	<b>100.00</b>	317,970.4	100.00

Note:

- (1) Other liabilities consisted primarily of interest payable, payment and collection clearance accounts, accrued staff costs and dividend payable.

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.2 Liabilities (Cont'd)

###### 4.2.1 Deposits from customers

Deposits from customers are our primary source of funding, accounting for 73.75% and 75.90% of our total liabilities as of the end of 2022 and the end of the Reporting Period, respectively. As of the end of the Reporting Period, our deposits from customers amounted to RMB265,146 million, representing an increase of RMB30,658 million or 13.07% as compared to the end of 2022, mainly due to the steady increases in our corporate deposits and personal deposits as we amplified our marketing campaign for deposits. The following table sets forth the composition of our deposits from customers as of the dates indicated.

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	<b>61,868.6</b>	<b>23.88</b>	51,494.4	22.44
Time deposits	<b>76,271.3</b>	<b>29.45</b>	72,205.9	31.46
<b>Sub-total</b>	<b>138,139.9</b>	<b>53.33</b>	123,700.3	53.90
Personal deposits				
Demand deposits	<b>11,515.7</b>	<b>4.45</b>	11,642.7	5.07
Time deposits	<b>109,340.0</b>	<b>42.21</b>	94,056.1	40.98
<b>Sub-total</b>	<b>120,855.7</b>	<b>46.66</b>	105,698.8	46.06
Inward and outward remittances	<b>38.7</b>	<b>0.01</b>	94.6	0.04
<b>Total</b>	<b>259,034.3</b>	<b>100.00</b>	229,493.7	100.00
Interests accrued	<b>6,111.3</b>		4,993.8	
<b>Deposits from customers</b>	<b>265,145.6</b>		234,487.5	

#### IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION (CONT'D)

##### 4.2 Liabilities (Cont'd)

###### 4.2.2 Placements from banks and other financial institutions

As of the end of the Reporting Period, the balance of our placements from banks and other financial institutions amounted to RMB21,934 million, representing an increase of RMB1,896 million or 9.46% as compared to the end of 2022, mainly due to the continued increase in the scale of our finance lease business and the corresponding increase in the amount of placements from banks and other financial institutions.

###### 4.2.3 Debt securities issued

Debt securities issued consist primarily of certificates of interbank deposit, financial bonds specialized for small and micro enterprises and tier-two capital bonds issued by us. As of the end of the Reporting Period, the balance of our debt securities issued amounted to RMB34,507 million, representing a decrease of RMB921 million or 2.60% as compared to the end of 2022, mainly due to the adjustment of our liability business structure and the appropriate control of the issue scale of interbank deposits.

##### 4.3. Shareholders' Equity

As of the end of the Reporting Period, our total shareholders' equity amounted to RMB27,141 million, representing an increase of RMB1,409 million or 5.47% as compared to the end of 2022; our total equity attributable to shareholders amounted to RMB21,349 million, representing an increase of RMB1,301 million or 6.49% as compared to the end of 2022, mainly due to the increase in our retained earnings. The following table sets forth the composition of our shareholders' equity as of the dates indicated.

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Share capital	5,980.1	22.03	5,980.1	23.24
Capital reserve	4,925.5	18.15	4,925.5	19.14
Surplus reserve	1,549.1	5.71	1,549.1	6.02
General reserve	3,690.6	13.60	3,227.9	12.54
Fair value reserve	74.9	0.28	(187.4)	(0.73)
Impairment reserve	50.0	0.18	58.5	0.23
Retained earnings	5,079.1	18.71	4,494.3	17.47
Total equity attributable to equity shareholders of the Bank	21,349.3	78.66	20,048.0	77.91
Perpetual bonds	4,099.2	15.10	4,099.2	15.93
Non-controlling interests	1,692.7	6.24	1,585.4	6.16
<b>Total equity</b>	<b>27,141.2</b>	<b>100.00</b>	<b>25,732.6</b>	<b>100.00</b>



## V. OFF-BALANCE SHEET ITEMS

Our off-balance sheet items particularly include credit commitment and capital commitment, etc. Credit commitment is the most important component, and as of the end of the Reporting Period, the balance of credit commitment amounted to RMB60,097 million. For details, please refer to Note 40 to the financial statements in the Report.

For details of pledges as collateral for liabilities, please refer to Note 22(a) to the financial statements in the Report.

## VI. ANALYSIS OF LOAN QUALITY

During the Reporting Period, we strengthened the management and control of the quality of credit assets. While the credit assets grew steadily, the quality of credit assets remained stable. As of the end of the Reporting Period, our total loans (excluding interests accrued) amounted to RMB181,421 million, representing an increase of RMB17,124 million or 10.42% as compared with the end of 2022; total overdue loans amounted to RMB3,902 million, representing a decrease of RMB258 million or 6.21% as compared with the end of 2022; total non-performing loans amounted to RMB2,633 million, representing an increase of RMB237 million or 9.88% as compared with the end of 2022; and the non-performing loan ratio was 1.45%, representing a decrease of 0.01 percentage point as compared with the end of 2022.

### 6.1 Distribution of Loans by Five-category Classification

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Normal loans	174,516.4	96.20	157,521.0	95.87
Special-mentioned loans	4,271.7	2.35	4,380.0	2.67
<b>Sub-total of normal loans</b>	<b>178,788.1</b>	<b>98.55</b>	161,901.0	98.54
Substandard loans	1,717.2	0.95	1,627.6	0.99
Doubtful loans	915.7	0.50	768.6	0.47
Loss loans	–	–	–	–
<b>Sub-total of non-performing loans</b>	<b>2,632.9</b>	<b>1.45</b>	2,396.2	1.46

Under the five-category loan regulatory system, our non-performing loans include substandard, doubtful and loss loans. As of the end of the Reporting Period, our non-performing loan ratio decreased by 0.01 percentage point from the end of 2022 to 1.45%. In particular, the proportion of substandard loans decreased by 0.04 percentage point from the end of 2022 to 0.95%, the proportion of doubtful loans increased by 0.03 percentage point from the end of 2022 to 0.50%, and loss loans remained the same as compared with the end of 2022.

**VI. ANALYSIS OF LOAN QUALITY (CONT'D)**

**6.2 Distribution of Non-performing Corporate Loans by Industry**

As of the end of the Reporting Period, among the Bank's non-performing loans, non-performing corporate loans and non-performing personal loans amounted to RMB1,204 million and RMB1,429 million, respectively. Below sets out the distribution of non-performing corporate loans by industry:

Unit: RMB million

	June 30, 2023			December 31, 2022		
	Amount of non-performing loans	% of total <sup>(1)</sup>	Non-performing loan ratio (%)	Amount of non-performing loans	% of total	Non-performing loan ratio (%)
Manufacturing	807.5	67.05	4.29	620.9	47.56	3.53
Construction	211.9	17.60	1.22	203.9	15.62	1.33
Wholesale and retail	123.2	10.23	1.04	195.5	14.97	2.39
Agriculture, forestry, animal husbandry and fishery	26.9	2.24	1.09	52.4	4.02	2.22
Leasing and business services	1.7	0.14	0.01	6.4	0.49	0.02
Transportation, warehousing and postal services	1.7	0.14	0.05	3.1	0.24	0.12
Water conservancy, environment and public facilities management	-	-	-	170.0	13.02	0.92
Electricity, heat, gas and water production and supply	-	-	-	29.7	2.27	0.64
Others <sup>(1)</sup>	31.3	2.60	0.40	23.7	1.81	0.33
<b>Total</b>	<b>1,204.2</b>	<b>100.00</b>	<b>0.95</b>	<b>1,305.6</b>	<b>100.00</b>	<b>1.18</b>

Note:

- (1) Consist primarily of real estate; resident services, maintenance and other services, accommodation and catering; culture, sports and entertainment; information transmission, software and information technology services, etc.

## VI. ANALYSIS OF LOAN QUALITY (CONT'D)

## 6.3 Distribution of Non-performing Loans by Product Type

Unit: RMB million

	June 30, 2023			December 31, 2022		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Working capital loans	1,082.8	41.12	1.28	900.1	37.57	1.23
Fixed asset loans	40.7	1.55	0.11	11.8	0.49	0.04
Other corporate loans <sup>(1)</sup>	80.7	3.07	1.46	393.7	16.43	8.17
Residential mortgage loans	183.4	6.97	1.15	134.3	5.60	0.81
Personal consumption loans	215.5	8.18	2.19	154.8	6.46	2.08
Personal business loans	1,029.8	39.11	5.50	801.5	33.45	4.25
<b>Total</b>	<b>2,632.9</b>	<b>100.00</b>	<b>1.45</b>	<b>2,396.2</b>	<b>100.00</b>	<b>1.46</b>

Note:

(1) Other corporate loans mainly include trade financing, advances, etc.

## 6.4 Distribution of Non-performing Loans by Geographical Region

Unit: RMB million

	June 30, 2023			December 31, 2022		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Weihai City	423.9	16.10	0.72	324.7	13.55	0.62
Outside Weihai City	2,209.0	83.90	1.80	2,071.5	86.45	1.85
<b>Total non-performing loans</b>	<b>2,632.9</b>	<b>100.00</b>	<b>1.45</b>	<b>2,396.2</b>	<b>100.00</b>	<b>1.46</b>

**VI. ANALYSIS OF LOAN QUALITY (CONT'D)**

**6.5 Concentration of Borrowers**

Pursuant to the Administrative Measures for the Large Risk Exposure of Commercial Banks and the Core Indicators for Risk Supervision of Commercial Banks (Provisional), loans to a single borrower by a commercial bank shall not exceed 10% of its net capital. As of the end of the Reporting Period, the amount of loans to our largest single customer accounted for 5.88% of our net capital, which was in compliance with regulatory requirements.

*Loans to the top ten single borrowers*

Unit: RMB million

	Industry	Loan amount as of the end of the Reporting Period	% of total loans	% of net capital	Five category classification
Borrower A	Leasing and business services	1,987.5	1.10	5.88	Normal
Borrower B	Water conservancy, environment and public facilities management	1,983.0	1.09	5.87	Normal
Borrower C	Construction	1,972.8	1.09	5.84	Normal
Borrower D	Water conservancy, environment and public facilities management	1,939.2	1.07	5.74	Normal
Borrower E	Water conservancy, environment and public facilities management	1,770.0	0.98	5.24	Normal
Borrower F	Manufacturing	1,760.0	0.97	5.20	Normal
Borrower G	Real estate	1,700.0	0.94	5.03	Normal
Borrower H	Leasing and business services	1,595.0	0.88	4.72	Normal
Borrower I	Leasing and business services	1,300.0	0.72	3.84	Normal
Borrower J	Leasing and business services	1,293.0	0.71	3.82	Normal
<b>Total</b>		17,300.5	9.55	51.18	

## VII. SEGMENT REPORTING

The following segment operating results are presented by business segment. Our principal businesses include corporate banking, retail banking, financial market business and others. The following table sets forth our key operating results for each of our business segments for the periods indicated.

Unit: RMB million

	January to June 2023		January to June 2022	
	Operating income of the segment	% of total	Operating income of the segment	% of total
Corporate banking	2,522.8	58.01	2,519.9	59.48
Retail banking	983.4	22.61	984.6	23.24
Financial market business	839.3	19.30	727.0	17.16
Others	3.5	0.08	5.1	0.12
<b>Total</b>	<b>4,349.0</b>	<b>100.00</b>	4,236.6	100.00

Unit: RMB million

	January to June 2023		January to June 2022	
	Segment profit before tax	% of total	Segment profit before tax	% of total
Corporate banking	612.7	47.55	576.9	47.93
Retail banking	351.4	27.27	343.6	28.54
Financial market business	333.8	25.91	286.8	23.83
Others	(9.4)	(0.73)	(3.6)	(0.30)
<b>Total</b>	<b>1,288.5</b>	<b>100.00</b>	1,203.7	100.00

### VIII. BUSINESS DEVELOPMENT

Our principal business lines include corporate banking (including finance leasing services provided through our subsidiary, Tongda Financial Leasing), retail banking and financial market business.

#### 8.1 Corporate Banking

The Bank's corporate banking business fully relied on the advantages of its shareholders, business scale and network, improved comprehensive service capability, focused on local characteristic industries, fully integrated with the local regional development plan, always adhered to the market positioning of "serving the local economy, small and medium enterprises and urban and rural residents", and always adhered to the path of differentiation, retailing and integrated innovative characteristic development to form a characteristic operation. The Bank drove the steady growth of the business scale and efficiency through managing clients based on lists, marketing to cover the entire chain and promoting technology empowerment; implemented the visitor system, strengthened the coordinated marketing mechanism, strengthened the interaction between lines and lines and the overall synergy, and identified the points of linkage, strength and growth, so as to improve the accuracy and efficiency of docking to the real economy, and to provide strong financial support for the development of the regional economy. During the Reporting Period, the operating income from our corporate banking business amounted to RMB2,523 million, accounting for 58.01% of our total operating income.

##### (1) Corporate customers

The Bank has established a vast and stable corporate banking customer base in Shandong Province and Tianjin Municipality. The corporate banking customers of the Bank primarily comprise the governmental agencies, state-owned enterprises, business units, and industrial and commercial enterprises in Shandong Province and Tianjin Municipality. As of the end of the Reporting Period, there were 65,069 corporate customers, representing an increase of 2,183 customers as compared with that as of the end of last year. The marketing focus of the Bank's corporate customers was firstly, to expand the scale and speed advantages of the Bank, and form a group of high quality customers in the livelihood, green finance, technology and trade finance categories with platform building and selected customers as the starting point; secondly, the Bank carried out chain marketing, relied on core customers, integrated core customer resources, made full use of supply chain products, explored upstream and downstream industrial chains, marketed high-quality supply chain financial customers, gained in-depth linkage and explored the potential of customer resources.

##### (2) Corporate deposits

During the Reporting Period, relying on the list management system for liability business, the Bank continuously broadened the channels for obtaining customers, continuously deepened its cooperation with enterprises and governments, strengthened the marketing of net liability deposits and institutional deposits; strengthened technological empowerment and took "digital transformation" as an opportunity to enhance customer experience and improve service quality through online, comprehensive and skilled service upgrades; strengthened linkage and collaboration, continuously increased customer capital accumulation through business, line and customer linkage, and helped steadily increase the scale of corporate deposits.

As of the end of the Reporting Period, the balance of corporate deposits amounted to RMB138,140 million, representing an increase of RMB14,440 million or 11.67% as compared with the end of 2022, accounting for 53.33% of total deposits. In particular, corporate demand deposits amounted to RMB61,869 million, accounting for 44.79% of corporate deposits; and corporate time deposits amounted to RMB76,271 million, accounting for 55.21% of corporate deposits.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.1 Corporate Banking (Cont'd)

##### (3) Corporate loans

As of the end of the Reporting Period, the balance of corporate loans was RMB126,278 million, representing an increase of RMB15,234 million or 13.72% as compared with the end of 2022, of which the balance of working capital loans was RMB84,309 million, accounting for 66.76% of total corporate loans; the balance of fixed asset loans was RMB36,444 million, accounting for 28.86% of total corporate loans; and the balance of other loans was RMB5,525 million, accounting for 4.38% of total corporate loans.

##### **Loans to large and medium enterprises**

During the Reporting Period, the Bank actively implemented the national policy orientation and regulatory requirements, actively supported the development of the real economy, attached great importance to shifting credit resources to green finance, technological innovation enterprises, inclusive finance, private enterprises, rural revitalization, marine economy, infrastructure construction, advanced manufacturing, strategic emerging industries and the industrial upgrading, technological transformation, energy conservation and environmental protection projects of traditional enterprises, continued to optimize the credit business environment and improved credit services. As of the end of the Reporting Period, the balance of loans to large enterprises was RMB22,918 million, and the balance of loans to medium enterprises was RMB35,383 million.

##### **Loans to small and micro enterprises**

The Bank has set up 1 specialised institution for small and micro enterprises – the small enterprise financial service centre, which directly operates a business centre, a small and micro enterprise financial service centre, a product management center and a risk center. The Bank's primary sub-branches focused on retail and inclusive business, while strengthening the construction of inclusive professional teams to achieve full coverage of inclusive professional teams of branches, supervising divisions/directly administered sub-branches.

Increasing the investment of inclusive loans. Capitalizing on policy dividends, the Bank proactively applied for re-loans for supporting small and medium enterprises of the People's Bank of China, on-lending capitals from the policy banks, and made full use of inclusive SME loans supporting tools of the People's Bank of China. Meantime, the Bank continued to increase inclusive SME loans. The Bank continued to optimize the financing service model and product innovation for small and micro enterprises, and has achieved significant results in marketing expansion focusing on specialized and sophisticated enterprises that produce new and unique products, technology-based enterprises and upstream and downstream enterprises along the supply chain, so as to gradually optimize the loan structure. As of the end of the Reporting Period, the balance of the Bank's inclusive small and micro loans (including loans to small and micro enterprises with credit lines for single account less than RMB10 million (inclusive), loans to individual industrial and commercial households, and loans to owners of small and micro enterprises, exclusive of discount) amounted to RMB27,269 million, representing an increase of RMB3,307 million or 13.80% as compared with the beginning of the year. The average loan interest rate for inclusive small and micro enterprises was 5.08%, and the number of customers of inclusive small and micro-enterprise loans was approximately 73,000, representing an increase of approximately 200 as compared with the beginning of the year. The Bank effectively supported the capital demands from inclusive small and micro enterprises.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.1 Corporate Banking (Cont'd)

##### (4) *Green finance*

The Bank closely followed the national green and low-carbon transformation strategy, fulfilled the industrial credit policy, and identified the year of 2023 as the “Green Power Year”. Firstly, the Bank has gradually established and improved the four-level green finance organization leadership structure of “Board of Directors – Senior Management – Headquarters – Branch”, which coordinated and led the green finance development direction of the Bank, set up a green finance center at the headquarters level and appointed the green finance commissioners at the branch level, and built a complete and effective green finance organizational structure and management system at the headquarters and branch level. Secondly, the Bank has continued to increase the innovation of green credit, increased the issuance of loans in line with the carbon emission reduction policy tools of Shandong Province making full use of policy tools, constantly explored new models of green finance development, established a product system of 32 items in 4 categories, and formed green financial products covering green industries, marine economy, carbon reduction and emission reduction and other aspects. Thirdly, the first green franchised sub-branch was formally established as the forefront of the development and extension of green finance business of the Bank, forming a good demonstration and leading role to promote the orderly development of green finance of the Bank. Fourthly, the Bank made full use of policy tools to increase the investment of green credit, formulated the business transformation target plan during the “14th Five Year Plan”, and further refined the business development plan and growth target. As of the end of the Reporting Period, the balance of the Bank’s green loan amounted to RMB23,782 million, representing an increase of RMB7,837 million or 49.13% as compared with the beginning of the year.

##### (5) *Trade finance business*

The Bank provides a wide range of financial products and services to corporate banking customers involving cross-border transactions and domestic trade. Our international settlement services primarily include remittance, collection, letters of credit, letters of guarantee and cross-border RMB settlement. As of the end of the Reporting Period, the Bank had 23 branches and sub-branches providing international settlement services and has established agency relationship with over 200 banks, covering countries (regions) including Mainland China, Hong Kong, Germany and the United States, etc.. The Bank has continued to strengthen its marketing efforts based on its trading and financial customer list to enhance its business scale. During the Reporting Period, the trading and financial services transaction volume amounted to US\$5,179 million.

#### 8.2 Retail Business

During the Reporting Period, under the general environment of “digital” transformation, the Bank clarified the strategic positioning of “focusing on retail”, and achieved high-quality and rapid development of its retail business by strengthening technology investment and improving online product functions and service. During the Reporting Period, the operating income from retail banking business amounted to RMB983 million, accounting for 22.61% of total operating income.



### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.2 Retail Business (Cont'd)

##### (1) Retail customers

Steadfastly following the featured development path of digitization-driven “Bi-Focus retail banking”, the Bank deepened the management of retail customers by classification, layers and groups to invigorate core retail customer groups such as payroll, mid-to-high-end, and consumer finance; clarified business objectives and business strategies, optimized and improved product systems and marketing models, strengthened the digital management of customer groups, and formed a standard approach to customer group operation. At the same time, the Bank strengthened the construction of the platform, attached importance to scene management, enriched the application scenarios in the fields of public transportation and people’s livelihood services, and strengthened the linkage around the scenes such as payroll payment and residents’ payment to constantly optimize the business process, card ecology and equity system of credit cards and debit cards, continuously improved the core competitiveness and digital marketing management capabilities of our bank cards.

The Bank has a wide range of retail banking customers in Shandong Province and Tianjin. As of the end of the Reporting Period, the assets retained by retail customers in the Bank amounted to RMB158,005 million, representing an increase of 10.02% as compared with the end of 2022. As the wealth management of the Bank gradually improves, the number of mid- to high-end customers continues to grow. As of the end of the Reporting Period, the financial assets retained in the Bank by customers with personal financial assets of over RMB200,000 amounted to RMB130,107 million, accounting for 82.34% of the Bank’s personal financial assets.

During the Reporting Period, the Bank continued to optimize customer rights and interests based on customer experience, developed a platform for mass marketing to promote the consignment of wealth management products, funds and insurance and other businesses, so as to achieve the complementary development through marketing diversified product portfolios. Meantime, the Bank continued to optimize a smart marketing platform to provide a basic and long-term support for the maintenance of customer marketing and the management of internal marketing.

##### (2) Personal deposit business

During the Reporting Period, the Bank’s total personal deposits increased significantly. As of the end of the Reporting Period, the balance of the Bank’s personal deposits reached RMB120,856 million, representing an increase of RMB15,157 million or 14.34% as compared with the end of 2022.

##### (3) Personal loan business

The Bank provide residential mortgage loans, personal business loans and personal consumption loans to retail banking customers.

#### **Personal consumption loans**

The Bank vigorously promoted a series of personal consumption loans under the brand name of “Happy Consumption Loan” and featured revolving online personal loan product “Quick e-Loan” to meet personal and family consumption needs. During the Reporting Period, under the premise of effective risk management and control, the Bank actively explored the online process of its personal consumption loan business to stably increase the scale of consumption loans. As of the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB9,855 million, representing an increase of RMB2,421 million or 32.57% as compared with the end of 2022.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.2 Retail Business (Cont'd)

##### (3) *Personal loan business (Cont'd)*

###### **Residential mortgage loans**

During the Reporting Period, the Bank adhered to the positioning of “houses are for living in, not for speculation” and implemented differentiated housing credit policies to support residents’ reasonable housing needs and steadily developed individual residential mortgage loans. The Bank also introduced a retail rating model to assist in approval and decision-making, strengthened the risk prevention and control of mortgage business, and focused on marketing high-quality developers, high-quality properties and high-quality customers to promote the steady growth of residential mortgage business. As of the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB15,953 million.

###### **Personal business loans**

The Bank utilized a digital inclusive financial platform to provide one-stop financial services for small and micro enterprises and upgrade its products, processes and risk controls; continuously improve the product system, combined with regional characteristics, the Bank launched online agricultural products electronic warehouse receipt pledge and inventory pledge business; based on the marine economy, the Bank launched abalone loan business to inject financial impetus into the high-quality development of characteristic industries. At the same time, the Bank continuously optimized its online product “Property e-Loan (房e贷)” to achieve a new breakthroughs in business by leveraging the Internet marketing model and making full use of the advantages of online application, online approval, and convenient borrowing and repayment services.

##### (4) *Personal wealth management business*

As of the end of the Reporting Period, the scale of the Bank’s personal wealth management business reached RMB34,768 million, representing a decline of RMB282 million or 0.80% as compared with the end of 2022, mainly due to the control of the overall business scale in accordance with regulatory requirements.

##### (5) *Bank card business*

Debit card business: During the Reporting Period, the Bank further enriched the rights and interests of cardholders and improved the user experience. The number of debit cards issued achieved steady growth. As of the end of the Reporting Period, the Bank issued a total of approximately 4,727,800 debit cards (including 1,634,500 Weihai Citizen Cards), representing an increase of approximately 147,800 cards, or 3.23%, as compared with the end of 2022; during the Reporting Period, the total transaction volume of consumption through the Bank’s debit cards was RMB3,324 million.

Credit card business: During the Reporting Period, under the premise of strict risk management, the Bank focused on the interactive development of existing customers, and the credit card business formed a good trend of stable development, deep exploration of potential and strong management, and realised the improvement of business scale. As of the end of the Reporting Period, the Bank issued a total of 168,932 credit cards and the balance of our credit cards amounted to RMB1,103 million.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.3 Financial Market Business

The Bank's financial market business leveraged its advantages of extensive outlet network and long-term penetration in local markets, and made intensive efforts in the treasury business, explored potential and innovated the interbank financial business, optimized the asset-liability structure, established a sound portfolio of investment products, and achieved continuous improvement in investment return.

##### (1) *Proprietary investment*

The Bank continued to optimize investment structure, reduced the proportion of investment and SPV investment, improved asset liquidity and supported the development of the real economy. As of the end of the Reporting Period, the Bank had financial investments with a carrying amount of RMB140,779 million, representing an increase of RMB12,588 million or 9.82% as compared to the end of 2022. The increase in such assets in 2023 was mainly due to the following reasons: firstly, the increase in holding of local government bonds and policy financial bonds for both liquidity and efficiency; secondly, the adjustment in investment structure by increasing the investment in non-financial corporate bonds to support the real economy; thirdly, the increase in the investment in public funds with strong liquidity and tax-free advantages.

##### (2) *Interbank business*

The Bank actively utilized different types of interbank liabilities and reasonably matched their maturity structure, which effectively reduced the cost of interbank liabilities and also met the Bank's needs for liquidity management. Meanwhile, the Bank responded to regulatory guidance, paid attention to market movements and actively participated in market transactions. During the Reporting Period, the Bank's transaction volume in the national interbank market reached RMB1.60 trillion.

##### (3) *Investment banking business*

In recent years, the Bank has continuously expanded various underwriting business licenses in the national interbank market, and promoted the development of various businesses and product innovation. Leveraging on its extensive licenses and qualifications for underwriting business, the Bank continued to enhance its competitive edge in financial markets, established its service brand in debt capital markets, and provided customers with comprehensive financing solutions.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.3 Financial Market Business (Cont'd)

##### (4) *Wealth management*

Since 2011, the Bank's wealth management business has developed into a well-established, stable and distinctive brand with a stable customer base. Leveraging its extensive business network coverage, the Bank actively explores customers' demands, based on which, it designs flexible and tailor-made wealth management products and offers clients convenient asset management services on an ongoing basis. The Bank has implemented a diversified, cross-market investment strategy with a stable investment return and controllable risks.

During the Reporting Period, proceeds of RMB43,354 million were raised from the wealth management business with 2 products expired. Proceeds from closed-end products subject to redemption upon maturity and open-end products subject to redemption of principal amounted to RMB44,239 million in aggregate. The balance as of the end of the Reporting Period was RMB35,677 million, representing a decrease of 0.53% as compared with the end of 2022. It was mainly due to the control of the overall business scale in accordance with regulatory requirements.

#### 8.4 Internet Finance Business

The Bank always attaches great importance to the important role of technology in driving business development. With "digitalization" as the key driver, it is able to cultivate core competitiveness enabled by strengthened technology. The Bank has set up the Internet Finance Department for online finance business, to continue building a digitalised online smart bank that delivers outstanding performance.

##### (1) *Self-service banking*

The Bank's self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, smart terminals (智能终端), smart self-service receipt machines (智能回單機) and automatic inquiry machines. These facilities provide customers with convenient banking services while allowing the Bank to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, self-service card activation and self-service receipt printing. As of the end of the Reporting Period, the Bank had 487 self-service banking facilities.

In addition, the Bank actively upgrades and uses innovative applied technology on its self-service banking facilities in order to provide better services and experiences to customers. For instance, the Bank had launched large-print version function on smart devices to facilitate elderly customers to handle their business through our smart devices. Smart devices offer similar functions as traditional bank counters and use a one-stop business processing model with a more concise operation process, significantly reducing the business processing time for customers. As of the end of the Reporting Period, the Bank had 228 smart devices.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.4 Internet Finance Business (Cont'd)

##### (2) *Electronic banking channels*

The Bank's electronic channel business includes online banking, mobile banking, video banking and WeChat banking, which are complementary and extended to its branches and provide customers with comprehensive financial services.

##### **Online banking**

The Bank's online banking platform, accessible via its website [www.whccb.com](http://www.whccb.com), offers a broad range of financial products and services to both corporate banking and retail banking customers. For corporate banking customers, it provides various services, primarily including account inquiry and management, payment and settlement, payroll services, money transfer and remittance. For retail banking customers, it offers account inquiry and management, money transfer and remittances, wealth management products, bill payment and personal loans.

As of the end of the Reporting Period, the Bank had a total of approximately 631,400 online banking customers, including approximately 57,600 corporate banking customers and approximately 573,800 retail banking customers. During the Reporting Period, an aggregate transaction volume of RMB551,906 million was processed through the Bank's online banking platform.

##### **Mobile banking**

The Bank began offering mobile banking services through its client terminal in 2014. A variety of services are offered through its mobile banking application, including account inquiry and management, money transfer, wealth management products and bill payment. In April 2022, we launched a new version of smart banking application to promote business scenarios and intelligence through financial technology, continuing to create multiple values for users and providing personalised, specialised, intelligent and open mobile financial services. To better secure the transactions of our customers, we provide the customers with short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts. As of the end of the Reporting Period, the Bank had approximately 2,895,600 mobile banking users. During the Reporting Period, an aggregate transaction volume of RMB134,478 million was processed through the Bank's mobile banking platform.

In addition, the Bank opened its official WeChat account in 2014, which serves as an important hub for our communications with the customers. By following this account, the Bank's customers can enjoy a variety of services, including checking bank account information, conversion of time and demand deposits, wealth management products, payment of public utility bills, application for personal loans, application for credit cards, management of credit cards, outlet inquiry and appointment for opening accounts. As of the end of the Reporting Period, the Bank's official WeChat account had approximately 403,900 subscribers.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.4 Internet Finance Business (Cont'd)

##### (2) *Electronic banking channels (Cont'd)*

###### **Video banking**

During the Reporting Period, the Bank continuously enhanced its remote service capabilities through video banking so as to improve customer experience. By utilizing internet text-based online customer service channels, video banking knowledge Q&A has been provided to customers, leading to video banking consultations triggered through smart text-based online channels over 6,000 times. Promotional messages on video banking have been incorporated into the waiting audio of the customer service hotline, further increasing the exposure of video banking services. Business training was organized within the Bank with promotional materials, encouraging staff to recommend customers to experience video banking. Customers are guided to use video banking for handling their business through customer service hotline and text-based online customer service. In the first half of the year, the total number of incoming calls within the video banking centralized operation scenarios reached 28,931, representing a year-on-year growth of 110%.

###### **Online loans**

In order to improve the convenience of services, the Bank launched the online "Quick e-Loan (快e貸)" product by using technology means. The product focuses on the establishment of full life-cycle and full-scenario online financial system, comprehensive digital risk control system and comprehensive business operation management system with complete autonomy and control, covering three major fields, namely government affairs and peoples' livelihood, consumer retail and supply chain. It realised scenario-based layout through accurate marketing, online and offline connectivity, and innovative breakthroughs in scenario-based ecological finance. The achievement of "one second for scanning code, one minute for customer input and one minute for system approval" has significantly promoted business process standardisation and enhanced customers' financial service experience. As of the end of the Reporting Period, the balance of "Quick e-Loan" was RMB6,412 million.

#### 8.5 Digital Development

During the Reporting Period, the Bank, by centring on the development vision of "Smart Digital Bank (智慧數字銀行)" with "First-class Customer Experience, First-class Revenue Generation (客戶體驗一流·創收創利一流)" and adhering to the distinctive development approach of "Bi-Focus Retail Banking (兩端型零售銀行)" driven by "Digitization (數字化)", so as to diligently strengthen our technological infrastructure, daringly explore innovative models. The Bank continued to build an integrated financial technology structure and firmly promoted the construction of a basic and supportive mid-office platform system, creating a four-dimensional financial technology base consisting of the three mid-offices of business, technology, and data and a cloud platform. The Bank implemented in-depth industry-technology integration and continuously unleashed the strength of technology empowerment so as to provide strong support and guarantee for business development. The Bank effectively enhanced the capabilities and effectiveness of technology driving and continuously released the value of technology empowerment so as to contribute technological strength to the business development and agile innovation of the Bank.

During the Reporting Period, the Bank has expedited the revitalization of data assets. By improving the data standard system, optimizing the data quality management, increasing the data application value, ensuring the data security management, and advancing the data project construction, the level of data governance and data application capabilities have improved significantly. By leveraging the empowering role of financial technology in the operation and management of banking, the Bank has improved our service efficiency through means of digitalization and addressed financial pain points through intelligent solutions so as to promote the iterative operation of projects such as the management cockpit, retail customer analysis and labelling system, and the establishment of financial market business analysis system, effectively improving the capability of data utilization, which, through data analysis and application, provided vital support to the segments such as precise marketing, risk management, and business decision-making of the Bank.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.5 Digital Development (Cont'd)

During the Reporting Period, the Bank launched more than 10 IT projects and 10 projects have successfully commenced production, including the corporate CRM system, smart marketing platform, inclusive financial service platform 2.0, retail customer risk view, and corporate risk control backbone system, which fully empowered the business development in corporate, retail, inclusive finance, and risk management segments through digitalized advanced thinking and innovative technology. Firstly, the Bank fully upgraded the corporate CRM system, realizing a digital and systematic linkage marketing model so as to enhance the Bank's service capability for corporate customers. Secondly, with the smart marketing platform, the Bank assisted the intelligent and online customer operations and improved marketing precision so as to achieve the Bank's precise marketing for retail customers. Thirdly, the Bank built the inclusive financial service platform 2.0, utilizing agility, continuously improved the construction of inclusive finance channels, enhanced the operational capability for inclusive digitalization, and enriched the inclusive product system, so as to contribute to the revitalization of rural areas in Shandong Province and the high-quality development of the real economy. Fourthly, the Bank commenced the production of the retail customer risk view and corporate risk control backbone system, realizing the comprehensive breakthrough in the digitization capabilities of customer risk display and pre-loan due diligence so as to establish a bank-wide digitalized risk management system that covers the entire work stream.

During the Reporting Period, the Bank successfully completed the system operation and maintenance and cyber security measures during a critical period, continuously strengthened its management and leadership, and rigorously implemented such protective measures, which effectively strengthened the "Three Lines of Defense" in risk management, continuously enhanced the level of information technology risk management and effectively solidified the foundation of information technology risk management. The Bank strengthened the risk management for outsourcing and constantly improved the quality and efficiency of information technology outsourcing services. Additionally, the Bank continuously improved our systems, mechanisms, and processes, integrating management measures and technical means so as to enhance network security monitor, alert, and response capabilities to ensure the secure, stable, continuous, and efficient operation of our information systems.

#### 8.6 Customer Service Management

The Bank adhered to the principle of customer orientation, fully implemented the service concept of "mutual support and delightful growth", continuously improved the quality and effectiveness of our services so as to enhance the service experience and refine our service management constantly, solidified the foundation of the customer-centring concept, gave full play to our supervisory functions, and strengthened back-office supervision so as to fully implement the service CCTV inspection and multidimensional service management improvements. The Bank highly respects consumer rights protection, strictly performed its principal responsibility for protecting the rights of financial consumers, provided accessible channels for complaints, and regularly carried out the reception day activities for the president on consumer complaints at all three levels of headquarters, branches and sub-branches, and established cross-level and cross-organization complaint consultation and collaborated handle mechanisms so as to enhance our capability of quick respond and cooperative handle of complaints, continuously advance a process control mechanism that covers the entire work stream for consumer protection, including "pre-examination, mid-control and management, and post-supervision (事前審查、事中管控、事後監督)". The Bank actively conducted root-cause analysis and governance and strengthened financial knowledge publicity and education so as to comprehensively elevate customer service quality.

### VIII. BUSINESS DEVELOPMENT (CONT'D)

#### 8.7 Analysis of Subsidiary

We established Shandong Tongda Financial Leasing Co., Ltd. in June 2016, and became the first commercial bank in Shandong Province to initiate the establishment of a financial leasing company. The strong synergy between the businesses of Tongda Financial Leasing and the Bank has notably improved its ability to provide comprehensive financial services to customers. It has become one of the important forces of our “Broad Corporate Banking (大公司)” business segment. During the Reporting Period, Tongda Financial Leasing strived to support the development of the real economy, strengthen internal control and compliance management, and served customers in 23 provinces and cities across China, with its business covering public facilities management, urban public utilities, transportation and logistics, energy conservation and environmental protection, culture, tourism and education, medical and health care, and business services.

As of the end of the Reporting Period, the registered capital of Tongda Financial Leasing was RMB1,650 million and it was registered in Jinan, Shandong. We held 54.55% equity interest in Tongda Financial Leasing, which is principally engaged in the provision of financial leasing solutions to customers, including direct lease and sale-and-leaseback. During the Reporting Period, the operating income of Tongda Financial Leasing was RMB443 million, representing a year-on-year increase of 3.64%; net profit amounted to RMB236 million, representing an increase of RMB21 million as compared to the same period of last year, accounting for 20.43% of our consolidated net profit.

### IX. CAPITAL MANAGEMENT

#### 9.1 Capital Adequacy Ratio

We calculate our capital adequacy ratios in accordance with Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) issued by the CBIRC and other relevant regulatory requirements. The scope of the calculation of capital adequacy ratios includes all of our branches and financial institutions in which we invest. Credit risk-weighted assets are measured using the weight method. The measurement of on-balance sheet risk-weighted assets is determined after taking into account the carrying amount of the assets, the weight and the qualified risk mitigation instruments. After the off-balance sheet exposure is converted into equivalent on-balance sheet assets according to the credit conversion factors, it is measured according to the treatment of on-balance sheet assets. Market risk-weighted assets are measured using the standard method, and operational risk-weighted assets are measured using the basic indicator method. During the Reporting Period, we complied with the capital requirements stipulated by the regulatory authorities and there was no change in the measurement of capital.

We have established a comprehensive internal capital adequacy assessment procedure, covering system and process, governance structure, identification and assessment of major risks, stress test of capital adequacy ratio, capital planning, capital adequacy ratio management plan, monitoring and reporting. We conduct internal capital adequacy assessment at least once a year. During the Reporting Period, we continued to optimize the internal capital adequacy assessment framework, system process and design plan, and the assessment framework system was in line with the core regulatory requirements to ensure that major risks were fully identified, measured, monitored and reported. The capital level was in line with the risk appetite and risk management level faced by us. The capital planning was in line with the operating conditions, risk trends and long-term development strategies, and was adjusted and updated in a timely manner when there were material changes in the operating conditions, risk conditions and external environment. During the Reporting Period, there was no change in the corresponding relationship between regulatory capital items and balance sheet items.



**IX. CAPITAL MANAGEMENT (CONT'D)****9.1 Capital Adequacy Ratio (Cont'd)**

The following table sets forth, as of the dates indicated, information relating to our capital adequacy ratios calculated in accordance with Regulation Governing Capital of Commercial Banks (Provisional) and PRC Accounting Standards for Business Enterprises.

Unit: RMB million

Basis of the Group	June 30, 2023	December 31, 2022
<b>Core tier-one capital</b>		
Share capital	<b>5,980.1</b>	5,980.1
Qualifying portion of capital reserve	<b>4,925.5</b>	4,925.5
Surplus reserve	<b>1,549.1</b>	1,549.1
General reserve	<b>3,690.6</b>	3,227.9
Other comprehensive income	<b>124.9</b>	(128.9)
Retained earnings	<b>5,079.1</b>	4,494.3
Qualifying portions of non-controlling interests	<b>821.9</b>	731.1
<b>Total core tier-one capital</b>	<b>22,171.2</b>	20,779.1
<b>Core tier-one capital deductions</b>	<b>(205.9)</b>	(335.3)
<b>Net core tier-one capital</b>	<b>21,965.3</b>	20,443.8
<b>Other tier-one capital</b>	<b>4,208.7</b>	4,196.6
<b>Net tier-one capital</b>	<b>26,174.0</b>	24,640.4
<b>Tier-two capital</b>	<b>7,627.6</b>	7,455.3
<b>Total capital, net</b>	<b>33,801.6</b>	32,095.7
<b>Total risk-weighted assets</b>	<b>251,445.6</b>	232,128.8
Including: Total credit risk-weighted assets	<b>237,366.8</b>	218,163.0
Total market risk-weighted assets	<b>1,198.9</b>	1,086.0
Total operational risk-weighted assets	<b>12,879.9</b>	12,879.8
<b>Core tier-one capital adequacy ratio</b>	<b>8.74%</b>	8.81%
<b>Tier-one capital adequacy ratio</b>	<b>10.41%</b>	10.61%
<b>Capital adequacy ratio</b>	<b>13.44%</b>	13.83%

## IX. CAPITAL MANAGEMENT (CONT'D)

## 9.1 Capital Adequacy Ratio (Cont'd)

Unit: RMB million

Basis of the Bank	June 30, 2023	December 31, 2022
<b>Core tier-one capital</b>		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,955.2	4,955.2
Surplus reserve	1,549.1	1,549.1
General reserve	3,496.2	3,059.8
Other comprehensive income	124.9	(128.9)
Retained earnings	4,260.0	3,777.6
Qualifying portions of non-controlling interests	N/A	N/A
<b>Total core tier-one capital</b>	<b>20,365.5</b>	19,192.9
<b>Core tier-one capital deductions</b>	<b>(1,433.7)</b>	(1,484.0)
<b>Net core tier-one capital</b>	<b>18,931.8</b>	17,708.9
<b>Other tier-one capital</b>	<b>4,099.2</b>	4,099.2
<b>Net tier-one capital</b>	<b>23,031.0</b>	21,808.1
<b>Tier-two capital</b>	<b>7,173.8</b>	7,010.3
<b>Total capital, net</b>	<b>30,204.8</b>	28,818.4
<b>Total risk-weighted assets</b>	<b>229,364.9</b>	212,824.5
Including: Total credit risk-weighted assets	216,668.7	200,241.2
Total market risk-weighted assets	1,198.9	1,086.0
Total operational risk-weighted assets	11,497.3	11,497.3
<b>Core tier-one capital adequacy ratio</b>	<b>8.25%</b>	8.32%
<b>Tier-one capital adequacy ratio</b>	<b>10.04%</b>	10.25%
<b>Capital adequacy ratio</b>	<b>13.17%</b>	13.54%

**IX. CAPITAL MANAGEMENT (CONT'D)****9.2 Leverage Ratio Analysis**

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) issued by the former China Banking Regulatory Commission and effective on April 1, 2015, a minimum leverage ratio of 4% is required for commercial banks. As of the end of the Reporting Period, our leverage ratio was 6.12%, which was higher than the regulatory requirements of the CBIRC. The above leverage ratio is calculated in accordance with the formula promulgated by the CBIRC.

The following table sets forth the relevant leverage ratios as of the dates indicated.

Unit: RMB million, except for percentages

	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Leverage ratio	<b>6.12%</b>	6.26%	6.32%	6.49%
Net tier-one capital	<b>26,174.0</b>	25,382.3	24,640.4	24,859.5
Balance of on- and off-balance sheet assets after adjustment	<b>428,014.2</b>	405,428.5	390,024.3	383,163.4

**X. RISK MANAGEMENT****10.1 Organizational Structure and Management Functions of Risk Management System**

The Bank's risk management follows the principles of comprehensive risk management, vertical management, linkage and checks and balances, professionalized management, and correlation between authority, responsibilities and rights. It establishes a centralized and vertical risk management system in respect of all risk types including credit risk, market risk, operational risk, liquidity risk, bank account interest rate risk, information technology risk, strategic risk, reputational risk, concentration risk, compliance risk and money laundering and terrorist financing risk through the implementation of comprehensive risk management, in order to regulate the interactions among the front, middle and back offices and promote the sustainable and healthy development of the Bank's business.

The Board of Directors of the Bank undertakes the ultimate responsibility for comprehensive risk management, the senior management undertakes the responsibility for the implementation of comprehensive risk management, and the Board of Supervisors undertakes the responsibility for the supervision of comprehensive risk management. The Board of Directors, the Board of Supervisors, the senior management and their respective special committees, the main risk management departments of the headquarters and the risk management departments of the branches, constitute the basic organizational structure of the Bank's risk management.

During the Reporting Period, there was no change in the organizational structure and management functions of the Bank's risk management system, objectives and processes of various risk management, which was consistent with the disclosure in the 2022 annual report of the Bank.

### X. RISK MANAGEMENT (CONT'D)

#### 10.2 Credit Risk

Credit risk is the risk of potential loss by the Bank arising from the failure of a debtor or counterparty to perform its contractual agreement.

During the Reporting Period, the Bank established a scientific and applicable credit risk management system with clear categorization and comprehensive coverage, to consolidate the foundation for sound development. The Bank also established a series of policies on credit authorization, industries, regions, customers, and products, etc., which were in line with the credit risk policy and management system in terms of the Bank's development strategies and risk preferences. In addition, the Bank developed credit risk management systems and measures on areas including credit approval, limit management, internal rating, credit authorization, credit management, collateral management, post-lending management, and disposal and written-off, so as to ensure that all risk management activities are traceable. The Bank continued to streamline and improve the specific management measures and operation specifications of each business, product, customer operation from each department and business line, so as to ensure the credit management policies and systems are thoroughly implemented. Those specific risk management and control measures include: firstly, the Bank continued to improve its differentiated credit access policy, established a long-term management mechanism for orderly entry and exit, and strengthened the rigid constraints of the system; secondly, the Bank strengthened its efforts in early risk warning and monitoring, and promptly adopted response measures for the risk signals identified during the management process to effectively implement the management requirements of "early detection, early warning and early treatment"; thirdly, the Bank continued to promote the construction of post-lending management system by leveraging the opportunity of digital transformation, strengthened technology empowerment through digital transformation, increasing the system support capability of credit risk management and control covering the entire work stream, to continuously improve the level of refinement in risk management and control.

#### 10.3 Market Risk

Market risk is the risk of loss to our on – and off-balance sheet businesses arising from movements in market prices. The major types of market risk the Bank are exposed to include interest rate risk and exchange rate risk.

During the Reporting Period, the Bank mainly adopted the following measures to strengthen market risk management: firstly, it continuously improved the market risk management policy, system and workflow, and continuously enhanced the construction of market risk management system. Secondly, it continuously identified, measured, monitored and controlled market risks, fully considered factors such as regulatory dynamics, macro-environment and business development status, set up limit on risks, and continuously monitored the implementation of the limits as well as market risk public opinion. As of the end of the Reporting Period, the Bank's relevant indicators did not exceed the market risk limits for 2023 as determined by the Board, so that the market risk assumed by the Bank was controlled within a tolerable and reasonable range.

### X. RISK MANAGEMENT (CONT'D)

#### 10.4 Operational Risk

Operational risk is the risk of loss arising from inadequate or defective internal procedures, personnel and information technology systems, as well as external events.

During the Reporting Period, the Bank fully implemented the regulatory requirements on operational risk prevention and strictly implemented the regulations on rotation of important posts. The Bank actively carried out stratified and categorised activities including the quarterly compliance inspections, quarterly line inspections, and quarterly case prevention and control investigations during which the Bank adhered to the problem-oriented principle, strictly worked on rectification and accountability and strengthened the knowledge test on swindle prevention. The Bank conducted a closed-book knowledge test on swindle prevention and compliance each month as a substitute for training to strengthen employees' awareness of swindle prevention and compliance, further improving the management and control of operational risks in key links and areas. During the Reporting Period, the Bank had no material operational risk loss event.

#### 10.5 Liquidity Risk

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due.

During the Reporting Period, in accordance with the management and control requirements that "liquidity risk follows market movements closely", the Bank paid close attention to market liquidity changes, made early deployment and timely adjustments to liquidity management measures based on changes in its assets and liabilities business and liquidity gap, and reasonably adjusted the maturity structure of assets and liabilities to ensure that liquidity risk is safe and controllable. The Bank strengthened liquidity risk management in the following aspects: Firstly, the Bank strengthened the analysis of market conditions. The Bank paid close attention to the impacts of macro monetary policies and external market changes on liquidity risk, adjusted the scale of assets and liabilities and maturity structure in a dynamic and timely manner with the changes in the Bank's business taken into account, and responded to changes in liquidity risk situation actively and effectively. Secondly, strengthening daily monitoring of liquidity. In accordance with the requirements of "monthly planning, ten-day monitoring and weekly scheduling", the Bank dynamically monitored the position limits and cash flow conditions, monitored daytime large transactions in real time and maintained a reasonable size of reserves through the liquidity risk management system, so as to ensure the safety of daytime fund payment. Thirdly, optimizing the liability structure. The Bank has strengthened the marketing of deposits, steadily increased the scale of deposits, reasonably controlled the proportion of interbank liabilities, actively promoted the issuance of long-term financial bonds, timely carried out various businesses such as rediscount, re-loans and interbank deposits, so as to enrich funding sources and improve the stability of liabilities. Fourthly, strengthening the analysis of liquidity indicators. According to regulatory requirements, the Bank has monthly dynamically monitored and analyzed the liquidity limit indicators and business changes, optimized and adjusted business structure under the cooperation with relevant departments, so as to promote the continuous optimization of various liquidity indicators. Fifthly, strengthening emergency management of liquidity risks. The Bank has sorted out the liquidity risk emergency management system and process regularly, carried out the liquidity risk stress tests quarterly, and added special stress tests in response to changes in the external market environment, so as to fully assess the impact of various risks on its on – and off-balance sheet businesses and improve the applicability and effectiveness of stress tests. During the Reporting Period, various liquidity indicators of the Bank met regulatory requirements and the requirements of the Board of Directors for liquidity risk management control.

## X. RISK MANAGEMENT (CONT'D)

### 10.6 Bank Account Interest Rate Risk

Bank account interest rate risk is the risk of loss on the overall income and economic value of a bank account arising from adverse movements in elements such as interest rate and maturity structure.

During the Reporting Period, the Bank mainly adopted the following measures to enhance bank account interest rate risk management in compliance with regulatory requirements: Firstly, the Bank strengthened limit management continuously. On the basis of integrated analysis of business structure and interest rate risk, the Bank set the limit indicators for bank account interest rate risk in 2023 and monitored the implementation of limits regularly. Secondly, the Bank regularly measured and analysed the bank account interest rate risk by means of interest rate sensitivity analysis, stress test and others, put forward management recommendations and business adjustment strategies according to analysis and test results, which are used as guidelines for its business development. In the process of sensitivity analysis, it is assumed that there is a parallel shift in the overall market interest rate, while the risk management activities that may be taken to reduce interest rate risks are not considered.

As of the end of the Reporting Period, the Bank's interest rate sensitivity analysis is as follows:

Unit: RMB million

	June 30, 2023		December 31, 2022	
	Net profit	Equity	Net profit	Equity
Increased by 100 basis points	15.8	230.2	54.0	131.8
Decreased by 100 basis points	(15.8)	(230.2)	(54.0)	(131.8)

### 10.7 Information Technology Risk

Information technology risks include operational risk, legal risk, reputational risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from the Bank's use of information technology.

During the Reporting Period, the Bank continued to strengthen information technology risk management. Firstly, the Bank strengthened the maintenance, update and monitoring of its information system, continuously optimized the operation and maintenance process, improved the operation and maintenance guarantee system, and established a sound problem response and handling mechanism, ensuring the safe and stable operation of the bank-wide system. Secondly, the Bank conducted in-depth investigation of information technology risks, continuously strengthened the construction of its emergency system and resource investment, and scientifically organized emergency drills for various business lines, continuously improving the ability to respond to emergencies and disasters. Thirdly, the Bank carried out in-depth assessment and improvement of business continuity management and information technology outsourcing risk management, and further improved the risk resistance capacity of the Bank's important information systems, ensuring the safe and stable operation of the Bank's various businesses.

### X. RISK MANAGEMENT (CONT'D)

#### 10.8 Strategic Risk

Strategic risk is the risk arising from inappropriate business strategies or changes in the external operating environment.

During the Reporting Period, the Bank summarised and evaluated the implementation of 2022 strategies, and drew up an assessment report on development strategies, which was reviewed and approved by the Board. The Bank constantly followed the changes in the external operating environment, dynamically monitored the execution of development strategies, carefully identified and evaluated potential strategic risks, regularly reported the management of strategic risks, and timely adjusted and optimized strategies and measures to ensure the effective implementation of the Bank's development strategies.

#### 10.9 Reputational Risk

Reputational risk refers to the risk of negative comments on the Bank from stakeholders, the public and the media due to the actions of operation, management and employees or external events, which may damage the brand value of the Bank, adversely affect the normal operation of the Bank, and even affect market stability and social stability.

During the Reporting Period, the Bank attached great importance to its reputation and kept enhancing its management process on reputational risk. It formulated measures on reputational risk management, defined the responsibilities of Directors, Supervisors and senior management, and specified the responsibilities and authorities of the headquarters, branches and sub-branches. The Bank also established an organisational framework for reputational risk management that covers headquarters, branch and sub-branch levels, and established a team comprising leaders from the headquarters and related branches and persons in-charge of various departments to deal with reputational risk incidents. A 7\*24 hours reputational risk monitoring mechanism was established to monitor, identify, report, control and assess its reputational risk, so that the headquarters can promptly take appropriate actions upon the occurrence of material and urgent incidents, minimising any loss and negative impact which the Bank may suffer due to such incidents. In addition, the Bank proactively utilised press communications and publication channels to promote its positive image and corporate values. Meanwhile, the Bank also proactively collected, organised and analysed information in relation to its reputation through newspapers, television, online media and other channels. During the Reporting Period, the Bank had no significant reputational risk incidents, and the reputational risk was within controllable range.

#### 10.10 Concentration Risk

Concentration risk refers to the risk exposure that arises directly or indirectly from the same or similar risk exceeding a certain percentage of net capital. The Bank has established a concentration risk management system and process based on the scale and complexity of its business to effectively identify, measure, monitor and report concentration risks.

During the Reporting Period, the Bank conducted stress tests on concentration risks to effectively identify and address potential risks; managed and controlled limits for concentration risks and ensured that concentration limits were followed effectively by formulating annual risk appetite, adjusting entry and exit criteria and implementing list-based management. During the Reporting Period, the indicators related to concentration risk management and large risk exposure management of the Bank all complied with regulatory requirements.

### X. RISK MANAGEMENT (CONT'D)

#### 10.11 Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial losses and reputational losses as a result of failure to comply with laws, rules and standards.

During the Reporting Period, the Bank launched the “Compliance Year” campaign to resolutely carry out combative rectification of non-compliant behaviors to achieve a major improvement in compliance management across the Bank. Firstly, the Bank has been fighting against the systems by establishing the “Three Zeroes and One Enhancement” control system, launching a series of activities on the “Five Haves”, compiling a standardized compliance management handbook, continuously optimizing and improving the systems and processes, and reinforcing the rigid constraints of the systems, so as to create an atmosphere in which “non-compliance is not allowed”. Secondly, the Bank has been fighting against itself. The Bank’ leaders take the lead in signing the Compliance Pledge, launching the “Three 100s” training activities, launching compliance advice and suggestion activities, and launching case warning education, so as to create an atmosphere of “unwillingness to violate regulations”. Thirdly, the Bank has been fighting against the non-compliance behaviors by insisting on the problem-oriented approach, carrying out classified inspections, establishing the mechanism of “heavy rewards and penalties” (i.e., “heavy rewards” for compliance and “heavy penalties” for non-compliance), and maintaining high pressure on various types of non-compliance, so as to form a strong deterrent and create an atmosphere in which “the staff do not dare to violate the rules”.

#### 10.12 Money Laundering and Terrorist Financing Risk

Money laundering risk refers to the risk that the Bank is exposed to the use of illegal and criminal activities such as money laundering and terrorist financing in the process of business operation and management.

During the Reporting Period, the Bank mainly adopted the following measures to manage its money laundering risk: The Bank has established a sound anti-money laundering organizational system, earnestly implemented anti-money laundering regulatory policies and work requirements, continuously improved its anti-money laundering internal control measures and optimized the anti-money laundering monitoring system. The Bank actively fulfilled the obligations of customer identification and preservation of customer identity information and transaction records, strengthened the assessment of money laundering risks of business and products, effectively incorporated anti-money laundering compliance requirements into business processes and systems, improved the technical support ability of the anti-money laundering monitoring system, continuously improved the accuracy of identification of suspicious customers and the quality and efficiency of suspicious monitoring and analysis, submitted reports on large and suspicious transactions as required, and strengthened anti-money laundering publicity, inspection and training to effectively prevent various money laundering risks. During the Reporting Period, no institutions and employees of the Bank were identified to be involved in or suspected of money laundering and terrorist financing activities.

#### 10.13 Legal Risk

Legal risks include but are not limited to the following risks: the contracts signed possibly being legally revoked or confirmed invalid due to violation of laws or administrative regulations; legal liability for compensation arising from being sued or applied for arbitration due to breach of contract, infringement or other reasons; administrative liabilities or criminal liabilities arising from business activities in violation of laws or administrative regulations.



### X. RISK MANAGEMENT (CONT'D)

#### 10.13 Legal Risk (Cont'd)

The Bank has established a legal risk management process that is compatible with the Bank's business scale and management and control requirements, covering major management processes such as legal review management of contractual documents, legal dispute handling, external law firm management, legal counsel management and legal consulting service management, laying a process foundation for effective identification, evaluation, analysis and response to legal risks. The Bank has formulated relevant management measures for legal risks, strictly carried out the management of legal work in accordance with rules and regulations, improved the legal risk management framework system, improved the quality of legal work, continuously strengthened the identification, analysis, evaluation and response to legal risks, strengthened the supervision and management of law institutions, achieved online review of legal documents, followed the principle of legal efficiency, unified standardization, division of work and cooperation, and hierarchical responsibility, integrated the management and prevention of legal risks with other risk management activities, improved the legal risk prevention and control mechanism, and promoted legal operation.

### XI. FUTURE PROSPECTS

#### 11.1 Analysis of the Operating Situation in the Second Half of the Year

Looking ahead to the second half of the year, the international environment is complex and challenging with the uncertainties remaining large. Although the domestic economic development is also under pressure, China's economy will maintain its long-term positive fundamentals and its characteristics of strong resilience, great potential and sufficient vitality, as well as the conditions supporting high-quality development. The steady growth policy will continue to strengthen, giving priority to the recovery and expansion of consumption, focusing on expanding domestic demand, boosting confidence, preventing risks, and stabilizing and enhancing the momentum of economic development. China will continue to implement a proactive fiscal policy and make policy measures more targeted, integrated and coordinated to support scientific and technological innovation, green development and the development of small and medium-sized enterprises. China will continue to implement a prudent monetary policy with precision and force, strengthen counter-cyclical adjustments and policy reserve, intensify macro-control measures, make full use of the effectiveness of monetary and credit policies, thus firmly promoting high-quality economic development.

In the second half of the year, Shandong Province's economy will continue its trends with a steady yet progressive growth with quality enhancement in the face of many favorable factors. On the one hand, with the in-depth implementation of major strategies such as the construction of the pilot zone of green, low-carbon and high-quality development, the major national strategy of the Yellow River, the comprehensive revitalization of rural areas and the construction of a strong maritime economy in the province, Shandong's economic development will be injected with new impetus and expanded new space. On the other hand, the economic recovery and industrial upgrading in the second half of the year have entered a critical period in which the development expectations and confidence of market players will gradually become stronger, the positive factors facing economic operation will further increase, and the quality and competitiveness of economic development will further improve, thus creating a safe and stable sound environment for the sustainable and healthy development of the financial industry.

### XI. FUTURE PROSPECTS (CONT'D)

#### 11.2 Major Work Measures for the Second Half of the Year

In the second half of the year, we will adhere to the principle of stabilization, seek progress while maintaining stability, strengthen the study and judgment of the situation, actively respond to the general trend of reform, and steadily carry out various tasks. We will focus on the following seven areas of work.

**Steady enhancement in party building to guide the development.** We will implement the general requirements for party building in the new era, fully utilize the roles of political leadership, ideological leadership, thought leadership, methodological leadership, team leadership and goal leadership in party building to realize high-quality development with high-quality party building.

**Stable and high-quality performance.** We will, in accordance with the spirit of the policies and regulatory requirements, give more prominence to stabilizing growth, preventing risks and promoting transformation, promote the transformation of its business model, and the upgrading of its business structure, income structure and profitability structure steadily, so as to achieve its own high-quality development.

**Steady achievement of strategic targets.** We will reinforce our efforts in strategic targets to increase the “share” of savings deposits and the “total volume” of mobile banking; reinforce our efforts in risk control and strengthen overall risk management to ensure the stability of our team, the stability of the staff’s hearts and the stability of our business.

**Enhancement of the capabilities of the staff through steady transformation.** Through the transformation of the control model, we will enhance the management and marketing capabilities of all staff in terms of “specialization, refinement and networking”; through the transformation of the digital model, we will enhance the capability of digital empowerment for business development; through the transformation of the business model, we will enhance the capability of doing specialty businesses such as retail business, inclusive business and supply-chain business, and continue to cultivate new core competencies.

**Steady activities.** We will continue to carry out the “three yearly” activities, namely the “Compliance Year”, “Inclusiveness Year” and “Green Development Year” activities, to consolidate the foundation of compliance, build the green finance brand and expand the inclusive customer base, so as to ensure the effectiveness of the activities.

**Steady and effective training.** The Bank will improve our training system, build a pipeline for talent growth, and continuously enhance the effectiveness of “teaching”, “learning” and “utilization” to create an atmosphere of “working while learning, learning while working, and growing happily in learning and working”.

**Steady and powerful appraisal.** Taking the appraisal as a baton, the Bank will increase the assessment of management and employees, take the assessment result as an important basis for selection and promotion, and make the rewards and punishments in a timely manner, so as to stimulate the enthusiasm of all staff.

# CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

## I. CHANGES IN SHARE CAPITAL

As at the end of the Reporting Period, the total issued shares of the Bank were 5,980,058,344 shares, including 4,971,197,344 domestic shares and 1,008,861,000 H shares, and the registered capital was RMB5,980,058,344 in total.

	June 30, 2023		Changes during the Reporting Period Number of shares (Shares)	December 31, 2022	
	Number of shares (Shares)	Percentage of total shares (%)		Number of shares (Shares)	Percentage of total shares (%)
Domestic state shares	919,671,509	15.38	–	919,671,509	15.38
Domestic state-owned legal person shares	3,162,241,152	52.88	–	3,162,241,152	52.88
Domestic social legal person shares	810,319,383	13.55	–	810,319,383	13.55
Domestic natural person shares	78,965,300	1.32	–	78,965,300	1.32
H Shares	1,008,861,000	16.87	–	1,008,861,000	16.87
<b>Total number of Shares</b>	<b>5,980,058,344</b>	<b>100.00</b>	–	<b>5,980,058,344</b>	<b>100.00</b>

## II. INFORMATION ON SHAREHOLDERS

### 2.1 Total Number of Holders of Domestic Shares

As at the end of the Reporting Period, the total number of holders of domestic shares of the Bank was 1,038.

## II. INFORMATION ON SHAREHOLDERS (CONT'D)

### 2.2 Particulars of the Top Ten Shareholders of Domestic Shares

No.	Name of shareholders	Shareholder nature	Total number of shares held as at the end of the Reporting Period (shares)	Percentage of total shares as at the end of the Reporting Period (%)	Pledging or freezing status of shares	Number
1	Shandong Hi-Speed Group Company	State-owned legal person shares	2,126,237,528	35.56	Normal	-
2	Weihai Municipal Finance Bureau	State-owned shares	919,671,509	15.38	Normal	-
3	Shandong Hi-Speed	State-owned legal person shares	693,957,987	11.60	Normal	-
4	China National Heavy Duty Truck Group Co., Ltd.	State-owned legal person shares	243,084,607	4.06	Normal	-
5	Weihai Tian'an Real Estate Development Co., Ltd.	Social legal person shares	164,163,991	2.75	Normal	-
6	Shandong Gold Non-ferrous Metal Mine Group Co., Ltd.	State-owned legal person shares	90,185,970	1.51	Normal	-
7	Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	Social legal person shares	83,157,762	1.39	Normal	-
8	Shandong Homey Aquatic Development Co., Ltd.	Social legal person shares	71,463,546	1.20	Normal	-
9	Shandong Tianxicheng Enterprise Management Co., Ltd.	Social legal person shares	69,253,090	1.16	Normal	-
10	Weihai Xing'an Construction Engineering Co., Ltd.	Social legal person shares	60,054,251	1.00	Normal	-

## Chapter 6 Changes in Share Capital and Information on Shareholders

### II. INFORMATION ON SHAREHOLDERS (CONT'D)

#### 2.3 Interests and Short Positions in Hong Kong in Accordance with the SFO

As at the end of the Reporting Period, pursuant to the register entered by the Bank under Section 336 of the SFO, and to the best knowledge of the Bank, the following persons (other than the Bank's Directors, Supervisors and chief executive) had or were deemed or taken to have interests and/or short positions in the Shares or underlying Shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of shares of the Bank carrying rights to vote in all circumstances at general meetings of any other member of the Bank:

Name of shareholders	Class of shares	Nature of interest	Number of shares directly or indirectly held (shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of shares of the Bank (%)
Shandong Hi-Speed Group Company <sup>(1)</sup>	Domestic shares	Beneficial owner and interest in controlled corporation	2,820,195,515	Long position	47.16	56.73
Weihai Municipal Finance Bureau	Domestic shares	Beneficial owner	919,671,509	Long position	15.38	18.50
Shandong Hi-Speed <sup>(1)</sup>	Domestic shares	Beneficial owner	693,957,987	Long position	11.60	13.96
China Hongqiao Group Limited	H shares	Beneficial owner	276,045,000	Long position	4.62	27.36
Shenzhen Shengqiu Investment Co., Ltd.	H shares	Beneficial owner	137,305,000	Long position	2.30	13.61
Jinan Licheng Holdings Group Co., Ltd.	H shares	Beneficial owner	111,852,000	Long position	1.87	11.09
TRAFIGURA PTE LTD	H shares	Beneficial owner	74,581,000	Long position	1.25	7.39
Shandong Lulong Construction Co., Ltd. <sup>(2)</sup>	H shares	Beneficial owner	71,003,000	Long position	1.19	7.04
YANG Shulan <sup>(2)</sup>	H shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Xindu Group Limited <sup>(2)</sup>	H shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
GMK Holdings Group Co., Ltd. <sup>(3)</sup>	H shares	Beneficial owner	68,712,000	Long position	1.15	6.81
LIU Xuejing <sup>(3)</sup>	H shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
ZHANG Xiuying <sup>(3)</sup>	H shares	Interest of spouse	68,712,000	Long position	1.15	6.81

## II. INFORMATION ON SHAREHOLDERS (CONT'D)

### 2.3 Interests and Short Positions in Hong Kong in Accordance with the SFO (Cont'd)

Name of shareholders	Class of shares	Nature of interest	Number of shares directly or indirectly held (shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of shares of the Bank (%)
Shandong Zhaojin Group Financial Company Limited <sup>(4)</sup>	H shares	Beneficial owner	68,712,000	Long position	1.15	6.81
Shandong Zhaojin Group Company Limited <sup>(4)</sup>	H shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
Zhaojin Mining Industry Company Limited <sup>(4)</sup>	H shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
JIN JIANG INVESTMENT LIMITED	H shares	Beneficial owner	68,577,000	Long position	1.15	6.80
Tianjin Guangcheng Investment Group Co., Ltd. <sup>(5)</sup>	H shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. <sup>(5)</sup>	H shares	Beneficial owner	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Construction Investment Co., Ltd. <sup>(5)</sup>	H shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Heze City Investment Holdings Group Co., Ltd. <sup>(6)</sup>	H shares	Interest in controlled corporation	65,359,000	Long position	1.09	6.48
Heze City Investment Holdings Hong Kong International Co., Limited <sup>(6)</sup>	H shares	Beneficial owner	65,359,000	Long position	1.09	6.48

### II. INFORMATION ON SHAREHOLDERS (CONT'D)

#### 2.3 Interests and Short Positions in Hong Kong in Accordance with the SFO (Cont'd)

Notes:

- (1) Shandong Hi-Speed Group Company is the controlling shareholder of the Bank and is directly held by Shandong SASAC, Shandong Guohui Investment Holding Group Co., Ltd., a wholly-owned subsidiary of Shandong SASAC, and Shandong Caixin Assets Operation Co., Ltd. as to 70.00%, 20.00% and 10.00%, respectively.

Shandong Hi-Speed is owned by Shandong Hi-Speed Group Company as to approximately 70.67%. Therefore, Shandong Hi-Speed Group Company is deemed to be interested in all the shares held by Shandong Hi-Speed for the purpose of the SFO.

- (2) Xindu Group Limited indirectly holds 71,003,000 H shares through its subsidiary, Shandong Lulong Construction Co., Ltd.. Ms. YANG Shulan holds approximately 56.00% of the interests in Xindu Group Limited. Accordingly, Xindu Group Limited and Ms. YANG Shulan are deemed to be interested in 71,003,000 H shares for the purpose of the SFO.
- (3) Mr. LIU Xuejing holds approximately 51.00% of the interests in GMK Holdings Group Co., Ltd.. Ms. ZHANG Xiuying is the spouse of Mr. LIU Xuejing. Accordingly, Mr. LIU Xuejing and Ms. ZHANG Xiuying are deemed to be interested in the 68,712,000 H shares held by GMK Holdings Group Co., Ltd. for the purpose of the SFO.
- (4) Zhaojin Mining Industry Company Limited owns 51.00% of the interests in Shandong Zhaojin Group Financial Company Limited. Shandong Zhaojin Group Company Limited directly owns 40.00% of the interests in Shandong Zhaojin Group Financial Company Limited, and indirectly holds 60.00% of the interests in Shandong Zhaojin Group Financial Company Limited through Zhaojin Mining Industry Company Limited and Shandong Zhaojin Group Zhaoyuan Gold Smelting Company Limited. Accordingly, Zhaojin Mining Industry Company Limited and Shandong Zhaojin Group Company Limited are deemed to be interested in the 68,712,000 H shares held by Shandong Zhaojin Group Financial Company Limited for the purpose of the SFO.
- (5) Tianjin Guangcheng Investment Group Co., Ltd. wholly owns Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. through its wholly-owned subsidiary, Tianjin Jizhou Xincheng Construction Investment Co., Ltd.. Accordingly, Tianjin Guangcheng Investment Group Co., Ltd. and Tianjin Jizhou Xincheng Construction Investment Co., Ltd. are deemed to be interested in the 67,040,000 H shares held by Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. for the purpose of the SFO.
- (6) Heze City Investment Holdings Group Co., Ltd. wholly owns Heze City Investment Holdings Hong Kong International Co., Limited. Accordingly, Heze City Investment Holdings Group Co., Ltd. is deemed to be interested in the 65,359,000 H shares held by Heze City Investment Holdings Hong Kong International Co., Limited for the purpose of the SFO.

Saved as disclosed above, the Bank is not aware of any other parties (other than the Directors, Supervisors and chief executives of the Bank) who had any interests or short positions in the shares of the Bank which were required to be recorded in the register maintained by the Bank pursuant to Section 336 of the SFO as at the end of the Reporting Period.

## III. MAJOR SHAREHOLDERS OF DOMESTIC SHARES DURING THE REPORTING PERIOD

According to the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》) promulgated by the CBIRC, major shareholders of a commercial bank refer to shareholders who hold or control 5% or more of the shares or voting rights of the commercial bank, or who hold less than 5% of the total capital or total shares but have a significant influence on the operation and management of the commercial bank. The above “significant influence” includes, but is not limited to, dispatching directors, supervisors or senior management to the commercial bank, influencing the financial and operational management decisions of the commercial bank through agreements or other means, and other circumstances identified by China Banking Regulatory Commission or its local offices.

### 3.1 Shareholders Holding 5% or More of the Shares

Name of shareholders	Controlling shareholders	De facto controller	Persons acting in concert	Ultimate beneficiary
Shandong Hi-Speed Group Company	Shandong SASAC	Shandong SASAC	Shandong Hi-Speed	Shandong Hi-Speed Group Company
Weihai Municipal Finance Bureau	N/A	N/A	Nil	Weihai Municipal Finance Bureau
Shandong Hi-Speed	Shandong Hi-Speed Group Company	Shandong SASAC	Shandong Hi-Speed Group Company	Shandong Hi-Speed

### 3.2 Other Major Shareholders

Under the requirements of the Interim Measures for Management of Commercial Bank Equity (《商業銀行股權管理暫行辦法》), the other major shareholders of the Bank are as follows:

For Weihai Tian’an Real Estate Development Co., Ltd., Weihai Tian’an Construction Group Co., Ltd. is the controlling shareholder, GAI Bo (蓋波) is the de facto controller, with no persons acting in concert. The ultimate beneficiary is Weihai Tian’an Real Estate Development Co., Ltd..

For Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd., ZHOU Xinliang is the controlling shareholder and de facto controller, with no persons acting in concert. The ultimate beneficiary is Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd..

For Shandong Homey Aquatic Development Co., Ltd., Homey Group Co., Ltd. is the controlling shareholder, TANG Chuanqin is the de facto controller, with no persons acting in concert. The ultimate beneficiary is Shandong Homey Aquatic Development Co., Ltd..



### **IV. NOMINATION OF DIRECTORS AND SUPERVISORS BY SHAREHOLDERS**

1. Shandong Hi-Speed Group Company nominated Mr. TAN Xianguo, Mr. SONG Bin and Mr. YIN Lin as Directors of the Bank;
2. Weihai Municipal Finance Bureau nominated Mr. ZHAO Bing as a Director of the Bank;
3. Shandong Hi-Speed nominated Mr. YI Jijun as a Director of the Bank;
4. Weihai Tian'an Real Estate Development Co., Ltd. nominated Ms. ZHAO Lijie as a Supervisor of the Bank;
5. Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. nominated Mr. ZHOU Hao as a Supervisor of the Bank;
6. Shandong Homey Aquatic Development Co., Ltd. nominated Mr. FENG Yongdong as a Supervisor of the Bank.

### **V. PURCHASE, SALE AND REDEMPTION OF THE BANK'S LISTED SECURITIES**

During the Reporting Period, neither the Bank nor any of its subsidiary had purchased, sold or redeemed any of the Bank's listed securities.

# CHAPTER 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1.1 Directors

The Board consists of 15 Directors, including 5 executive Directors, 5 non-executive Directors and 5 independent non-executive Directors. Our Directors are elected for a term of three years and are subject to re-election, and the cumulative term of an independent non-executive Director shall not exceed six years. The following table sets forth certain information regarding our Directors.

Name	Age	Position	Date of appointment <sup>(1)</sup>
Mr. TAN Xianguo	56	Executive Director and Chairman	September 2004
Mr. MENG Dongxiao	51	Executive Director and President	April 2016
Ms. TAO Zunjian	53	Executive Director, Vice President and Chief Accountant	January 2019
Mr. LU Jiliang	33	Executive Director and Vice President	August 2021
Mr. ZHANG Wenbin	40	Executive Director and Vice President	August 2021
Mr. SONG Bin	50	Non-executive Director	August 2021
Mr. YIN Lin	48	Non-executive Director	August 2021
Mr. ZHAO Bing	56	Non-executive Director	August 2021
Mr. YI Jijun	58	Non-executive Director	June 2015
Ms. LI Jie	51	Non-executive Director	November 2022
Mr. SUN Guomao <sup>(2)</sup>	62	Independent Non-executive Director	September 2017
Mr. FAN Chi Chiu	38	Independent Non-executive Director	June 2020
Mr. WANG Yong	49	Independent Non-executive Director	November 2022
Mr. WANG Shaohong	60	Independent Non-executive Director	August 2021
Ms. SUN Zuying	60	Independent Non-executive Director	August 2021

Notes:

- (1) The date of appointment of Directors refers to the date on which the relevant Director obtained the qualification approval from CBIRC Shandong Office.
- (2) As resolved at the 2022 Annual General Meeting of the Bank, Mr. YANG Yunhong was appointed as independent non-executive Director, and his position qualification is subject to approval by National Financial Regulatory Administration Shandong Office. According to the Articles of Association and the resolution of the shareholders' general meeting, an existing Director shall continue to perform his/her duties as a Director until the newly appointed Director has received the qualification approval. Therefore, Mr. SUN Guomao remains an independent non-executive Director of the Bank.

## I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONT'D)

### 1.2 Supervisors

The board of Supervisors consists of 8 Supervisors, including 3 employees' representative Supervisors, 3 Shareholders' representative Supervisors and 2 external Supervisors. Our Supervisors are elected for a term of three years and are subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information regarding our Supervisors.

Name	Age	Position	Date of appointment <sup>(1)</sup>
Mr. ZHANG Renzhao	52	Chairman of the Board of Supervisors and Employees' Representative Supervisor	June 2021
Ms. ZHAO Lijie	48	Shareholders' Representative Supervisor	May 2011
Mr. ZHOU Hao	43	Shareholders' Representative Supervisor	May 2011
Mr. FENG Yongdong	58	Shareholders' Representative Supervisor	April 2015
Mr. WANG Xifeng	54	Employees' Representative Supervisor	June 2021
Mr. ZHANG Chuanzheng	56	Employees' Representative Supervisor	June 2021
Mr. PENG Feng	45	External Supervisor	May 2022
Ms. ZHU Yingwei	49	External Supervisor	June 2021

Note:

- (1) The date of appointment of Supervisors refers to the date of approval at the general meeting, and the term of office of re-elected Supervisors shall commence from the date of first election.

### 1.3 Senior Management

Name	Age	Position	Date of appointment <sup>(1)</sup>
Mr. MENG Dongxiao	51	President	February 2018
Ms. TAO Zunjian	53	Vice President	August 2021
		Chief Accountant	November 2018
Mr. ZHANG Xiaodong	54	Chief Risk Officer	June 2021
Mr. LU Jiliang	33	Vice President	February 2021
Mr. ZHANG Wenbin	40	Vice President	August 2021
Mr. ZHANG Jia'en	48	Secretary to the Board	September 2022

Note:

- (1) The date of appointment of senior management refers to the date on which he/she was appointed to the current position in the senior management and obtained the qualification approval from CBIRC Shandong Office.

### II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the Reporting Period, the Directors, Supervisors and senior management of the Bank had the following changes.

#### 2.1 Changes in Directors

On March 30, 2023, Mr. SUN Guomao, an independent non-executive Director of the Bank, resigned from the positions of independent non-executive Director and relevant special committees of Board of Directors of the Bank due to the expiry of his term of tenure. On May 30, 2023, as resolved at the Bank's 2022 Annual General Meeting, Mr. YANG Yunhong was appointed as an independent non-executive Director of the Bank. The qualification of Mr. YANG Yunhong as Director is subject to approval by National Financial Regulatory Administration Shandong Office, and Mr. SUN Guomao will continue to perform his duty as Director before such approval. For changes in Directors and biographical details of Mr. YANG Yunhong, please refer to the circular dated April 28, 2023 and the announcements dated March 30, 2023 and May 30, 2023, respectively, of the Bank.

#### 2.2 Changes in Supervisors

Mr. YANG Yunhong, an external Supervisor of the Bank, has resigned as an external Supervisor and the chairman of the Supervision Committee of the Board of Supervisors due to work arrangement on March 30, 2023. For changes details in Supervisors, please refer to the announcement dated March 30, 2023, of the Bank.

#### 2.3 Changes in Senior Management

There was no change in senior management during the Reporting Period.

#### 2.4 Changes in Information on Directors, Supervisors and Senior Management during the Reporting Period

1. Mr. SONG Bin has been a director of Chang'an University Education Foundation since April 2023.
2. Mr. YI Jijun has ceased to be a supervisor and the chairman of the board of supervisors of Shandong Hi-Speed since April 2023.

Save as disclosed above, during the Reporting Period, no other information in relation to the Directors, Supervisors or senior management was required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### III. CHANGES IN JOINT COMPANY SECRETARIES

There was no change in joint company secretaries during the Reporting Period.

## IV. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK OR ITS ASSOCIATED CORPORATIONS

So far as the Directors, Supervisors and chief executives of the Bank are aware, as of the end of the Reporting Period, the interests and short positions of the Directors, Supervisors and chief executives in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Bank and the Hong Kong Stock Exchange were as follows:

Name of Director/ Supervisor/ chief executive	Class of shares	Capacity	Number of Domestic shares directly or indirectly held	Percentage of total issued shares <sup>(2)</sup> (%)	Percentage of total class shares <sup>(2)</sup> (%)	Long position/ short position
Mr. TAN Xianguo	Domestic shares	Beneficial owner	491,426	0.0082	0.0099	Long position
Ms. TAO Zunjian	Domestic shares	Beneficial owner	143,804	0.0024	0.0029	Long position
Mr. ZHANG Wenbin	Domestic shares	Beneficial owner	70,266	0.0012	0.0014	Long position
Ms. SUN Zuying	Domestic shares	Beneficial owner	21,756	0.0004	0.0004	Long position
Mr. ZHANG Renzhao <sup>(1)</sup>	Domestic shares	Beneficial owner	495,656	0.0083	0.0100	Long position
		Interest of spouse	113,752	0.0019	0.0023	Long position
Mr. WANG Xifeng	Domestic shares	Beneficial owner	295,011	0.0049	0.0059	Long position
Mr. ZHANG Chuanzheng	Domestic shares	Beneficial owner	424,847	0.0071	0.0085	Long position

Notes:

- (1) By virtue of the SFO, Mr. ZHANG Renzhao is deemed to be interested in the 113,752 domestic shares held by his spouse, Ms. QU Wenwei (曲文微).
- (2) The percentages above are calculated based on the total number of issued shares of 5,980,058,344 shares and the total number of domestic shares of 4,971,197,344 shares of the Bank as of the end of the Reporting Period.

Save as disclosed above, as of the end of the Reporting Period, none of the Directors, Supervisors or chief executive of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

### V. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors, Supervisors and relevant employees of the Bank. Having made enquiry with all Directors and Supervisors, the Bank confirmed that they had complied with the Model Code during the Reporting Period. The Bank is not aware of any violations of the above code by the employees concerned.

### VI. STAFF AND HUMAN RESOURCE MANAGEMENT

#### 6.1 Number of employees

As of the end of the Reporting Period, the total number of our regular employees reached 3,272, of which 56.1% were female, 23.4% were employees aged 30 or below, and 95% were employees with bachelor’s degree or above. An excellent team of professionals helps to cultivate a corporate culture of active innovation and strengthen the ability to respond to market changes and seize market opportunities.

#### 6.2 Remuneration policy

In accordance with the PRC laws and regulations, the Bank contributes to our employees’ social insurance and other benefits program including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident fund and corporate annuity. The Bank has a labor union established in accordance with PRC laws and regulations, which represents the interests of our employees and works closely with our management on labor-related issues.

### VI. STAFF AND HUMAN RESOURCE MANAGEMENT (CONT'D)

#### 6.2 Remuneration policy (Cont'd)

The Board of Directors is responsible for designing the remuneration management system and policy of the Bank in accordance with relevant national laws and policies, and assumes an ultimate responsibility for the remuneration management. The Nomination and Remuneration Committee is set up under the Board of Directors. The management is responsible for organizing the implementation of resolutions of the Board of Directors on the remuneration management, and the Human Resources Department is responsible for specific matters. The Bank strictly complied with the Supervisory Guidelines on Sound Compensation in Commercial Banks and other relevant regulations, and formulated a scientific and reasonable incentive constraint mechanism that is compatible with long-term stable and sustainable development. Firstly, it stipulates that the remuneration structure of the Bank mainly includes basic salary, performance-based remuneration and medium and long-term incentives. Among them, performance-based remuneration and medium and long-term incentives are variable remuneration, which are distributed based on factors such as current and long-term performance contribution and risk condition, and different lock-up periods are set for medium and long-term incentives based on the length of service of employees in the Bank and are subject to deferred payments for all employees. Secondly, it clarifies the deferred payment of performance-based remuneration for senior management and personnel with significant risk impact. If a risk occurs within the specified period of time and causes losses, the performance-based remuneration of the relevant responsible person shall be recovered and paid back and the pay-back amount shall be recognized according to the determination of responsibility. If the risk loss within the responsibilities of such responsible person is unusually exposed within the specified period, the Bank is entitled to recover all performance-based remuneration paid in the corresponding period and refuse to pay all unpaid amount. The above provision shall also apply to resigned and retired employees. Thirdly, it clarifies the constraints of risk cost control indicators on performance-based remuneration, and stipulates that the risk cost control indicators of the Bank include capital adequacy ratio, non-performing loan ratio, provision coverage ratio, case risk ratio, and leverage ratio; that when measuring the costs of credit risk and market risk, the economic capital allocation and changes in capital cost itself as well as provision costs and actual losses shall be considered; and that when measuring liquidity risk costs, the liquidity coverage ratio under the stress testing and the cost of liquidity resources themselves shall be mainly considered.

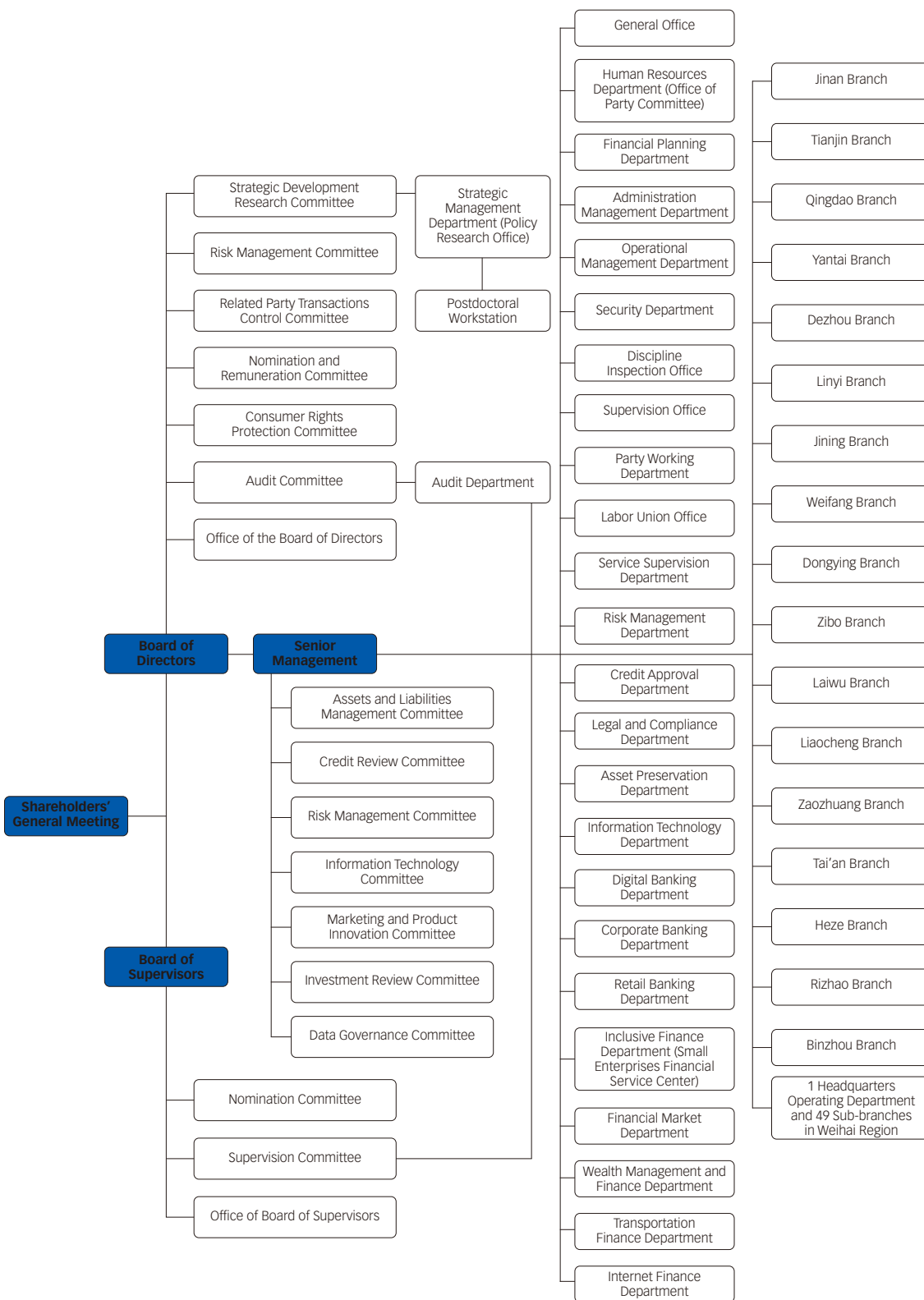
#### 6.3 Training scheme

The Bank attaches great importance to talent cultivation, and takes talent selection and employment as the foundation of the Bank's development, and has established a professional team with good execution ability. During the Reporting Period, the Bank conducted the "Co-Construction of Teachers and Courses with Ingenuity" training project, formulated a learning and growth map for employees, established a course review mechanism, internal trainer selection and management mechanism, and optimized our training system. During this period, the Bank also organized training programs for newly selected employees of the head office, digital transformation training, professional training for each business line, etc., to enhance the competitiveness of the team as a whole, and provide talents for the Bank's rapid development by organising trainings and competitions of various majors, categories and levels.

#### 6.4 Share scheme

During the Reporting Period, the Bank did not implement any share scheme.

VII. ORGANIZATIONAL STRUCTURE CHART





# CHAPTER 8 CORPORATE GOVERNANCE

## I. GENERAL INFORMATION ON CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to improve the transparency and accountability of its corporate governance and ensured a high standard of corporate governance practices to protect the interests of Shareholders and enhance corporate value and commitment.

The Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Listing Rules. The compositions of the Board and the special committees under the Board are in compliance with the requirements of the Listing Rules. The Bank has clearly defined the responsibilities of the Shareholders' general meeting, the Board, the Board of Supervisors and the senior management. The Shareholders' general meeting is the highest authority of the Bank. The Board is accountable to the Shareholders' general meeting. The Board has established six special committees, which operate under the leadership of the Board and provide advice on the decisions of the Board. The Board of Supervisors supervises the performance of duties by the Board and senior management as well as the Bank's financial activities, risk management and internal control. Under the leadership of the Board, the senior management is responsible for implementing the resolutions of the Board and for the daily operation and management of the Bank, and reports to the Board and the Board of Supervisors on a regular basis. The president of the Bank is appointed by the Board and is responsible for the overall business operation and management of the Bank.

The Bank has adopted the Corporate Governance Code, met the requirements of the administrative measures and corporate governance for domestic commercial banks, and established a sound corporate governance system. During the Reporting Period, the Bank has complied with code provisions set out in Part 2 of Appendix 14 to the Listing Rules.

The Bank is committed to maintaining a high standard of corporate governance. The Bank will continue to review and enhance its corporate governance to ensure compliance with the Corporate Governance Code and meet the expectations of the shareholders and potential investors of the Bank.

## II. SHAREHOLDERS' GENERAL MEETING

The main duties of the general meeting include deciding on the Bank's business guidelines and investment plans, electing and replacing non-employee representative Directors and Supervisors, deciding on their remuneration, considering and approving annual financial budget proposals, financial final reports, profit distribution proposals and loss recovery proposals, making resolutions on the merger, demerger, dissolution and liquidation of the Bank or change of form of the Company, and amending the Articles of Association, etc. During the Reporting Period, the Bank held one annual general meeting, details of which are set out below:

On May 30, 2023, the Bank held the 2022 annual general meeting in Weihai City, with a total of 17 Shareholders and valid proxies, representing 4,730,025,247 voting shares in aggregate and 79.10% of total issued shares with voting rights at the 2022 annual general meeting, attended and voted at the meeting. 13 resolutions were considered and approved, including Final Accounts Report for 2022, Financial Budget for 2023, Profit Distribution Plan for 2022, appointment of independent non-executive Director.

The notice, convening and voting procedures of the above Shareholders' general meeting are all in compliance with the relevant requirements of the Company Law and the Articles of Association.

### III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

The main duties of the Board include convening general meetings, reporting to the general meetings and executing the resolutions of the general meetings, deciding on the Bank's development strategies, business plans and investment plans, formulating annual financial budget proposals, financial final reports, profit distribution proposals and loss recovery proposals, formulating proposals for the merger, demerger, dissolution and change of form of the Company, formulating amendments to the Articles of Association and formulating the fundamental management system of the Bank. During the Reporting Period, the Board held 2 meetings, at which 45 resolutions were considered and approved. The special committees under the Board held 10 meetings in total, including 3 meetings convened by the Audit Committee, 1 meeting convened by the Strategic Development Research Committee, 1 meeting convened by the Nomination and Remuneration Committee, 2 meetings convened by the Risk Management Committee, 1 meeting convened by the Consumer Rights Protection Committee, and 2 meetings convened by the Related Party Transactions Control Committee.

### IV. MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

The main responsibilities of the Board of Supervisors include overseeing the performance of the Board and senior management, the financial operations, internal control and risk management of the Bank. The Board of Supervisors conducts special investigations and attends important meetings in specific areas to understand the Bank's operations and management and to provide supervisory advice. During the Reporting Period, the Board of Supervisors held 2 meetings, at which 22 resolutions were considered and approved and 27 resolutions were heard. The special committees under the Board of Supervisors held 3 meetings, including 1 meeting convened by the Nomination Committee under the Board of Supervisors, and 2 meetings convened by the Supervision Committee under the Board of Supervisors.

### V. PERFORMANCE OF DUTIES OF INDEPENDENT DIRECTORS

During the Reporting Period, the independent non-executive Directors discharged their statutory duties by attending meetings of the Board and the special committees in good faith and offering objective and independent advices to protect the interests of the Bank and its shareholders as a whole.

### VI. PERFORMANCE OF DUTIES OF EXTERNAL SUPERVISORS

During the Reporting Period, the external Supervisors performed their supervisory duties independently, actively attended the meetings of the Board of Supervisors and relevant committees, participated in the Board meetings and shareholders' general meetings, and expressed objective and impartial independent opinions on matters discussed at the shareholders' general meeting, the meetings of the Board and the Board of Supervisors of the Bank.

### VII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, the Bank did not amend its Articles of Association.

### VIII. IMPLEMENTATION OF DIVIDEND DISTRIBUTIONS

In accordance with the resolutions of the 2022 annual general meeting of the Bank convened on May 30, 2023, the Bank did not distribute 2022 annual dividend.

The Bank does not declare the 2023 interim dividend.

### IX. EXTERNAL AUDITORS

Pursuant to the 2022 annual general meeting of the Bank convened on May 30, 2023, BDO China Shu Lun Pan Certified Public Accountants LLP and BDO Limited were approved to be re-appointed as our domestic and international auditors for 2023, respectively, with the term of office until the next annual general meeting of the Bank.

### X. RISK MANAGEMENT AND INTERNAL CONTROL

#### 10.1 Risk Management

The Bank has established a sound risk management organizational structure comprising the Board of Directors, the Board of Supervisors, senior management and various risk management committees and departments to ensure the effective operation with a strong check-and-balance.

The Bank has established comprehensive risk management policies, procedures and risk limit management systems. We have established a sound risk management policy covering credit risk, market risk, operational risk, liquidity risk, strategic risk, information technology risk and reputational risk, etc., and have established a capital constraint mechanism focusing on capital adequacy ratio management, a complete internal capital adequacy assessment mechanism and a risk management mechanism that covers the entire work stream, including risk identification, measurement, assessment, monitoring, mitigation and control. During the Reporting Period, the Bank continued to improve the system of comprehensive risk management. Taking into account the dual needs of business development and risk control, the Bank formulated the annual risk appetite strategy and specified various risk limits and administrative measures. The Bank incorporated risk factors in relation to the environmental, social and governance into the assessment of credit risk, information technology risk, compliance risk and other risks. The Bank carried out risk identification and assessment, stress testing, etc., identified and assessed risks that have a substantial impact on the Bank's operations, made forward looking assessment on the Bank's profitability, capital level and liquidity under stress scenarios, and assisted in formulating improvement measures to ensure that various risks are under control.

### X. RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

#### 10.1 Risk Management (Cont'd)

The Bank continuously improves its technology capability in risk management work, strengthens the application of internal and external data and risk models in fields such as business access, risk alert and differentiated risk management strategies, and improve its capability of conducting detail-oriented risk management work. Risk management systems such as the post-loan management platform, related party transaction platform, investment business credit risk management and control system have been established. By fully utilizing these systems and tools in risk identification, measurement and monitoring, it can effectively improve its overall risk management capability. During the Reporting Period, the Bank continued to develop innovative risk management tools, adjusted and optimized post-loan management platform functions in conjunction with management strategies, launched a risk control platform, developed a new generation of credit platform projects such as model monitoring platform, unified customer risk view, unified credit limits management and credit portal, to achieve a unified display of information, unified risk management, unified model management, so as to build a bank-wide digital risk management system covering the whole process.

#### 10.2 Internal Control

The Bank has established an internal control organizational structure comprising the Board of Directors, the Board of Supervisors, senior management, the Legal and Compliance Department, the Audit Department, business departments and branches with rational division of functions, clearly defined responsibilities and clear reporting relationships, forging a distinctive risk management and compliance culture. In accordance with the five management requirements emphasizing on “Rules and Regulations, Supervision, Inspection, Assessment and Rectification” (“有制度、有監督、有檢查、有考核、有整改”), the Bank continued to strengthen the internal control compliance management. Our internal control adapts to management mode, business scale, product complexity and risk profile.

The Bank continued to improve the management systems, timely tracked the changes in regulatory policies and revised and improved relevant management systems as and when appropriate according to the needs of the Bank’s operations and management. It established a comprehensive system covering all business segments of the Bank, covering all aspects of various businesses and important risk prevention measures. The comprehensiveness and enforceability of the systems were continuously enhanced, which effectively guaranteed the legal, compliance and stable operation of various businesses. During the Reporting Period, the Bank organized and carried out the “Compliance Year” activity, and enhanced the efficiency of compliance management based on the “Month of System Series”. The Bank conducted major inspections, quarterly compliance inspections, quarterly case prevention and investigation and various special risk investigation activities under five management requirements emphasizing on “Rules and Regulations, Supervision, Inspection, Assessment and Rectification”, so as to create an internal control compliance atmosphere of “behavior led by culture and priorities on strict internal control, acting by the system and strict institutional constraints, penetration of the system into the process and all-the way compliance in a strict manner”.

### X. RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

#### 10.2 Internal Control (Cont'd)

The Bank considers internal audit essential to the sustainable development of our business operations. The Bank's Audit Department shall strictly follow the principles of independence and objectivity throughout its internal audit work. During the Reporting Period, the Bank has established an independent and vertical internal audit system that mainly comprises of the Board of Directors, the Audit Committee and the Audit Department at our headquarters. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of internal audit. The Audit Committee guides, evaluates and assesses the internal audit work while our Audit Department carries out internal auditing at the headquarters and branch level.

During the Reporting Period, the Bank's Audit Department formulated annual audit plans based regulatory requirements as well as operation, management and business profile, which were approved by the Board of Directors. The Bank's Audit Department carried the annual audit plans strictly, conducted both on-site inspections and off-site monitoring during routine audits on the Bank's operational and management activities, and conducted special audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified during audits, the Audit Department gave timely audit advises to the relevant operation units and departments at the headquarters and supervised rectification.

The Bank attaches great importance to information disclosure and inside information management. In order to strengthen the confidentiality of inside information, ensure the fairness of information disclosure and protect the legitimate rights and interests of investors, the Bank has formulated the Information Disclosure Management System (《信息披露管理制度》) and the Administrative Measures for Inside Information (《内幕消息管理辦法》) in accordance with the laws, regulations and regulatory documents of mainland China and Hong Kong. The Bank shall make timely disclosure in accordance with the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed when there are "inside information" under Part XIVA of the SFO and other matters required to be disclosed in a timely manner by the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed, unless exempted under the relevant laws and regulations and the rules governing the listing of securities of the stock exchanges where the stocks of the Bank are listed.

The Board of Directors is responsible for the risk management and internal control system, and is responsible for reviewing the effectiveness of the relevant system. The Board of Directors reviews risk management and internal control of the Bank on a quarterly basis. The systems of risk management and internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. No material defects of internal control and risk management of the Bank have been identified during the Reporting Period. The Bank is of the opinion that the risk management and internal control of the Bank is sufficiently effective and sufficient.

For more details of the Bank's risk management and internal control, please refer to "Management Discussion and Analysis – Risk Management" of this Report.

# CHAPTER 9 IMPORTANT EVENTS

## ISSUE OF BONDS

During the Reporting Period, the Bank issued interbank deposits with an aggregate principal amount of RMB28.59 billion, with no financial bonds issued. Details of the bonds that were not issued during the Reporting Period are set out in note 27 to the financial statements in the Report.

## MATERIAL LITIGATION OR ARBITRATION

As of the end of the Reporting Period, the Bank was the plaintiff in 11 outstanding litigations with a principal balance of over RMB30 million, involving an amount of RMB1,249 million, 3 outstanding litigations involving an amount of RMB700 million. The Bank was not the defendant in any outstanding litigations or arbitrations with an amount subject to the disputes of over RMB10 million. The above outstanding litigations and arbitrations are all loan disputes arising from banking business of the Bank, and as of the end of the Reporting Period, the Bank did not expect that such litigations and arbitrations (individually or jointly) would have a material adverse effect on the Bank's business, financial position and results of operations. Save as disclosed above, as of the date of the Report, the Bank had no other material litigation, arbitration and major case.

## PENALTIES AND RECTIFICATION

As far as the Bank is aware, during the Reporting Period, the Bank and its Directors, Supervisors and senior management were not subject to any investigation, administrative penalty and public criticism by the China Securities Regulatory Commission, investigation by competent authorities, enforcement of mandatory measures by judicial authorities or disciplinary departments, or subject to transfer to judicial authorities or criminal liabilities, material administrative penalties by other administrative authorities such as environmental protection, safety supervision and taxation authorities, and public condemnation by the Hong Kong Stock Exchange.

## FULFILLMENT OF UNDERTAKINGS

The specific details of the undertakings fulfilled by the Bank, its Shareholders, related parties and other parties are set out in "Chapter 11 Important Events – Fulfillment of Undertakings" in 2022 Annual Report of the Bank, and there were no other undertakings that were fulfilled during the Reporting Period and not yet fulfilled as at the end of the Reporting Period.

## MATERIAL CONTRACTS, MATERIAL GUARANTEES AND SIGNIFICANT INVESTMENTS

### Material Contracts

During the Reporting Period, the Bank did not have any material contracts subject to disclosure.

### Material Guarantees

As of the end of the Reporting Period, the balance of letters of guarantee and letters of credit of the Bank amounted to RMB1,044 million and RMB10.154 billion, respectively. The guarantee business is carried out in the ordinary course of business of the Bank, and the above businesses are financial guarantee business within the scope of business approved by the CBIRC during the Reporting Period.

### Significant Investments

During the Reporting Period, the Bank had no significant investment. There was no specific plan for significant investments or acquisition of material capital assets or other businesses.

## Chapter 9 Important Events

### Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, there was no material acquisitions and disposals of subsidiaries, associates and joint ventures within the Bank.

### RELATED PARTY TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions between the Bank and its connected persons constitute connected transactions of the Bank. The Bank provides commercial banking services and products in the ordinary and usual course of its business to members of the public in the PRC, which include our connected persons (such as Directors, Supervisors, president, controlling Shareholders, substantial Shareholders and/or their respective associates). These transactions are entered into on normal commercial terms (or commercial terms that are better to us) in the ordinary and usual course of our business, and thus are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

We also enter into certain non-bank transactions with our connected persons and/or their respective associates on normal commercial terms (or commercial terms that are better to us) from time to time in the ordinary and usual course of our business. These transactions are expected to constitute de minimis transactions under Chapter 14A of the Listing Rules. The transactions contemplated under such arrangements constitute continuing connected transactions of the Bank, and thus are fully exempt from all disclosure, annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Bank carried out related party transactions in strict compliance with the relevant requirements of the regulatory authorities and the Administrative Measures for Related (Connected) Party Transactions and the Rules of Procedure for the Related Party Transactions Control Committee under the Board of Directors formulated by the Bank.

In accordance with the requirements of the CBIRC, the Bank has established a comprehensive, dynamic and complete list of related parties, and reviewed and approved related party transactions in accordance with commercial principles and on terms no more favorable than those of similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all Shareholders and the Bank as a whole, and have no negative impact on the Bank's operating results and financial position. Related party transactions were conducted in accordance with relevant laws and regulations, and credit conditions and review procedures of the Bank, and the amount of all the loans was recovered normally without non-performing loans.

In accordance with the requirements of the CBIRC, during the Reporting Period, there were three resolutions on material related party transactions, namely Shandong Hi-Speed Group Company, Tongda Financial Leasing and Weihai Industrial Investment Group Co., Ltd.. As of the end of the Reporting Period, the Bank's balance of the credit exposure to related party transactions was RMB7.260 billion as required by the CBIRC, accounting for 24.03% of net capital, among which, the balance of the exposure to material related party transactions was RMB4.574 billion, and the balance of the exposure to normal related party transactions was RMB2.686 billion.

## Chapter 9 Important Events

### **SUFFICIENCY OF PUBLIC FLOAT**

As of the date of the Report, based on the public information available to the Bank and to the knowledge of the Directors, the Bank had maintained sufficient public float in compliance with the minimum requirement under the Listing Rules.

### **EVENTS AFTER THE REPORTING PERIOD**

For details of the events after the Reporting Period, please refer to Note 41 to the financial statements in the Report. Save as mentioned above, the Bank had no other significant events after the Reporting Period.



# REVIEW REPORT ON INTERIM FINANCIAL INFORMATION



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## TO THE BOARD OF DIRECTORS OF WEIHAI CITY COMMERCIAL BANK CO., LTD.

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

### INTRODUCTION

We have reviewed the interim financial information set out on pages 82 to 176, which comprises the condensed consolidated statement of financial position of Weihai City Commercial Bank Co., Ltd. (the “**Bank**”) and its subsidiary (together the “**Group**”) as at June 30, 2023, and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-months period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”), issued by the International Accounting Standard Board. The directors are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Review Report on Interim Financial Information

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

### **BDO Limited**

*Certified Public Accountants*

### **Lam Tsz Ka**

Practising Certificate no. P06838

Hong Kong, August 30, 2023

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2023	2022
Interest income		<b>7,678,780</b>	7,092,530
Interest expense		<b>(4,387,071)</b>	(3,884,278)
<b>Net interest income</b>	4	<b>3,291,709</b>	3,208,252
Fee and commission income		<b>384,910</b>	423,047
Fee and commission expense		<b>(41,009)</b>	(52,991)
<b>Net fee and commission income</b>	5	<b>343,901</b>	370,056
Net trading gains	6	<b>132,596</b>	55,781
Net gains arising from investment securities	7	<b>558,287</b>	595,799
Other operating income	8	<b>22,488</b>	6,791
<b>Operating income</b>		<b>4,348,981</b>	4,236,679
Operating expenses	9	<b>(868,325)</b>	(870,278)
Impairment losses on assets	10	<b>(2,192,199)</b>	(2,162,635)
<b>Profit before tax</b>		<b>1,288,457</b>	1,203,766
Income tax expense	11	<b>(133,784)</b>	(113,587)
<b>Net profit for the period</b>		<b>1,154,673</b>	1,090,179
<b>Net profit for the period attributable to:</b>			
Equity shareholders of the Bank		<b>1,047,456</b>	992,242
Non-controlling interests		<b>107,217</b>	97,937
		<b>1,154,673</b>	1,090,179

# Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2023	2022
<b>Other comprehensive income for the period:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Financial assets measured at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	30(d)	<b>258,918</b>	(92,468)
– net movement in the impairment reserve, net of tax	30(e)	<b>(8,477)</b>	12,344
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Financial assets measured at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	30(d)	<b>3,432</b>	(22,789)
<b>Other comprehensive income for the period, net of tax</b>		<b>253,873</b>	(102,913)
<b>Total comprehensive income for the period</b>		<b>1,408,546</b>	987,266
<b>Total comprehensive income for the period attributable to:</b>			
Equity shareholders of the Bank		<b>1,301,329</b>	889,329
Non-controlling interests		<b>107,217</b>	97,937
		<b>1,408,546</b>	987,266
Basic and diluted earnings per share (in RMB)	12	<b>0.18</b>	0.17

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Notes</i>	<b>As at June 30, 2023</b>	<b>As at December 31, 2022</b>
<b>Assets</b>			
Cash and deposits with the central bank	13	<b>25,316,551</b>	27,209,312
Deposits with banks and other financial institutions	14	<b>1,367,742</b>	1,096,298
Loans and advances to customers	15	<b>178,758,404</b>	161,750,354
Financial investments:	16		
Financial investments measured at fair value through profit or loss		<b>9,202,640</b>	9,170,852
Financial investments measured at fair value through other comprehensive income		<b>46,345,596</b>	37,083,370
Financial investments measured at amortised cost		<b>85,230,260</b>	81,937,063
Property and equipment	18	<b>1,117,881</b>	1,032,532
Right-of-use assets	19	<b>295,958</b>	335,350
Deferred tax assets	20	<b>2,350,739</b>	2,340,150
Other assets	21	<b>26,495,554</b>	21,747,766
<b>Total assets</b>		<b>376,481,325</b>	343,703,047
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Borrowings from the central bank		<b>11,609,944</b>	10,292,752
Deposits from banks	23	<b>3,411,477</b>	4,802,448
Placements from banks and other financial Institutions	24	<b>21,934,303</b>	20,038,678
Financial assets sold under repurchase agreements	25	<b>9,800,988</b>	9,804,971
Deposits from customers	26	<b>265,145,597</b>	234,487,488
Income tax payable		<b>56,734</b>	450,077
Debt securities issued	27	<b>34,507,051</b>	35,428,233
Lease liabilities		<b>295,230</b>	322,895
Deferred tax liabilities	20	–	2,561
Other liabilities	28	<b>2,578,821</b>	2,340,310
<b>Total liabilities</b>		<b>349,340,145</b>	317,970,413

# Unaudited Condensed Consolidated Statement of Financial Position

As at June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Notes</i>	<b>As at June 30, 2023</b>	As at December 31, 2022
<b>Equity</b>			
Share capital	29	<b>5,980,058</b>	5,980,058
Capital reserve	30(a)	<b>4,925,460</b>	4,925,460
Surplus reserve	30(b)	<b>1,549,088</b>	1,549,088
General reserve	30(c)	<b>3,690,579</b>	3,227,913
Fair value reserve	30(d)	<b>74,920</b>	(187,430)
Impairment reserve	30(e)	<b>50,088</b>	58,565
Retained earnings		<b>5,079,079</b>	4,494,289
<hr/>			
Total equity attributable to equity shareholders of the Bank		<b>21,349,272</b>	20,047,943
Perpetual bonds	30(f)	<b>4,099,201</b>	4,099,201
Non-controlling interests		<b>1,692,707</b>	1,585,490
<hr/>			
<b>Total equity</b>		<b>27,141,180</b>	25,732,634
<hr/>			
<b>Total liabilities and equity</b>		<b>376,481,325</b>	343,703,047

Approved and authorised for issue by the board of directors on August 30, 2023 and signed on its behalf by

**Tan Xianguo**  
*Chairman*

**Meng Dongxiao**  
*President*

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

Notes	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment Reserve	Retained earnings	Subtotal	Perpetual bonds		
<b>Balance at January 1, 2023</b>	5,980,058	4,925,460	1,549,088	3,227,913	(187,430)	58,565	4,494,289	20,047,943	4,099,201	1,585,490	25,732,634
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	1,047,456	1,047,456	-	107,217	1,154,673
Other comprehensive income	-	-	-	-	262,350	(8,477)	-	253,873	-	-	253,873
<b>Total comprehensive income</b>	-	-	-	-	262,350	(8,477)	1,047,456	1,301,329	-	107,217	1,408,546
Appropriation of profit											
- Appropriation to general reserve 30(c)	-	-	-	462,666	-	-	(462,666)	-	-	-	-
<b>Balance at June 30, 2023</b>	<b>5,980,058</b>	<b>4,925,460</b>	<b>1,549,088</b>	<b>3,690,579</b>	<b>74,920</b>	<b>50,088</b>	<b>5,079,079</b>	<b>21,349,272</b>	<b>4,099,201</b>	<b>1,692,707</b>	<b>27,141,180</b>

Notes	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment Reserve	Retained earnings	Subtotal	Perpetual bonds		
<b>Balance at January 1, 2022</b>	5,980,058	4,947,553	1,379,190	2,648,092	25,041	25,356	4,151,373	19,156,663	4,099,201	914,344	24,170,208
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	992,242	992,242	-	97,937	1,090,179
Other comprehensive income	-	-	-	-	(115,257)	12,344	-	(102,913)	-	-	(102,913)
<b>Total comprehensive income</b>	-	-	-	-	(115,257)	12,344	992,242	889,329	-	97,937	987,266
Deemed disposal of interests in a subsidiary without loss of control 17	-	(22,093)	-	-	-	-	-	(22,093)	-	499,094	477,001
Disposal of financial investments measured at fair value through other comprehensive income	-	-	-	-	7,813	-	(7,813)	-	-	-	-
Appropriation of profit											
- Appropriation to general reserve 30(c)	-	-	-	579,821	-	-	(579,821)	-	-	-	-
- Appropriation to shareholders 31	-	-	-	-	-	-	(598,007)	(598,007)	-	-	(598,007)
<b>Balance at June 30, 2022</b>	<b>5,980,058</b>	<b>4,925,460</b>	<b>1,379,190</b>	<b>3,227,913</b>	<b>(82,403)</b>	<b>37,700</b>	<b>3,957,974</b>	<b>19,425,892</b>	<b>4,099,201</b>	<b>1,511,375</b>	<b>25,036,468</b>

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2023	2022
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>1,288,457</b>	1,203,766
<i>Adjustments for:</i>			
Impairment losses on assets	10	<b>2,192,199</b>	2,162,635
Depreciation and amortisation	9	<b>113,037</b>	108,595
Unrealised foreign exchange (gains)/losses		<b>(10,924)</b>	1,657
Net gains on disposal of other assets	8	<b>(15,929)</b>	–
Net trading (gains)/losses	6	<b>(121,672)</b>	133,691
Net gains on disposal of investment securities	7	<b>(558,287)</b>	(595,799)
Interest expenses on debt securities issued	4	<b>517,594</b>	513,549
Interest expenses on lease liabilities	9	<b>6,844</b>	8,118
Interest income from financial investments	4	<b>(2,201,519)</b>	(2,180,026)
		<b>1,209,800</b>	1,356,186
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		<b>(1,143,552)</b>	(1,567,249)
Net increase in loans and advances to customers		<b>(18,633,378)</b>	(16,742,281)
Net increase in finance lease receivables		<b>(2,235,469)</b>	(4,108,820)
Net increase in other operating assets		<b>(3,077,390)</b>	(1,188,904)
		<b>(25,089,789)</b>	(23,607,254)
<i>Changes in operating liabilities</i>			
Net increase/(decrease) in borrowings from the central bank		<b>1,317,336</b>	(363,177)
Net (decrease)/increase in deposits from banks		<b>(1,387,008)</b>	132,716
Net increase in placements from banks and other financial institutions		<b>1,887,929</b>	4,237,804
Net (decrease)/increase in financial assets sold under repurchase agreements		<b>(65)</b>	3,099,542
Net increase in deposits from customers		<b>29,540,569</b>	21,958,072
Net increase in other operating liabilities		<b>1,175,908</b>	2,516,777
Income tax paid		<b>(624,901)</b>	(505,730)
		<b>31,909,768</b>	31,076,004
<b>Net cash flows generated from operating activities</b>		<b>8,029,779</b>	8,824,936



# Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2023	2022
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of financial investments	69,862,065	86,666,531
Return on investments	2,759,806	2,775,825
Payments on acquisition of financial investments	(82,325,458)	(97,658,382)
Payments on acquisition of property and equipment, intangible assets and other assets	(62,872)	(71,504)
Proceeds from disposal of other assets	254,865	–
<b>Net cash flows used in investing activities</b>	<b>(9,511,594)</b>	<b>(8,287,530)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt securities	28,971,073	21,749,952
Repayment of debt securities issued	(30,080,000)	(25,070,000)
Interest paid on debt securities issued	(329,849)	(401,478)
Capital element of lease liabilities paid	(48,501)	(48,685)
Interest element of lease liabilities paid	(6,844)	(8,118)
Dividends paid	(1)	(102,480)
<b>Net cash flows used in financing activities</b>	<b>(1,494,122)</b>	<b>(3,880,809)</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>2,467</b>	<b>(1,656)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,973,470)</b>	<b>(3,345,059)</b>
<b>Cash and cash equivalents as at January 1</b>	<b>17,525,673</b>	<b>20,527,169</b>
<b>Cash and cash equivalents as at June 30</b>	<b>14,552,203</b>	<b>17,182,110</b>
Interest received	7,450,448	7,793,000
Interest paid (excluding interest expense on debt securities issued)	(2,583,831)	(2,459,484)

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 1. GENERAL INFORMATION

Weihai City Commercial Bank Co., Ltd. (the “**Bank**”) (formerly Weihai City Cooperation Bank Co., Ltd.) commenced business as a city commercial bank on July 21, 1997, according to the approval by the People’s Bank of China (“**PBOC**”). According to the approval by the PBOC Shandong Branch, Weihai City Cooperation Bank Co., Ltd. was renamed as Weihai City Commercial Bank Co., Ltd. on April 17, 1998.

The Bank obtained its finance permit No. B0176H237100001 from the China Banking Regulatory Commission (the “**CBRC**”, in 2023, the regulator was renamed the National Administration of Financial Regulation (the “**NAFR**”) (Shandong Office). The Bank obtained its business license No. 913700002671339534 from the Market Supervision Administration of Weihai City. By June 30, 2023, the paid-in capital of the Bank was RMB5,980,058,344, with its registered office located at No. 9 Bao Quan Road, Weihai City, Shandong Province. The Bank is regulated by the former China Banking and Insurance Regulatory Commission (the former “**CBIRC**”) (the NAFR) authorised by the State Council.

On October 12, 2020, the Bank’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (Stock code: 9677).

The principal activities of the Bank and its subsidiary (together the “**Group**”) include corporate banking, retail banking, financial market business and finance lease services approved by the former CBIRC (the NAFR).

## 2. BASIS OF PREPARATION

These interim financial information have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“**IASB**”). These interim condensed consolidated financial statements were authorised for issue on August 30, 2023.

These interim financial information have been prepared in accordance with the same accounting policies adopted in the 2022 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial report. Details of new and amended standards adopted by the Group are set out in Note 3.

The preparation of these interim financial information in compliance with IAS 34 requires use of certain judgements, estimates and assumptions made by management that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in prior periods.

These interim financial information are presented in Renminbi (“**RMB**”), unless otherwise stated. These interim financial information and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (the “**IFRSs**”) and should be read in conjunction with the 2022 annual consolidated financial statements.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 2. BASIS OF PREPARATION (CONT'D)

These interim financial information are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited's independent review report to the Board of Directors is included on page 80 to 81.

The financial information relating to the financial year ended December 31, 2022 that is included in these interim financial information as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements.

## 3. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

Except as described below, the accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the 2022 annual consolidated financial statements.

### Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, providing guidance to help entities meet the accounting policy disclosure requirements. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information'. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments had no effect on the interim financial information of the Group as they relate to disclosures of accounting policies in complete financial statements rather than interim financial statements. The amendments are expected to be applicable for the accounting policy disclosures in the annual consolidated financial statements of the Group.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 3. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP (CONT'D)

### Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors)

The amendment to IAS 8, which added the definition of accounting estimates, clarifies that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from the correction of prior period errors. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors.

These amendments had no effect on the interim financial information of the Group.

### Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

These amendments had no effect on the interim financial information of the Group.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 4. NET INTEREST INCOME

	Six months ended June 30,	
	2023	2022
<b>Interest income arising from</b>		
Deposits with the central bank	<b>158,234</b>	138,298
Deposits with banks and other financial institutions	<b>1,729</b>	3,299
Placements with banks	<b>78,128</b>	54,473
Loans and advances to customers		
– Corporate loans and advances	<b>3,225,831</b>	2,797,874
– Personal loans and advances	<b>1,121,455</b>	1,132,555
– Discounted bills	<b>159,177</b>	156,596
Financial assets held under resale agreements	<b>3,629</b>	5,077
Financial investments	<b>2,201,519</b>	2,180,026
Finance leases	<b>729,078</b>	624,332
Sub-total	<b>7,678,780</b>	7,092,530
<b>Interest expense arising from</b>		
Borrowings from the central bank	<b>(107,469)</b>	(113,656)
Deposits from banks	<b>(67,916)</b>	(61,417)
Placements from banks and other financial institutions	<b>(414,915)</b>	(370,555)
Deposits from customers	<b>(3,184,041)</b>	(2,763,742)
Financial assets sold under repurchase agreements	<b>(92,999)</b>	(57,385)
Debt securities issued	<b>(517,594)</b>	(513,549)
Discounted bills	<b>(2,137)</b>	(3,974)
Sub-total	<b>(4,387,071)</b>	(3,884,278)
<b>Net interest income</b>	<b>3,291,709</b>	3,208,252

Total interest income arising from financial assets that are not measured at fair value through profit or loss (“FVTPL”) for the six months ended June 30, 2023 amounted to RMB7,678.8 million (six months ended June 30, 2022: RMB7,092.5 million).

Total interest expense arising from financial liabilities that are not at FVTPL for the six months ended June 30, 2023 amounted to RMB4,387.1 million (six months ended June 30, 2022: RMB3,884.3 million).

Interest income arising from impaired loans for the six months ended June 30, 2023 amounted to RMB30.0 million (six months ended June 30, 2022: RMB31.4 million).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 5. NET FEE AND COMMISSION INCOME

### (a) Income and expense streams:

	Six months ended June 30,	
	2023	2022
<b>Fee and commission income</b>		
Acceptance and guarantee services fees	22,490	39,029
Agency services fees	284,383	159,754
Bank card services fees	10,965	31,177
Consultancy services fees	–	120,816
Finance leases services fees	13,101	19,070
Settlement and clearing fees	45,533	49,011
Others	8,438	4,190
Sub-total	<b>384,910</b>	423,047
<b>Fee and commission expense</b>		
Bank card services fees	(4,182)	(24,303)
Settlement and clearing fees	(36,295)	(25,030)
Others	(532)	(3,658)
Sub-total	<b>(41,009)</b>	(52,991)
<b>Net fee and commission income</b>	<b>343,901</b>	370,056
<b>Fee and commission income</b>		
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	21,713	8,933
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,007	4,375
<b>Fee and commission expense</b>		
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	7,158	4,919

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 5. NET FEE AND COMMISSION INCOME (CONT'D)

(b) Disaggregation of income:

	Six months ended June 30,			
	2023		2022	
	At a point in time	Over time	At a point in time	Over time
Acceptance and guarantee services fees	–	<b>22,490</b>	–	39,029
Agency services fees	–	<b>284,383</b>	–	159,754
Bank card services fees	<b>10,965</b>	–	31,177	–
Consultancy services fees	–	–	–	120,816
Finance leases services fees	–	<b>13,101</b>	–	19,070
Settlement and clearing fees	<b>45,533</b>	–	49,011	–
Others	<b>8,438</b>	–	4,190	–
<b>Total</b>	<b>64,936</b>	<b>319,974</b>	84,378	338,669

## 6. NET TRADING GAINS

	Six months ended June 30,	
	2023	2022
Net gains from debt securities	<b>15,784</b>	10,459
Net gains/(losses) from funds	<b>58,313</b>	(114,844)
Net gains/(losses) from investment management products	<b>7,667</b>	(22,883)
Net gains from derivatives	<b>24,857</b>	12,163
Net gains/(losses) from equity investments	<b>15,051</b>	(18,586)
Exchange gains	<b>10,924</b>	189,472
<b>Total</b>	<b>132,596</b>	55,781

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2023	2022
Net gains of financial investments measured at fair value through profit or loss	142,703	393,028
Net gains of financial investments measured at fair value through other comprehensive income	45,861	125,608
Net gains of financial investments measured at amortised costs	366,958	60,374
Dividend income	–	9,685
Net gains of investment on derivatives	2,765	7,104
Total	558,287	595,799

## 8. OTHER OPERATING INCOME

Other operating income streams:

	Six months ended June 30,	
	2023	2022
Penalty income	252	411
Rental income	1,517	657
Government grants	1,260	5,333
Net gains on disposal of other assets	15,929	–
Others	3,530	390
Total	22,488	6,791



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 9. OPERATING EXPENSES

	Note	Six months ended June 30,	
		2023	2022
Staff costs			
– Salaries, bonuses and allowances		<b>374,371</b>	374,914
– Social insurance		<b>54,251</b>	48,287
– Housing allowances		<b>24,711</b>	22,094
– Staff welfares		<b>1,269</b>	2,208
– Employee education expenses and labour union expenses		<b>13,182</b>	13,180
– Supplementary retirement benefits	(a)	<b>13,300</b>	12,296
Sub-total		<b>481,084</b>	472,979
Rental and property management expenses		<b>9,700</b>	7,399
Depreciation and amortisation		<b>59,652</b>	53,309
Depreciation charge for the right-of-use assets		<b>53,385</b>	55,285
Interest expense on lease liabilities		<b>6,844</b>	8,118
Taxes and surcharges		<b>40,636</b>	46,101
Office expenses		<b>149,269</b>	154,912
Other general and administrative expenses		<b>67,755</b>	72,175
Total		<b>868,325</b>	870,278

Note:

- (a) The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing allowances and other social insurances. No forfeited contributions have been applied by the Bank to reduce its existing level of contributions for the for the six months periods ended June 30, 2023 and 2022, respectively.

## 10. IMPAIRMENT LOSSES ON ASSETS

	Six months ended June 30,	
	2023	2022
Loans and advances to customers	<b>1,940,166</b>	1,505,607
Financial investments	<b>138,101</b>	520,129
Finance lease receivables	<b>83,848</b>	98,464
Credit commitments	<b>15,893</b>	(8,485)
Placements with banks	–	(1,293)
Others	<b>14,191</b>	48,213
Total	<b>2,192,199</b>	2,162,635

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 11. INCOME TAX EXPENSE

### (a) Income tax expense:

	Six months ended June 30,	
	2023	2022
Current tax	231,558	383,475
Deferred tax	(97,774)	(269,888)
Total	133,784	113,587

### (b) Reconciliations between income tax expense and accounting profit are as follows:

	Note	Six months ended June 30,	
		2023	2022
Profit before tax		1,288,457	1,203,766
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		322,114	300,942
Non-deductible expenses		8,960	2,133
Non-taxable income	(i)	(197,290)	(189,488)
Income tax expense		133,784	113,587

(i) The non-taxable income mainly represents the interest income arising from the People's Republic of China ("PRC") government bonds.

## 12. BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended June 30,	
		2023	2022
Net profit attributable to equity shareholders of the Bank		1,047,456	992,242
Weighted average number of ordinary shares (in thousands)	(a)	5,980,058	5,980,058
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.18	0.17

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

### (a) Weighted average number of ordinary shares (in thousands)

	Six months ended June 30,	
	2023	2022
Weighted average number of ordinary shares at beginning and end of the period	5,980,058	5,980,058

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 13. CASH AND DEPOSITS WITH THE CENTRAL BANK

	<i>Notes</i>	<b>June 30, 2023</b>	December 31, 2022
Cash on hand		<b>225,205</b>	211,506
Deposits with the central bank			
– Statutory deposit reserves	<i>(a)</i>	<b>17,878,031</b>	16,741,489
– Surplus deposit reserves	<i>(b)</i>	<b>7,165,521</b>	10,224,133
– Exchange risk reserves	<i>(c)</i>	<b>39,095</b>	32,142
– Fiscal deposits		<b>99</b>	42
Sub-total		<b>25,082,746</b>	26,997,806
Interests accrued		<b>8,600</b>	–
Total		<b>25,316,551</b>	27,209,312

- (a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of each of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	<b>June 30, 2023</b>	December 31, 2022
Reserve ratio for RMB deposits	<b>7.3%</b>	7.5%
Reserve ratio for foreign currency deposits	<b>6.0%</b>	6.0%

The statutory deposit reserves are not available for the Bank's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places exchange risk reserves with the PBOC in accordance with relevant regulation. As at June 30, 2023, the exchange risk reserves ratio applicable to the Group is 20% (December 31, 2022: 20%).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 14. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	June 30, 2023	December 31, 2022
Deposits in mainland China		
– Banks	789,084	733,020
– Other financial institutions	342,750	55,051
Sub-total	1,131,834	788,071
Deposits outside mainland China		
– Banks	235,854	308,181
Sub-total	235,854	308,181
Interests accrued	54	46
Less: Provision for impairment losses	–	–
Total	1,367,742	1,096,298

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

	Note	June 30, 2023	December 31, 2022
<b>Loans and advances to customers measured at amortised cost:</b>			
Corporate loans and advances		<b>126,278,135</b>	111,043,850
Personal loans			
– Residential mortgage loans		<b>15,952,841</b>	16,618,564
– Personal consumption loans	(i)	<b>9,854,586</b>	7,433,463
– Personal business loans		<b>18,725,062</b>	18,875,523
Sub-total		<b>44,532,489</b>	42,927,550
Interests accrued		<b>1,388,394</b>	1,090,427
Less: Provision for loans and advances to customers measured at amortised cost		<b>(4,050,946)</b>	(3,637,267)
Sub-total		<b>168,148,072</b>	151,424,560
<b>Loans and advances to customers measured at fair value through other comprehensive income:</b>			
Discounted bills		<b>10,610,332</b>	10,325,794
Net loans and advances to customers		<b>178,758,404</b>	161,750,354

Note:

- (i) For the six months ended June 30, 2023, personal consumption loans included the credit card balance amounted to RMB1,102.7 million. (2022: RMB1,229.7 million)

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector

	June 30, 2023		Loans and advances secured by collaterals
	Amount	Percentage	
Leasing and business services	29,830,222	16.44%	13,134,073
Water conservancy, environment and public facilities management	20,293,542	11.19%	9,469,579
Manufacturing	18,830,040	10.38%	6,596,387
Construction	17,337,854	9.56%	5,514,009
Wholesale and retail	11,825,337	6.52%	5,781,158
Real estate	7,071,818	3.90%	6,974,441
Electricity, heat, gas and water production and supply	6,473,701	3.57%	1,996,867
Transportation, warehousing and postal services	3,150,027	1.74%	1,348,290
Agriculture, forestry, animal husbandry and fishery	2,474,929	1.36%	1,756,127
Education	2,268,802	1.25%	1,208,876
Hygiene and social welfare	1,019,268	0.56%	357,250
Information transmission, software and information technology services	256,407	0.14%	85,830
Culture, sports and entertainment	213,803	0.12%	66,600
Others	5,232,385	2.87%	475,807
Sub-total of corporate loans and advances	126,278,135	69.60%	54,765,294
Personal loans	44,532,489	24.55%	24,240,822
Discounted bills	10,610,332	5.85%	10,610,332
Gross loans and advances to customers	181,420,956	100%	89,616,448

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (b) Loans and advances to customers (exclusive interests accrued) analysed by industry sector (Cont'd)

	December 31, 2022		Loans and advances secured by collaterals
	Amount	Percentage	
Leasing and business services	27,227,776	16.57%	11,910,925
Water conservancy, environment and public facilities management	18,453,311	11.23%	8,750,433
Manufacturing	17,607,653	10.72%	5,614,184
Construction	15,351,320	9.34%	4,666,981
Wholesale and retail	8,189,357	4.98%	3,900,009
Real estate	6,724,554	4.09%	6,714,226
Electricity, heat, gas and water production and supply	4,648,495	2.83%	991,034
Transportation, warehousing and postal services	2,678,003	1.63%	974,708
Agriculture, forestry, animal husbandry and fishery	2,367,525	1.44%	1,607,028
Education	1,804,949	1.10%	725,930
Hygiene and social welfare	1,022,153	0.62%	361,000
Information transmission, software and information technology services	208,323	0.13%	86,148
Culture, sports and entertainment	200,409	0.12%	68,100
Others	4,560,022	2.79%	407,644
Sub-total of corporate loans and advances	111,043,850	67.59%	46,778,350
Personal loans	42,927,550	26.13%	25,501,833
Discounted bills	10,325,794	6.28%	10,325,794
Gross loans and advances to customers	164,297,194	100.00%	82,605,977

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (c) Analysed by type of collateral

	June 30, 2023	December 31, 2022
Unsecured loans	22,506,289	17,081,355
Guaranteed loans	69,298,219	64,609,862
Collateralised loans	65,317,865	62,976,452
Pledged loans	13,688,251	9,303,731
Discounted bills	10,610,332	10,325,794
Sub-total	181,420,956	164,297,194
Interests accrued	1,388,394	1,090,427
Gross loans and advances to customers	182,809,350	165,387,621
Less: Provision for loans and advances to customers measured at amortised cost	(4,050,946)	(3,637,267)
Net loans and advances to customers	178,758,404	161,750,354

### (d) Overdue loans (exclusive interests accrued) analysed by overdue period

	June 30, 2023				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	70,222	102,277	111,610	5,844	289,953
Guaranteed loans	248,125	607,348	290,996	24,955	1,171,424
Collateralised loans	1,428,416	513,456	461,487	7,773	2,411,132
Pledged loans	-	930	28,500	-	29,430
Total	1,746,763	1,224,011	892,593	38,572	3,901,939
As a percentage of gross loans and advances to customers	0.96%	0.67%	0.49%	0.02%	2.15%



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (d) Overdue loans (exclusive interests accrued) analysed by overdue period (Cont'd)

	December 31, 2022				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	53,242	92,095	65,826	5,158	216,321
Guaranteed loans	1,345,182	573,494	135,676	12,939	2,067,291
Collateralised loans	816,004	617,385	404,983	6,393	1,844,765
Pledged loans	450	29,430	–	1,995	31,875
<b>Total</b>	<b>2,214,878</b>	<b>1,312,404</b>	<b>606,485</b>	<b>26,485</b>	<b>4,160,252</b>
As a percentage of gross loans and advances to customers	1.35%	0.80%	0.37%	0.02%	2.53%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

### (e) Analysis of loans and advances and provision for impairment losses

	June 30, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (Note(i))	
Total loans and advances to customers measured at amortised cost	<b>163,311,490</b>	<b>5,720,786</b>	<b>3,166,742</b>	<b>172,199,018</b>
Less: Provision for impairment losses	<b>(1,705,329)</b>	<b>(818,854)</b>	<b>(1,526,763)</b>	<b>(4,050,946)</b>
Carrying amount of loans and advances to customers measured at amortised cost	<b>161,606,161</b>	<b>4,901,932</b>	<b>1,639,979</b>	<b>168,148,072</b>
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	<b>10,610,332</b>	–	–	<b>10,610,332</b>
<b>Total carrying amount of loans and advances to customers</b>	<b>172,216,493</b>	<b>4,901,932</b>	<b>1,639,979</b>	<b>178,758,404</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (e) Analysis of loans and advances and provision for impairment losses (Cont'd)

	December 31, 2022			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note(i))	
Total loans and advances to customers measured at amortised cost	147,207,186	4,448,176	3,406,465	155,061,827
Less: Provision for impairment losses	(1,423,130)	(812,904)	(1,401,233)	(3,637,267)
Carrying amount of loans and advances to customers measured at amortised cost	145,784,056	3,635,272	2,005,232	151,424,560
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	10,325,794	–	–	10,325,794
Total carrying amount of loans and advances to customers	156,109,850	3,635,272	2,005,232	161,750,354

Note:

- i. The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that otherwise would not be considered; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (f) Movements of provision for impairment losses

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

	Six months ended June 30, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	1,423,130	812,904	1,401,233	3,637,267
Transferred:				
– to expected credit losses over the next 12 months	18,767	(12,317)	(6,450)	–
– to lifetime expected credit losses: not credit-impaired loans	(20,566)	32,695	(12,129)	–
– to lifetime expected credit losses: credit-impaired loans	(5,925)	(167,388)	173,313	–
Charge for the period	289,923	152,960	1,510,417	1,953,300
Recoveries	–	–	44,600	44,600
Write-offs and others	–	–	(1,584,221)	(1,584,221)
As at June 30	1,705,329	818,854	1,526,763	4,050,946

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (f) Movements of provision for impairment losses (Cont'd)

(i) *Movements of provision for impairment losses of loans and advances to customers measured at amortised cost: (Cont'd)*

	Year ended December 31, 2022			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	1,479,329	1,060,203	1,054,392	3,593,924
Transferred:				
– to expected credit losses over the next 12 months	96,440	(95,450)	(990)	–
– to lifetime expected credit losses: not credit-impaired loans	(9,433)	78,420	(68,987)	–
– to lifetime expected credit losses: credit-impaired loans	(17,034)	(266,858)	283,892	–
(Reversal)/charge for the year	(126,172)	36,589	3,216,882	3,127,299
Recoveries	–	–	36,684	36,684
Write-offs and others	–	–	(3,120,640)	(3,120,640)
As at December 31	1,423,130	812,904	1,401,233	3,637,267

As at June 30, 2023, the Group adjusted the customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB2,480.3 million (December 31, 2022: RMB2,231.0 million), and corresponding impairment provision increased by RMB487.2 million (December 31, 2022: RMB592.8 million). The loan principal transferred from stage 2 to stage 3 was RMB607.4 million (December 31, 2022: RMB819.7 million), impairment provision increasing by RMB143.5 million (December 31, 2022: RMB224.0 million). The loan principal transferred from stage 2 to stage 1 was RMB66.4 million (December 31, 2022: RMB857.3 million), impairment provision decreasing by RMB11.4 million (December 31, 2022: RMB87.0 million). The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

### (f) Movements of provision for impairment losses (Cont'd)

(ii) *Movements of provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income:*

	Six months ended June 30, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	69,267	-	-	69,267
Reversal for the period	(13,134)	-	-	(13,134)
As at June 30	56,133	-	-	56,133

	Year ended December 31, 2022			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	24,455	-	-	24,455
Charge for the year	44,812	-	-	44,812
As at December 31	69,267	-	-	69,267

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the consolidated statements of financial position, and impairment loss or gain is recognised in the profit or loss.

### (g) Disposal of loans and advances to customers

During the six months ended June 30, 2023, the Group did not transferred loans and advances to independent third parties. During the year ended December 31, 2022, the Group transferred (i) loans and advances with principal amount of RMB760.9 million; and (ii) relevant interests of RMB86.8 million, to independent third parties, and the transfer price was RMB76.0 million.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS

	<i>Notes</i>	<b>June 30, 2023</b>	December 31, 2022
Financial investments measured at fair value through profit or loss	<i>(a)</i>	<b>9,202,640</b>	9,170,852
Financial investments measured at fair value through other comprehensive income	<i>(b)</i>	<b>46,345,596</b>	37,083,370
Financial investments measured at amortised cost	<i>(c)</i>	<b>85,230,260</b>	81,937,063
<b>Total</b>		<b>140,778,496</b>	128,191,285

### (a) Financial investments measured at fair value through profit or loss

	<b>June 30, 2023</b>	December 31, 2022
Debt securities issued by the following institutions in mainland China		
– Banks and other financial institutions	<b>1,454,457</b>	1,230,680
– Corporate	<b>822,168</b>	834,733
<b>Sub-total</b>	<b>2,276,625</b>	2,065,413
– Unlisted	<b>2,276,625</b>	2,065,413
Asset-backed securities		
– Unlisted	<b>402,764</b>	412,253
Investment funds		
– Unlisted	<b>5,723,904</b>	5,865,583
Investment management products		
– Unlisted	<b>799,347</b>	789,813
Equity Investments		
– Listed	–	37,790
<b>Total</b>	<b>9,202,640</b>	9,170,852

Note: As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (b) Financial investments measured at fair value through other comprehensive income

	June 30, 2023	December 31, 2022
Debt securities issued by the following institutions in mainland China		
– Government	5,855,768	10,581,152
– Policy banks	23,291,442	16,596,379
– Banks and other financial institutions	5,282,941	2,881,134
– Corporate	10,171,915	5,275,056
Sub-total	44,602,066	35,333,721
Interests accrued	714,800	684,080
– Unlisted	45,316,866	36,017,801
Interbank deposits		
– Unlisted	590,341	669,373
Asset-backed securities	112,984	78,346
Interests accrued	8,180	5,237
– Unlisted	121,164	83,583
Equity investments		
– Unlisted	317,225	312,613
Total	46,345,596	37,083,370

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (b) Financial investments measured at fair value through other comprehensive income (Cont'd)

Notes:

- (i) As at June 30 2023, certain debt securities were pledged for deposits from customers (Note 22(a)). No other investments were subject to material restrictions in the realisation.
- (ii) The Group designates part of non-trading equity investments as financial investments measured at fair value through other comprehensive income.
- (iii) For the six months ended June 30, 2023, there were no cash dividends received from equity investments measured at fair value through other comprehensive income (December 31, 2022: RMB16.7 million).
- (iv) Movements of gross carrying amount of financial investments measured at fair value through other comprehensive income are as follows:

	June 30, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	36,770,757	–	–	36,770,757
New financial assets originated or purchased	66,767,145	–	–	66,767,145
Financial assets derecognised during the period	(57,884,217)	–	–	(57,884,217)
Change in accrued interest	35,708	–	–	35,708
Change in fair value	338,978	–	–	338,978
As at June 30	46,028,371	–	–	46,028,371

	December 31, 2022			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	22,925,903	–	–	22,952,903
New financial assets originated or purchased	135,049,379	–	–	135,049,379
Financial assets derecognised during the year	(121,133,595)	–	–	(121,133,595)
Change in accrued interest	201,968	–	–	201,968
Change in fair value	(272,898)	–	–	(272,898)
As at December 31	36,770,757	–	–	36,770,757



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (b) Financial investments measured at fair value through other comprehensive income (Cont'd)

Notes: (Cont'd)

- (v) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income are as follows:

	Six months ended June 30, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	8,820	-	-	8,820
Charge for the period	1,831	-	-	1,831
As at June 30	10,651	-	-	10,651

	Year ended December 31, 2022			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	9,353	-	-	9,353
Reversal for the year	(533)	-	-	(533)
As at December 31	8,820	-	-	8,820

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the consolidated statements of financial position, and impairment loss or gain is recognised in the profit or loss.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (c) Financial investments measured at amortised cost

	<i>Notes</i>	<b>June 30, 2023</b>	December 31, 2022
Debt securities issued by the following institutions in mainland China	<i>(i)</i>		
– Government		<b>33,301,641</b>	34,638,941
– Policy banks		<b>21,424,285</b>	13,285,492
– Banks and other financial institutions		<b>910,000</b>	1,220,000
– Corporate		<b>21,980,513</b>	23,816,067
Interests accrued		<b>1,364,020</b>	1,400,155
Sub-total		<b>78,980,459</b>	74,360,655
Investment management products		<b>7,470,270</b>	8,583,333
Interests accrued		<b>60,740</b>	53,439
– Unlisted		<b>7,531,010</b>	8,636,772
Asset-backed securities		<b>634,763</b>	711,951
Interests accrued		<b>14,906</b>	22,293
– Unlisted		<b>649,669</b>	734,244
Less: Provision for impairment losses	<i>(iii)</i>	<b>(1,930,878)</b>	(1,794,608)
Total		<b>85,230,260</b>	81,937,063

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (c) Financial investments measured at amortised cost (Cont'd)

Notes:

- (i) As at the end of each of the reporting period, certain debt securities were pledged for repurchase agreements, borrowings from the central bank, deposits from customers and securities borrowing (Note 22(a)).
- (ii) Movements of gross carrying amount of financial investments measured at amortised cost are as follows:

	Six months ended June 30, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	78,692,379	824,734	4,214,558	83,731,671
New financial assets originated or purchase	18,707,711	-	-	18,707,711
Financial assets derecognised during the period	(15,234,946)	(4,314)	-	(15,239,260)
Transfers:				
- to expected credit losses over the next 12 months	318,906	(318,906)	-	-
Change in accrued interest	(36,221)	(2,763)	-	(38,984)
As at June 30	82,447,829	498,751	4,214,558	87,161,138

	Year ended December 31, 2022			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	73,583,159	607,682	4,097,622	78,288,463
New financial assets originated or purchase	30,165,407	253,392	-	30,418,799
Financial assets derecognised during the year	(24,398,699)	(503,640)	-	(24,902,339)
Transfers:				
- to lifetime expected credit losses not credit-impaired	-	503,064	(503,064)	-
- to lifetime expected credit losses credit-impaired	(620,000)	-	620,000	-
Change in accrued interest	(37,488)	(35,764)	-	(73,252)
As at December 31	78,692,379	824,734	4,214,558	83,731,671

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 16. FINANCIAL INVESTMENTS (CONT'D)

### (c) Financial investments measured at amortised cost (Cont'd)

Notes: (Cont'd)

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

	Six months ended June 30, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	111,536	113,566	1,569,506	1,794,608
Transfers:				
– to expected credit losses over the next 12 months	11,984	(11,984)	–	–
(Reversal)/charge for the period	(16,258)	–	152,528	136,270
As at June 30	107,262	101,582	1,722,034	1,930,878

	Year ended December 31, 2022			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	152,689	61,256	952,284	1,166,229
Transfers:				
– to lifetime expected credit losses not credit impaired	–	50,065	(50,065)	–
– to lifetime expected credit losses credit impaired	(5,391)	–	5,391	–
(Reversal)/charge for the year	(35,762)	2,245	661,896	628,379
As at December 31	111,536	113,566	1,569,506	1,794,608

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 17. INVESTMENT IN A SUBSIDIARY

	June 30, 2023	December 31, 2022
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	1,047,500	1,047,500

Shandong Tongda Financial Leasing Co., Ltd. (“**Tongda**”), a limited liability company which was incorporated on June 6, 2016 at Shandong Province, the PRC with registered capital of RMB1,000.0 million. As at six months ended June 30, 2023, the registered capital of Tongda is RMB1,650.0 million. The principal activities of Tongda are the provision of financial leasing services in the PRC. As at June 30, 2023, the Bank holds 54.55% of equity interest (December 31, 2022: 54.55%).

On January 5, 2022, the Bank and two independent third parties made capital injection of RMB874.5 million in Tongda. The Group recorded an increase in non-controlling interests of approximately RMB499.1 million and a decrease in capital reserve of approximately RMB22.1 million. As at December 31, 2022, the consideration of RMB874.5 million was fully settled.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18. PROPERTY AND EQUIPMENT

	Premises	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Total
<b>Cost</b>						
As at January 1, 2022	997,733	–	265,280	468,640	19,275	1,750,928
Additions	4,551	–	14,916	82,260	437	102,164
Transfer to investment properties	(394)	–	–	–	–	(394)
Disposals	–	–	–	(45,275)	(686)	(45,961)
As at December 31, 2022 and January 1, 2023	1,001,890	–	280,196	505,625	19,026	1,806,737
Additions	32,319	85,125	4,183	9,058	923	131,608
As at June 30, 2023	1,034,209	85,125	284,379	514,683	19,949	1,938,345
<b>Accumulated depreciation</b>						
As at January 1, 2022	185,943	–	182,187	341,978	15,825	725,933
Charge for the year	24,584	–	21,629	39,353	785	86,351
Disposal	–	–	–	(43,100)	(659)	(43,759)
As at December 31, 2022 and January 1, 2023	210,527	–	203,816	338,231	15,951	768,525
Charge for the period	13,401	554	10,268	21,642	394	46,259
As at June 30, 2023	223,928	554	214,084	359,873	16,345	814,784
<b>Impairment loss</b>						
As at December 31, 2022 and June 30, 2023	5,680	–	–	–	–	5,680
<b>Net book value</b>						
As at June 30, 2023	804,601	84,571	70,295	154,810	3,604	1,117,881
As at December 31, 2022	785,683	–	76,380	167,394	3,075	1,032,532

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 18. PROPERTY AND EQUIPMENT (CONT'D)

The net book value of premises as at the end of each of the reporting period are analysed by the remaining terms of the leases as follows:

	At June 30, 2023	At December 31, 2022
Held in mainland China		
– Medium-term leases (10-50 years)	<b>774,497</b>	755,164
– Long-term leases (over 50 years)	<b>30,104</b>	30,519
	<b>804,601</b>	785,683

## 19. RIGHT-OF-USE ASSETS

	Motor vehicles	Properties	Total
<b>Net book value</b>			
As at January 1, 2022	285	394,389	394,674
Additions	–	54,368	54,368
Depreciation charge for the year	(265)	(113,427)	(113,692)
As at December 31, 2022 and January 1, 2023	20	335,330	335,350
Additions	–	13,993	13,993
Depreciation charge for the period	(20)	(53,365)	(53,385)
As at June 30, 2023	–	295,958	295,958

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20. DEFERRED TAX

### (a) Analysed by nature

	June 30, 2023		December 31, 2022	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	8,515,576	2,128,894	7,981,482	1,995,370
– Fair value changes of financial assets	597,580	149,395	801,774	200,444
– Accrued staff costs	568,051	142,013	561,246	140,312
– Others	295,230	73,808	16,097	4,024
Subtotal	9,976,437	2,494,110	9,360,599	2,340,150
Deferred income tax liabilities				
– Fair value changes of financial assets	(277,522)	(69,381)	(10,243)	(2,561)
– Others	(295,958)	(73,990)	–	–
Subtotal	(573,480)	(143,371)	(10,243)	(2,561)
Net balances	9,402,957	2,350,739	9,350,356	2,337,589

### (b) Movements of deferred tax

	Allowance for impairment losses <i>Note(i)</i>	Accrued staff costs	Fair value changes of financial assets <i>Note(ii)</i>	Others	Net balance of deferred tax assets
As at January 1, 2022	1,561,512	118,227	14,121	4,499	1,698,359
Recognised in profit or loss	433,858	22,085	112,939	(475)	568,407
Recognised in other comprehensive income	–	–	70,823	–	70,823
As at December 31, 2022 and January 1, 2023	1,995,370	140,312	197,883	4,024	2,337,589
Recognised in profit or loss	133,523	1,701	(30,418)	(4,206)	100,600
Recognised in other comprehensive income	–	–	(87,450)	–	(87,450)
As at June 30, 2023	2,128,893	142,013	80,015	(182)	2,350,739



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 20. DEFERRED TAX (CONT'D)

### (b) Movements of deferred tax (Cont'd)

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of each reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

## 21. OTHER ASSETS

	Notes	June 30, 2023	December 31, 2022
Interest receivable	(a)	854,937	923,426
Prepaid expenses	(b)	381,754	340,292
Intangible assets	(c)	65,750	68,806
Long-term deferred expenses		1,962	4,701
Repossessed assets	(d)	438,137	59,965
Land use rights	(e)	10,275	10,410
Investment properties	(f)	13,308	13,576
Finance lease receivables	(g)	22,421,105	20,172,871
Settlement and clearing account		2,564,389	591,442
Others		636,423	514,704
Subtotal		27,388,040	22,700,193
Less: Provision for impairment losses		(892,486)	(952,427)
Total		26,495,554	21,747,766

### (a) Interest receivable

	June 30, 2023	December 31, 2022
Interest receivable arising from:		
Financial investments	745,904	772,489
Loans and advances to customers	70,211	123,358
Others	38,822	27,579
Sub-total	854,937	923,426
Less: Provision for impairment losses	(257,730)	(245,727)
Total	597,207	677,699

As at the end of each reporting period, interest receivable only include interests that have been due for the relevant financial instruments but not yet received at the reporting date. Interests on financial instruments based on the effective interest method have been reflected in the balance of corresponding financial instruments.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21. OTHER ASSETS (CONT'D)

### (b) Prepaid expenses

As at the end of the reporting period, included in the prepaid expenses is prepayment for acquiring a property, prepayment to contractors for renovations and prepayment to contractors for systems designs and maintenance.

### (c) Intangible assets

	<b>Computer software and system development</b>
<b>Cost</b>	
As at January 1, 2022	185,746
Additions	43,100
As at December 31, 2022 and January 1, 2023	228,846
Additions	9,135
As at June 30, 2023	237,981
<b>Accumulated amortisation</b>	
As at January 1, 2022	137,900
Charge for the year	22,140
As at December 31, 2022 and January 1, 2023	160,040
Charge for the period	12,191
As at June 30, 2023	172,231
<b>Net book value</b>	
As at June 30, 2023	65,750
As at December 31, 2022	68,806

### (d) Repossessed assets

	<b>June 30, 2023</b>	December 31, 2022
Land use right and buildings	<b>59,965</b>	59,965
Equity investments	<b>378,172</b>	–
Less: impairment allowances	<b>(11,448)</b>	(11,448)
Net balances	<b>426,689</b>	48,517

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21. OTHER ASSETS (CONT'D)

### (e) Land use rights

	June 30, 2023	December 31, 2022
Located in mainland China: 10-50 years	10,275	10,410

### (f) Investment properties

	Investment properties
<b>Cost</b>	
As at January 1, 2022	22,756
Transfer from property and equipment	394
As at December 31, 2022 and January 1, 2023	23,150
Additions	20
As at June 30, 2023	23,170
<b>Accumulated depreciation and impairment</b>	
As at January 1, 2022	8,832
Charge for the year	742
As at December 31, 2022 and January 1, 2023	9,574
Charge for the period	288
As at June 30, 2023	9,862
<b>Net book value</b>	
As at June 30, 2023	13,308
As at December 31, 2022	13,576

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21. OTHER ASSETS (CONT'D)

### (g) Finance lease receivables

At the end of each of the reporting period, the total future minimum lease receivables under finance leases and their present values were as follows:

	June 30, 2023	December 31, 2022
Total minimum finance lease receivables		
Within 1 year (inclusive)	<b>9,356,755</b>	9,148,682
1 year to 5 years	<b>13,777,121</b>	12,102,422
Over 5 years	<b>4,152,720</b>	2,402,685
Gross amount of finance lease receivables	<b>27,286,596</b>	23,653,789
Less: Unearned finance income	<b>(4,341,833)</b>	(3,254,667)
Less: Unrealised VAT	<b>(803,074)</b>	(492,902)
Net amount of finance lease receivables	<b>22,141,689</b>	19,906,220
Interests accrued	<b>279,416</b>	266,651
Less: Provision for impairment loss	<b>(622,424)</b>	(694,829)
Carrying amount of finance lease receivables	<b>21,798,681</b>	19,478,042
Present value of minimum lease receivables		
Within 1 year (inclusive)	<b>7,956,932</b>	7,606,404
1 year to 5 years	<b>11,301,149</b>	10,401,329
Over 5 years	<b>2,540,600</b>	1,470,309
Total	<b>21,798,681</b>	19,478,042

The Group applies general approach on measure expected credit loss ("ECL") on finance lease receivables based on the ECL measurement. The Group's credit policy and exposure to credit risk on finance lease receivables are disclosed in note 37(a).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21. OTHER ASSETS (CONT'D)

### (g) Finance lease receivables (Cont'd)

Analysis of finance lease receivables and provision for impairment losses

	June 30, 2023			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	21,106,701	926,510	387,894	22,421,105
Less: Provision for impairment losses	(279,472)	(145,989)	(196,963)	(622,424)
Total carrying amount of finance lease receivables	20,827,229	780,521	190,931	21,798,681

	December 31, 2022			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	19,115,063	612,983	444,825	20,172,871
Less: Provision for impairment losses	(269,795)	(136,235)	(288,799)	(694,829)
Total carrying amount of finance lease receivables	18,845,268	476,748	156,026	19,478,042

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 21. OTHER ASSETS (CONT'D)

### (g) Finance lease receivables (Cont'd)

Movements of provision for impairment losses of finance lease receivables are as follows:

	Six months ended June 30, 2023			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	269,795	136,235	288,799	694,829
Transferred:				
– to losses over the next 12 months	16,279	(16,279)	–	–
– to lifetime expected credit losses:				
not credit-impaired	(13,188)	13,188	–	–
credit-impaired	–	(15,442)	15,442	–
Charge for the period	6,586	28,287	48,975	83,848
Written off and others	–	–	(156,253)	(156,253)
As at June 30	279,472	145,989	196,963	622,424

	Year ended December 31, 2022			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	301,807	124,265	158,149	584,221
Transferred:				
– to losses over the next 12 months	47,133	–	(47,133)	–
– to lifetime expected credit losses:				
not credit-impaired	(3,094)	3,094	–	–
credit-impaired	(6,876)	–	6,876	–
(Reversal)/charge for the year	(69,175)	8,876	323,602	263,303
Written off and others	–	–	(152,695)	(152,695)
As at December 31	269,795	136,235	288,799	694,829

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 22. PLEDGED ASSETS

### (a) Assets pledged as collateral

	June 30, 2023	December 31, 2022
For borrowings from the central bank:		
– Financial investments measured at amortised costs	<b>12,330,380</b>	12,456,585
For repurchase agreements:		
– Financial investments measured at amortised costs	<b>10,060,554</b>	9,106,668
– Discounted bills	<b>299,606</b>	1,883,811
For deposits from customers:		
– Financial investments measured at amortised costs	<b>180,927</b>	–
– Financial investments measured at other comprehensive income	<b>20,403</b>	–
For securities borrowing:		
– Financial investments measured at amortised costs	<b>107,776</b>	–
Total	<b>22,999,646</b>	23,447,064

Financial assets pledged by the Group as collateral for liabilities are mainly debt securities for repurchase agreements and borrowings from the central bank.

### (b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at June 30, 2023, no such collateral accepted by the Group (December 31, 2022: Nil). These transactions were conducted under standard terms in the normal course of business.

## 23. DEPOSITS FROM BANKS

### Analysed by type and location of counterparty

	June 30, 2023	December 31, 2022
Deposits in mainland China		
– Banks	<b>3,405,692</b>	4,792,700
Sub-total	<b>3,405,692</b>	4,792,700
Interests accrued	<b>5,785</b>	9,748
Total	<b>3,411,477</b>	4,802,448

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 24. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	June 30, 2023	December 31, 2022
Placements in mainland China		
– Banks	21,160,882	19,702,953
– Other financial institutions	570,000	140,000
Sub-total	21,730,882	19,842,953
Interests accrued	203,421	195,725
Total	21,934,303	20,038,678

## 25. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	June 30, 2023	December 31, 2022
In mainland China		
– Banks	9,799,935	9,800,000
Sub-total	9,799,935	9,800,000
Interests accrued	1,053	4,971
Total	9,800,988	9,804,971

(b) Analysed by type of collateral held

	June 30, 2023	December 31, 2022
Debt securities	9,500,000	9,800,000
Bank acceptance	299,935	–
Sub-total	9,799,935	9,800,000
Interests accrued	1,053	4,971
Total	9,800,988	9,804,971



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 26. DEPOSITS FROM CUSTOMERS

	June 30, 2023	December 31, 2022
Demand deposits		
– Corporate customers	<b>61,868,640</b>	51,494,361
– Individual customers	<b>11,515,726</b>	11,642,670
Sub-total	<b>73,384,366</b>	63,137,031
Time deposits		
– Corporate customers	<b>76,271,281</b>	72,205,933
– Individual customers	<b>109,340,012</b>	94,056,111
Sub-total	<b>185,611,293</b>	166,262,044
Inward and outward remittances	<b>38,646</b>	94,661
Interests accrued	<b>6,111,292</b>	4,993,752
Total	<b>265,145,597</b>	234,487,488

## 27. DEBT SECURITIES ISSUED

	<i>Notes</i>	June 30, 2023	December 31, 2022
Interbank deposits issued	<i>(a)</i>	<b>23,534,447</b>	24,643,307
Tier-two capital debts issued	<i>(b)</i>	<b>5,699,671</b>	5,699,641
Financial bonds issued	<i>(c)</i>	<b>4,999,903</b>	5,000,000
Sub-total		<b>34,234,021</b>	35,342,948
Interests accrued		<b>273,030</b>	85,285
Total		<b>34,507,051</b>	35,428,233

Notes:

(a) Interbank deposits issued

- i. In 2022, the Bank issued a number of certificates of interbank deposits with total nominal amount RMB49,300.0 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.35% to 2.80% per annum.
- ii. During the six months ended June 30, 2023, the bank issued a number of certificates of interbank deposits with total nominal amount RMB28,950.0 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.13% to 2.83% per annum.
- iii. As at June 30, 2023, the fair value of interbank deposits issued was RMB23,546.9 million (December 31, 2022: RMB24,604.1 million).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 27. DEBT SECURITIES ISSUED (CONT'D)

Notes: (Cont'd)

(b) Tier-two capital debts issued

- i. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000.0 million on September 10, 2020. The coupon interest rate per annum is 4.20%.
- ii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,700.0 million on July 29, 2022. The coupon interest rate per annum is 3.80%.
- iii. As at June 30, 2023, the fair value of the tier-two capital debts issued was RMB5,617.1 million (December 31, 2022: RMB5,535.7 million).

(c) Financial bonds issued

- i. On December 16, 2022, the Bank issued 3-year financial bonds specialised for small and micro enterprises with face value of RMB5,000.0 million. The coupon interest rate per annum is 3.00%.
- ii. As at June 30, 2023, the fair value of the financial bonds issued was RMB5,019.6 million (December 31, 2022: RMB4,971.0 million).

## 28. OTHER LIABILITIES

	Notes	June 30, 2023	December 31, 2022
Interest payable		3,747	8,570
Agency business liabilities		151,555	215,991
Accrued staff costs	(a)	691,212	719,853
Dividend payable		5,710	5,711
Settlement and clearing accounts		335,672	101,766
Output VAT payable		141,296	90,305
Contract liabilities	(b)	12,325	26,662
Provisions	(c)	83,394	67,501
Deposits received		216,154	183,493
Others		937,756	920,458
<b>Total</b>		<b>2,578,821</b>	2,340,310

(a) Accrued staff costs

	June 30, 2023	December 31, 2022
Salary, bonuses and allowances payable	619,529	654,128
Pension insurance and annuity payable	328	24
Others	71,355	65,701
<b>Total</b>	<b>691,212</b>	719,853

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 28. OTHER LIABILITIES (CONT'D)

### (b) Contract liabilities

As at June 30, 2023, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB12.3 million (December 31, 2022: RMB26.7 million). Such amount represents income expected to be recognised in the future from finance lease services. The Group will recognise the expected income in future as the services are provided. The expected timing of recognising revenue are ranged from one to five years.

### (c) Provisions

	June 30, 2023	December 31, 2022
Provision for credit commitments	<b>83,394</b>	67,501

Movements of provisions for credit commitments are as follows:

	Six months ended June 30, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit- impaired	Lifetime expected credit losses credit- impaired	
As at January 1	67,501	–	–	67,501
Charge for the period	15,893	–	–	15,893
As at June 30	<b>83,394</b>	–	–	<b>83,394</b>

	Year ended December 31, 2022			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit- impaired	Lifetime expected credit losses credit- impaired	
As at January 1	94,731	–	–	94,731
Reversal for the year	(27,230)	–	–	(27,230)
As at December 31	67,501	–	–	67,501

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 29. SHARE CAPITAL

### Authorised and issued share capital

	June 30, 2023	December 31, 2022
Ordinary shares in mainland China	4,971,197	4,971,197
Ordinary shares listed in Hong Kong (H Share)	1,008,861	1,008,861
Total	5,980,058	5,980,058

All the H shares have been listed on The Stock Exchange of Hong Kong Limited. The H Share rank *pari passu* in all respects with the existing ordinary shares in mainland China including the right to receive all dividends and distributions declared or made.

## 30. RESERVES

### (a) Capital reserve

	June 30, 2023	December 31, 2022
Share premium	4,933,399	4,933,399
Other capital reserve	(7,939)	(7,939)
Total	4,925,460	4,925,460

### (b) Surplus reserve

The surplus reserve at the end of each of the reporting period represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP") after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders. For the six months ended June 30, 2023, no resolution of discretionary surplus reserve was made by the shareholders (For the year ended December 31, 2022: RMB170 million).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 30. RESERVES (CONT'D)

### (c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.50% of the ending balance of its gross risk-bearing assets on an annual basis.

### (d) Fair value reserve

	Six months ended June 30, 2023	Year ended December 31, 2022
As at January 1	(187,430)	25,041
Changes in fair value recognised in other comprehensive income	349,800	(284,280)
Disposal of financial investments measured at fair value through other comprehensive income	–	986
Less: deferred tax	(87,450)	70,823
As at June 30/December 31	<b>74,920</b>	(187,430)

### (e) Impairment reserve

	Six months ended June 30, 2023	Year ended December 31, 2022
As at January 1	58,565	25,356
Impairment losses recognised in other comprehensive income	(11,303)	44,279
Less: deferred tax	2,826	(11,070)
As at June 30/December 31	<b>50,088</b>	58,565

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 30. RESERVES (CONT'D)

### (f) Other equity instrument

On November 28, 2019, the Group issued a perpetual debt of RMB3,000.0 million with no fixed maturity date, resulting in credit to perpetual bonds of RMB2,999.7 million, after deducting the direct issuance cost of RMB0.3 million. In addition, the payment of interest can be indefinitely deferred at the Group's option and is not cumulative.

On November 29, 2021, the Group issued a perpetual bond of RMB1,100.0 million with no fixed maturity date, resulting in credits to perpetual bonds of RMB1,099.5 million, after deducting the direct issuance cost of RMB0.5 million. In addition, the payment of interest can be indefinitely deferred at the Group's option and is not cumulative.

Therefore, the perpetual bond is classified as an equity instrument due to it does not include any contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

During the year ended December 31, 2022, the Group did not cancel the payment of distribution and the corresponding interest of RMB214.8 million was paid to perpetual bond holders accordingly.

During the six months ended June 30, 2023, the Group did not distribute interest on perpetual bonds.

## 31. RETAINED EARNINGS

In accordance with the resolution at the Bank's Annual General Meeting on May 30, 2023, the shareholders approved the following profit appropriations for the year ended December 31, 2022:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No.20 [2012] of the Ministry Finance), appropriation of general reserve amounted to approximately RMB436.3 million; and
- The Bank did not distribute any cash dividends for year ended December 31, 2022.

In accordance with the resolution at the Bank's Annual General Meeting held on May 31, 2022, the shareholders approved the following profit appropriations for the year ended December 31, 2021:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (No. 20 [2012] of the Ministry Finance), appropriation of general reserve amounted to approximately RMB572.5 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB598.0 million to shareholders whose names appear on the register of member of the Bank on June 13, 2022. The agreed dividend were distributed in form of cash to the equity shareholders on July 5, 2022.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 32. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

### (a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities mainly include wealth management products issued by financial institutions and investment management products managed by securities firms and under trust schemes. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognised as at June 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments measured at fair value through profit or loss	6,523,251	6,523,251	6,655,396	6,655,396
Financial investments measured at amortised cost	6,071,006	6,071,006	7,334,335	7,334,335
Total	12,594,257	12,594,257	13,989,731	13,989,731

As at June 30, 2023 and December 31, 2022, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

### (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. The Group does not control these structured entities and therefore, these structured entities are not consolidated. These structured entities are financed through the issue of units to investors. The Group earns commission fee by providing management services to the investors of these structured entities. As at June 30, 2023 and December 31, 2022, the management fee receivables being recognised are not material in the consolidated statement of financial position.

For the six months ended June 30, 2023, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB249.1 million (six months ended June 30, 2022: RMB140.9 million).

As at June 30, 2023, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group is RMB35,676.7 million (December 31, 2022: RMB35,866.2 million).

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 32. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONT'D)

### (c) Unconsolidated structure entities sponsored by the Group during the period which the Group does not have an interest in as at June 30, 2023:

For the six months ended June 30, 2023, there was no non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 (six months ended June 30, 2022: Nil).

## 33. CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The former CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 33. CAPITAL MANAGEMENT (CONT'D)

The Group's capital adequacy ratios at June 30, 2023 and December 31, 2022 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	June 30, 2023	December 31, 2022
Total core tier-one capital		
– Share capital	<b>5,980,058</b>	5,980,058
– Qualifying portion of capital reserve	<b>4,925,460</b>	4,925,460
– Surplus reserve	<b>1,549,088</b>	1,549,088
– General reserve	<b>3,690,579</b>	3,227,913
– Other comprehensive income	<b>125,008</b>	(128,865)
– Retained earnings	<b>5,079,079</b>	4,494,289
– Qualifying portions of non-controlling interests	<b>821,920</b>	731,165
Core tier-one capital	<b>22,171,192</b>	20,779,108
Core tier-one capital deductions	<b>(205,945)</b>	(335,364)
Net core tier-one capital	<b>21,965,247</b>	20,443,744
Other tier-one capital	<b>4,208,790</b>	4,196,689
Net tier-one capital	<b>26,174,037</b>	24,640,433
Tier-two capital		
– Instruments issued and share premium	<b>5,699,671</b>	5,700,000
– Surplus provision for loan impairment	<b>1,708,717</b>	1,560,308
– Qualifying portions of non-controlling interests	<b>219,179</b>	194,977
Net tier-two capital	<b>7,627,567</b>	7,455,285
Net capital base	<b>33,801,604</b>	32,095,718
Total risk weighted assets	<b>251,445,580</b>	232,128,848
Core tier-one capital adequacy ratio	<b>8.74%</b>	8.81%
Tier-one capital adequacy ratio	<b>10.41%</b>	10.61%
Capital adequacy ratio	<b>13.44%</b>	13.83%

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

### (a) Net decrease in cash and cash equivalents

	Six months ended June 30,	
	2023	2022
Cash and cash equivalents as at June 30	<b>14,552,203</b>	17,182,110
Less: Cash and cash equivalents as at January 1	<b>(17,525,673)</b>	(20,527,169)
Net decrease in cash and cash equivalents	<b>(2,973,470)</b>	(3,345,059)

### (b) Cash and cash equivalents

	June 30, 2023	June 30, 2022
Cash on hand	<b>225,205</b>	208,589
Deposits with the central bank other than restricted deposits	<b>7,165,521</b>	8,442,772
Deposits with banks and other financial institutions	<b>1,361,478</b>	1,838,007
Placements with banks	–	1,112,765
Debt investments with maturity three months or less	<b>5,799,999</b>	5,579,977
Total	<b>14,552,203</b>	17,182,110

## 35. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Related parties of the Group

#### i. Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director, member of the Board of Supervisors in the Bank.

Shareholdings in the Bank:

	June 30, 2023	December 31, 2022
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	<b>35.56%</b>	35.56%
Weihai Municipal Finance Bureau (威海市財政局)	<b>15.38%</b>	15.38%
Shandong Hi-Speed Company Limited (山東高速股份有限公司)	<b>11.60%</b>	11.60%
Weihai Tian'an Real Estate Development Co., Ltd. (威海天安房地產開發有限公司)	<b>2.75%</b>	2.75%
Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd. (山東環球漁具股份有限公司)	<b>1.39%</b>	1.39%
Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司)	<b>1.20%</b>	1.20%

The official names of these related parties are in Chinese. The English translation is for reference only.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### (a) Related parties of the Group (Cont'd)

#### ii. *Subsidiary of the Bank*

The detailed information of the Bank's subsidiary is set out in Note 17.

#### iii. *Other related parties*

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(a) or their controlling shareholders.

### (b) Transactions with related parties other than key management personnel

#### i. *Transactions between the Bank and major shareholders:*

	Six months ended June 30,	
	2023	2022
Transactions during the period		
Interest income	5,778	3,565
Interest expense	32,784	33,584
Fee and commission income	1,658	949

	June 30,	December 31,
	2023	2022
Balances at end of the period/year		
Deposits from customers	3,293,545	4,049,023
Financial investments	201,200	201,200

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### (b) Transactions with related parties other than key management personnel (Cont'd)

#### ii. Transactions between the Bank and subsidiary:

	Six months ended June 30,	
	2023	2022
Transactions during the period		
Interest income	47,434	44,084
Interest expense	6,564	6,821
Rental income	1,040	1,100
	June 30,	December 31,
	2023	2022
Balances at end of the period/year		
Loans and advances to customers	2,387,678	2,209,437
Deposits from customers	1,134	199,856

#### iii. Transactions between the Bank and other related parties:

	Six months ended June 30,	
	2023	2022
Transactions during the period		
Interest income	118,763	83,545
Interest expense	57,884	38,144
Fee and commission income	6,826	356
Rental expenses	648	1,117
	June 30,	December 31,
	2023	2022
Balances at end of the period/year		
Loans and advances to customers	3,388,656	2,964,577
Deposits from customers	10,063,062	7,595,758
Financial investments	317,900	372,615
Bank acceptances	591,016	794,143
Letters of guarantees	158,800	110,526
Letters of credit	1,275,000	1,295,000

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 35. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

### (c) 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 Group, directly or indirectly, including members of the board of directors, the supervisory board and senior management.

#### i. Transactions between the Bank and key management personnel

	Six months ended June 30,	
	2023	2022
Transactions during the period		
Interest income	33	18
Interest expense	526	431

	June 30,	December 31,
	2023	2022
Balances at end of the period/year		
Loans and advances to customers	1,695	1,580
Deposits from customers	11,514	12,786

#### ii. Key management personnel compensation

The aggregate compensation to key management personnel is listed as follows:

	Six months ended June 30,	
	2023	2022
Key management personnel compensation	7,114	7,111

### (d) Loans and advances to directors, supervisors and officers

	June 30,	December 31,
	2023	2022
Aggregate amount of relevant loans outstanding at the end of the period/year	1,693	1,639
Maximum aggregate amount of relevant loans outstanding during the period/year	1,693	2,459

There were no amount due but unpaid at June 30, 2023 and December 31, 2022.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36. SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

### Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services, guarantee services and finance leasing services.

### Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

### Financial market business

This segment covers the Group's financial market business operations. The Financial market business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The Financial market business segment also covers management of the Group's overall liquidity position, including the issuance of debts.

### Others

These represent assets, liabilities, income and expenses, which are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2023				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income/(expense)	1,981,346	(597,353)	1,907,716	–	3,291,709
Internal net interest income/(expense)	468,756	1,525,033	(1,993,789)	–	–
Net interest income/(expense)	2,450,102	927,680	(86,073)	–	3,291,709
Net fee and commission Income/(expense)	58,131	55,716	231,738	(1,684)	343,901
Net trading (losses)/gains	(2,733)	–	135,329	–	132,596
Net gains arising from investment securities	–	–	558,287	–	558,287
Other operating income	17,283	–	–	5,205	22,488
Operating income	2,522,783	983,396	839,281	3,521	4,348,981
Operating expenses	(514,174)	(240,431)	(102,936)	(10,784)	(868,325)
Impairment losses on assets	(1,395,947)	(391,552)	(402,514)	(2,186)	(2,192,199)
Profit/(loss) before tax	612,662	351,413	333,831	(9,449)	1,288,457
Segment assets	160,634,589	56,192,983	154,794,756	2,508,258	374,130,586
Deferred tax assets	–	–	–	2,350,739	2,350,739
Total assets	160,634,589	56,192,983	154,794,756	4,858,997	376,481,325
Segment liabilities	182,026,206	125,352,738	39,721,963	2,239,238	349,340,145
Total liabilities	182,026,206	125,352,738	39,721,963	2,239,238	349,340,145
Other segment information					
– Depreciation and amortisation	66,912	31,915	13,367	843	113,037
– Capital expenditure	33,182	15,827	6,629	–	55,638

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 36. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2022				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income/(expense)	1,733,464	(352,752)	1,827,540	–	3,208,252
Internal net interest income/(expense)	457,784	1,271,412	(1,729,196)	–	–
Net interest income	2,191,248	918,660	98,344	–	3,208,252
Net fee and commission income/(expense)	206,914	65,969	98,891	(1,718)	370,056
Net trading gains/(losses)	121,786	–	(66,005)	–	55,781
Net gains arising from investment securities	–	–	595,799	–	595,799
Other operating income	–	–	–	6,791	6,791
Operating income	2,519,948	984,629	727,029	5,073	4,236,679
Operating expenses	(512,615)	(244,010)	(106,796)	(6,857)	(870,278)
Impairment losses on assets	(1,430,386)	(396,935)	(333,457)	(1,857)	(2,162,635)
Profit/(loss) before tax	576,947	343,684	286,776	(3,641)	1,203,766
Other segment information					
– Depreciation and amortisation	64,543	30,773	12,905	374	108,595
– Capital expenditure	37,739	17,993	7,546	–	63,278
	Year ended December 31, 2022 (Audited)				Total
	Corporate banking	Retail banking	Financial market business	Others	
Segment assets	144,712,122	54,745,495	140,850,251	1,055,029	341,362,897
Deferred tax assets	–	–	–	2,340,150	2,340,150
Total assets	144,712,122	54,745,495	140,850,251	3,395,179	343,703,047
Segment liabilities	158,580,304	109,136,657	47,646,123	2,607,329	317,970,413
Total liabilities	158,580,304	109,136,657	47,646,123	2,607,329	317,970,413



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

### Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control procedures for monitoring risks level. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Risk Management Committee under the Board reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework; supervises and evaluates the establishment, organization, processes and effectiveness of risk management departments; supervises and evaluates risk control by the management in aspects such as credit risk, market risk and operational risk; and conducts identification, monitoring, control and regular assessment of the Group's risk management and risk tolerance. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up departments such as the Department of Risk Management, Department of Credit Approval, Financial Planning Department, Department of Law and Compliance and Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on regular or irregular basis.

#### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

#### Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management mainly include the Risk Management Department and Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, risk monitoring and control and formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including Corporate Business Department and Personal Finance Department carry out credit businesses according to the Group's risk management policies and procedures.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Credit business (Cont'd)

The Group continuously improves the internal control mechanism and strengthens the management of all processes of the credit business. Based on effective checks and balances, the Group has established comprehensive assessment and accountability mechanisms, assigning the responsibilities of credit management to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-, region-, product- and client-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments or personnel for approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardised loan recovery procedures.

##### Stages of risks in financial instrument

###### *Stage 1*

Financial assets have not experienced a significant increase in credit risk since origination and impairment is recognised on the basis of 12 months expected credit losses.

###### *Stage 2*

Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

###### *Stage 3*

Financial assets that are in default and considered credit-impaired.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- the credit spread increases significantly;
- significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- application of a grace period or debt-restructuring;
- significant changes with an adverse effect in the borrower's business conditions;
- less value of the collaterals (for the collateral loans and pledged loans only);
- early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans; or
- principal or interest of the instrument is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by the management for the appropriateness.

The Group has not used the low credit risk exemption for any financial assets in each of the end of reporting period.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Definition of "default" and "credit-impaired assets"

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for the financial assets because of financial difficulties of the issuer; or
- principal or interest of the instrument is more than 90 days past due.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECLs")

The Group adopts ECL model to measure provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Measurement of ECLs (Cont'd)

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of calculation for each month are then discounted to the reporting date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the pattern of defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the reporting date by the credit conversion factor ("**CCF**").
- The Group determines the 12-month and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.
- As to financial assets classified as security, the Group determines the LGD according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines LGD in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Measurement of ECL (Cont'd)

The Group quarterly monitors and reviews assumptions related to the calculation of ECLs, including the changes in PD and the value of collaterals under the different time limits.

As at June 30, 2023 and December 31, 2022, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Forward-looking information included in the ECL model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of ECLs involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECLs of all asset portfolios, including gross domestic product ("GDP"), consumer price index ("CPI"), Money supply M2 ("M2"), etc. The Group identified the relations between these economic indicators and the PD historically by conducting regression analysis, and identified the expected PD by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECLs were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Measurement of ECL (Cont'd)

The Group adopts three economic scenarios in the ECL measurement to meet the requirements of IFRS 9. The "Baseline" scenario represents a most likely outcome and the other two scenarios, referred to as "Optimistic" scenario and "Pessimistic" scenario, represent less likely outcomes which are more optimistic or more pessimistic compared to Baseline scenario.

Historical data, economic trend, external forecast from governmental and non-governmental organisation, etc. are also used as benchmarks to ensure the forecasts are reasonable and supportable. For the Optimistic and Pessimistic scenarios, the Group makes reference to the historical macroeconomics data.

The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs for each asset portfolio such as the accumulated year-on-year growth rate of GDP, the accumulated year-on-year growth rate of CPI and M2. The Group evaluates and forecasts these economic indicators at least quarterly and applied them in the impairment model.

The probability weight assigned for each scenario reflects the Group's view for the economic environment, which implements the Group's prudent and consistent credit strategy of ensuring the adequacy of impairment allowance.

A higher probability weight is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability weight is assigned to the Optimistic and Pessimistic scenarios to reflect the less likely outcomes. As at June 30, 2023, the weights assigned to various economic scenarios were: "Baseline" 60%, "Optimistic" 20%, and "Pessimistic" 20% (December 31, 2022: the same).

Key/Major macroeconomic scenario assumptions used by the Group to assess ECL:

Macroeconomic Factor	Range of the factors
GDP: accumulated year-on-year	6.5% – 7.4%
M2: accumulated year-on-year	11.0% – 11.4%

The calculation of ECL is affected by macroeconomic factors and economic scenarios. If more pessimistic macroeconomic factors are applied in ECL assessment or a higher probability weight is assigned to the Pessimistic scenario, it would result in an increase in ECL.

As at June 30, 2023, if 5% of the probability weight is shifted from Baseline scenario to Pessimistic scenario, the impairment allowance of loans and advances will increase by 0.36%, and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase by 0.07%. If 5% of the probability weight is shifted from Baseline scenario to Optimistic scenario, the impairment allowance of loans and advances will decrease by 0.31%, and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will decrease by 0.06%.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Measurement of ECL (Cont'd)

##### i. Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting period.

##### ii. Financial assets analysed by credit quality are summarised as follows:

	June 30, 2023			
	Loans and Advances to customers	Deposits/ placements with banks and other financial institutions	Financial investments <i>(Note i)</i>	Others <i>(Note ii)</i>
Balance of financial assets that are assessed for ECLs over the next 12 months				
– Overdue but not credit-impaired	461,207	–	–	38,823
– Neither overdue nor credit-impaired	172,352,379	1,367,688	126,313,554	21,084,945
Sub-total	172,813,586	1,367,688	126,313,554	21,123,768
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs				
– Overdue but not credit-impaired	1,438,774	–	–	919,426
– Neither overdue nor credit-impaired	4,016,864	–	498,750	–
Sub-total	5,455,638	–	498,750	919,426
Balance of credit-impaired financial assets that are assessed for lifetime ECLs				
– Overdue and credit-impaired	2,646,582	–	4,214,559	1,145,420
– Credit-impaired but not overdue	505,150	–	–	–
Sub-total	3,151,732	–	4,214,559	1,145,420
Interests accrued	1,388,394	54	2,162,646	279,416
Less: Provision for impairment losses	(4,050,946)	–	(1,930,878)	(881,038)
Net value	178,758,404	1,367,742	131,258,631	22,586,992



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

	December 31, 2022			
	Loans and Advances to customers	Deposits/ placements with banks and other financial institutions	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months				
– Overdue but not credit-impaired	924,082	–	–	27,579
– Neither overdue nor credit-impaired	155,630,426	1,096,252	113,300,695	19,097,187
Sub-total	156,554,508	1,096,252	113,300,695	19,124,766
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs				
– Overdue but not credit-impaired	1,052,113	–	–	425,114
– Neither overdue nor credit-impaired	3,228,276	–	821,970	339,944
Sub-total	4,340,389	–	821,970	765,058
Balance of credit-impaired financial assets that are assessed for lifetime ECLs				
– Overdue and credit-impaired	3,239,576	–	3,714,559	1,145,099
– Credit-impaired but not overdue	162,721	–	500,000	–
Sub-total	3,402,297	–	4,214,559	1,145,099
Interests accrued	1,090,427	46	2,165,204	266,651
Less: Provision for impairment losses	(3,637,267)	–	(1,794,608)	(940,979)
Net value	161,750,354	1,096,298	118,707,820	20,360,595

Notes:

- i. Financial investments include financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.
- ii. Others comprise interest receivable, finance lease receivables and other receivables in other assets.
- iii. As at June 30, 2023, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB3,444.8 million (December 31, 2022: RMB2,922.4 million). The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB5,176.8 million (December 31, 2022: RMB3,622.1 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

#### ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

Financial assets (exclusive interests accrued) analysed by credit quality

	June 30, 2023								
	Balance			Total	Provision for impairment losses			Total	ECL Rate Total
Stage 1	Stage 2	Stage 3	Stage 1		Stage 2	Stage 3			
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	25,316,551	-	-	25,316,551	-	-	-	-	N/A
Deposits with banks and other financial institutions	1,367,688	-	-	1,367,688	-	-	-	-	N/A
Loans and advances to customers	162,203,254	5,455,638	3,151,732	170,810,624	(1,705,329)	(818,854)	(1,526,763)	(4,050,946)	2.37%
Financial investments	81,008,163	498,750	4,214,559	85,721,472	(102,819)	(101,582)	(1,722,034)	(1,926,435)	2.25%
Other assets	21,123,768	919,426	1,145,420	23,188,614	(292,829)	(145,990)	(442,219)	(881,038)	3.80%
<b>Total</b>	<b>291,019,424</b>	<b>6,873,814</b>	<b>8,511,711</b>	<b>306,404,949</b>	<b>(2,100,977)</b>	<b>(1,066,426)</b>	<b>(3,691,016)</b>	<b>(6,858,419)</b>	<b>2.24%</b>
Financial assets measured at fair value through other comprehensive income:									
Loans and advances to customers	10,610,332	-	-	10,610,332	(56,133)	-	-	(56,133)	0.53%
Financial investments	45,305,391	-	-	45,305,391	(10,651)	-	-	(10,651)	0.02%
<b>Total</b>	<b>55,915,723</b>	<b>-</b>	<b>-</b>	<b>55,915,723</b>	<b>(66,784)</b>	<b>-</b>	<b>-</b>	<b>(66,784)</b>	<b>0.12%</b>
Credit commitments	60,096,781	-	-	60,096,781	(83,394)	-	-	(83,394)	0.14%

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

ii. *Financial assets analysed by credit quality are summarised as follows: (Cont'd)*

Financial assets (exclusive interests accrued) analysed by credit quality (Cont'd)

	December 31, 2022								
	Balance				Provision for impairment losses				ECL Rate
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	27,209,312	-	-	27,209,312	-	-	-	-	N/A
Deposits with banks and other financial institutions	1,096,252	-	-	1,096,252	-	-	-	-	N/A
Loans and advances to customers	146,228,714	4,340,389	3,402,297	153,971,400	(1,423,130)	(812,904)	(1,401,233)	(3,637,267)	2.36%
Financial investments	77,219,255	821,970	4,214,559	82,255,784	(106,832)	(113,494)	(1,569,504)	(1,789,830)	2.18%
Other assets	19,124,766	765,058	1,145,099	21,034,923	(278,234)	(159,688)	(503,057)	(940,979)	4.47%
<b>Total</b>	<b>270,878,299</b>	<b>5,927,417</b>	<b>8,761,955</b>	<b>285,567,671</b>	<b>(1,808,196)</b>	<b>(1,086,086)</b>	<b>(3,473,794)</b>	<b>(6,368,076)</b>	<b>2.23%</b>
Financial assets at fair value through other comprehensive income:									
Loans and advances to customers	10,325,794	-	-	10,325,794	(69,267)	-	-	(69,267)	0.67%
Financial investments	36,081,440	-	-	36,081,440	(8,820)	-	-	(8,820)	0.02%
<b>Total</b>	<b>46,407,234</b>	<b>-</b>	<b>-</b>	<b>46,407,234</b>	<b>(78,087)</b>	<b>-</b>	<b>-</b>	<b>(78,087)</b>	<b>0.17%</b>
Credit commitments	57,073,746	-	-	57,073,746	(67,501)	-	-	(67,501)	0.12%

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

##### Measurement of ECL (Cont'd)

##### ii. Financial assets analysed by credit quality are summarised as follows: (Cont'd)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	June 30, 2023			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.72%	15.51%	43.36%	2.24%
Financial assets measured at fair value through other comprehensive income	0.12%	N/A	N/A	0.12%
Credit commitments	0.14%	N/A	N/A	0.14%

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.67%	18.32%	39.65%	2.23%
Financial assets measured at fair value through other comprehensive income	0.17%	N/A	N/A	0.17%
Credit commitments	0.12%	N/A	N/A	0.12%

##### iii. Rescheduled loans and advances to customers

The Group has no rescheduled loans and advances to customers at June 30, 2023 and December 31, 2022.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (a) Credit risk (Cont'd)

Measurement of ECL (Cont'd)

#### iv. Credit rating

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

	June 30, 2023	December 31, 2022
Neither overdue nor impaired		
Ratings		
– AAA	32,583,935	32,847,593
– AA– to AA+	26,173,119	24,275,204
– below AA–	2,328,475	2,142,616
Sub-total	61,085,529	59,265,413
Unrated	63,880,154	50,602,698
Total	124,965,683	109,868,111

#### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new business are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate of products.

#### Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

#### Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

##### Trading interest rate risk

Trading interest rate risk mainly arises from the treasury business' investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	At June 30, 2023					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	25,316,551	233,904	25,043,687	38,960	-	-
Deposits with banks and other financial institutions	1,367,742	54	1,367,688	-	-	-
Loans and advances to customers (Note (i))	178,758,404	1,388,393	26,403,648	61,247,205	55,050,147	34,669,011
Financial investments (Note (ii))	140,778,496	2,538,444	10,598,823	8,691,237	48,252,396	70,697,596
Other assets	30,260,132	8,740,867	2,633,843	5,043,673	11,301,149	2,540,600
<b>Total assets</b>	<b>376,481,325</b>	<b>12,901,662</b>	<b>66,047,689</b>	<b>75,021,075</b>	<b>114,603,692</b>	<b>107,907,207</b>
<b>Liabilities</b>						
Borrowings from the central bank	11,609,944	4,937	2,097,214	2,656,903	6,850,890	-
Deposits from banks	3,411,477	5,785	3,405,692	-	-	-
Placements from banks and other financial institutions	21,934,303	203,421	5,557,488	16,173,394	-	-
Financial assets sold under repurchase agreements	9,800,988	1,053	9,799,935	-	-	-
Deposits from customers	265,145,597	6,149,939	87,140,009	38,337,879	128,170,422	5,347,348
Debt securities issued	34,507,051	273,030	7,330,668	16,203,779	4,999,903	5,699,671
Other liabilities	2,930,785	2,613,009	102,494	13,313	112,653	89,316
<b>Total liabilities</b>	<b>349,340,145</b>	<b>9,251,174</b>	<b>115,433,500</b>	<b>73,385,268</b>	<b>140,133,868</b>	<b>11,136,335</b>
<b>Asset-liability gap</b>	<b>27,141,180</b>	<b>3,650,488</b>	<b>(49,385,811)</b>	<b>1,635,807</b>	<b>(25,530,176)</b>	<b>96,770,872</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(i) The following tables indicate the assets and liabilities as at the end of each of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier: (Cont'd)

	Total	Non-interest bearing	December 31, 2022			
			Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>						
Cash and deposits with the central bank	27,209,312	211,548	26,997,764	–	–	–
Deposits with banks and other financial institutions	1,096,298	46	1,096,252	–	–	–
Loans and advances to customers (Note (i))	161,750,354	1,090,426	21,585,743	53,534,150	51,137,799	34,402,236
Financial investments (Note (ii))	128,191,285	2,514,622	10,126,104	8,913,692	40,741,784	65,895,083
Other assets	25,455,798	6,800,536	2,085,383	4,698,241	10,401,329	1,470,309
<b>Total assets</b>	<b>343,703,047</b>	<b>10,617,178</b>	<b>61,891,246</b>	<b>67,146,083</b>	<b>102,280,912</b>	<b>101,767,628</b>
<b>Liabilities</b>						
Borrowings from the central bank	10,292,752	5,082	1,976,187	8,311,483	–	–
Deposits from banks	4,802,448	9,748	1,462,700	3,330,000	–	–
Placements from banks and other financial institutions	20,038,678	195,725	7,013,899	12,829,054	–	–
Financial assets sold under repurchase agreements	9,804,971	4,971	9,800,000	–	–	–
Deposits from customers	234,487,488	5,088,653	90,837,209	44,621,690	93,939,936	–
Debt securities issued	35,428,233	85,286	10,907,408	13,735,899	5,000,000	5,699,640
Other liabilities	3,115,843	2,894,134	21,114	39,942	60,224	100,429
<b>Total liabilities</b>	<b>317,970,413</b>	<b>8,283,599</b>	<b>122,018,517</b>	<b>82,868,068</b>	<b>99,000,160</b>	<b>5,800,069</b>
<b>Asset-liability gap</b>	<b>25,732,634</b>	<b>2,333,579</b>	<b>(60,127,271)</b>	<b>(15,721,985)</b>	<b>3,280,752</b>	<b>95,967,559</b>

Notes:

- i. As at June 30, 2023, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB3,006.9 million (December 31, 2022: RMB2,622.1 million).
- ii. Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

#### (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	June 30, 2023	December 31, 2022
Change in net profit		
Up 100 bps parallel shift in yield curves	15,783	54,012
Down 100 bps parallel shift in yield curves	(15,783)	(54,012)

	June 30, 2023	December 31, 2022
Change in equity		
Up 100 bps parallel shift in yield curves	230,175	131,838
Down 100 bps parallel shift in yield curves	(230,175)	(131,838)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of each of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

##### Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to US dollar and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flow of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

The currency exposures as at the end of each reporting period are as follows:

	June 30, 2023			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	25,113,113	203,438	–	25,316,551
Deposits with banks and other financial institutions	1,004,642	338,003	25,097	1,367,742
Loans and advances to customers	178,517,489	240,915	–	178,758,404
Financial investments ( <i>Note</i> )	138,420,712	2,357,784	–	140,778,496
Others	30,068,885	180,645	10,602	30,260,132
<b>Total assets</b>	<b>373,124,841</b>	<b>3,320,785</b>	<b>35,699</b>	<b>376,481,325</b>
<b>Liabilities</b>				
Borrowings from the central bank	11,609,944	–	–	11,609,944
Deposits from banks	3,411,477	–	–	3,411,477
Placements from banks and other financial institutions	21,179,994	754,309	–	21,934,303
Financial assets sold under repurchase agreements	9,800,988	–	–	9,800,988
Deposits from customers	262,511,444	2,627,864	6,289	265,145,597
Debt securities issued	34,507,051	–	–	34,507,051
Others	2,882,577	48,191	17	2,930,785
<b>Total liabilities</b>	<b>345,903,475</b>	<b>3,430,364</b>	<b>6,306</b>	<b>349,340,145</b>
<b>Net position</b>	<b>27,221,366</b>	<b>(109,579)</b>	<b>29,393</b>	<b>27,141,180</b>
<b>Off-balance sheet credit commitments</b>	<b>59,942,965</b>	<b>153,816</b>	<b>–</b>	<b>60,096,781</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (b) Market risk (Cont'd)

##### Foreign currency risk (Cont'd)

	RMB	December 31, 2022		Total (RMB Equivalent)
		USD (RMB Equivalent)	Others (RMB Equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	27,027,473	181,839	–	27,209,312
Deposits with banks and other financial institutions	682,118	388,637	25,543	1,096,298
Loans and advances to customers	161,666,281	84,073	–	161,750,354
Financial investments ( <i>Note</i> )	125,989,040	2,202,245	–	128,191,285
Other assets	25,443,470	1	12,327	25,455,798
<b>Total assets</b>	<b>340,808,382</b>	<b>2,856,795</b>	<b>37,870</b>	<b>343,703,047</b>
<b>Liabilities</b>				
Borrowings from the central bank	10,292,752	–	–	10,292,752
Deposits from banks and other financial institutions	4,592,730	209,718	–	4,802,448
Placements from banks and other financial institutions	19,306,244	732,434	–	20,038,678
Financial assets sold under repurchase agreements	9,804,971	–	–	9,804,971
Deposits from customers	232,493,689	1,986,816	6,983	234,487,488
Debt securities issued	35,428,233	–	–	35,428,233
Other liabilities	2,935,476	179,887	480	3,115,843
<b>Total liabilities</b>	<b>314,854,095</b>	<b>3,108,855</b>	<b>7,463</b>	<b>317,970,413</b>
<b>Net position</b>	<b>25,954,287</b>	<b>(252,060)</b>	<b>30,407</b>	<b>25,732,634</b>
<b>Off-balance sheet credit commitments</b>	<b>57,049,640</b>	<b>22,874</b>	<b>1,232</b>	<b>57,073,746</b>

*Note:* Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (c) *Liquidity risk*

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Risk Management Department, Financial Planning Department, Corporate Banking Department, Retail Banking Department, Department of Credit Approval, Department of Financial Market, Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the Financial Planning Department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (c) Liquidity risk (Cont'd)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of each of the reporting period:

	June 30, 2023							Total
	Indefinite <i>Note (i)</i>	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>								
Cash and deposits with the central bank	17,878,130	7,390,726	-	8,735	38,960	-	-	25,316,551
Deposit with banks and other financial institutions	6,210	1,361,478	-	54	-	-	-	1,367,742
Loans and advances to customers	2,586,198	707,739	8,461,028	17,866,347	59,300,533	55,172,350	34,664,209	178,758,404
Financial investments	2,843,271	-	6,723,439	1,453,325	8,811,774	49,316,150	71,630,537	140,778,496
Others	5,920,921	3,299,734	925,888	1,228,167	5,043,673	11,301,149	2,540,600	30,260,132
<b>Total assets</b>	<b>29,234,730</b>	<b>12,759,677</b>	<b>16,110,355</b>	<b>20,556,628</b>	<b>73,194,940</b>	<b>115,789,649</b>	<b>108,835,346</b>	<b>376,481,325</b>
<b>Liabilities</b>								
Borrowings from the central bank	-	-	2,097,214	2,661,840	6,850,890	-	-	11,609,944
Deposits from banks	-	255,693	1,154,029	2,001,755	-	-	-	3,411,477
Placements from banks and other financial institutions	-	-	2,968,607	2,679,157	16,286,539	-	-	21,934,303
Financial assets sold under repurchase agreements	-	-	9,800,988	-	-	-	-	9,800,988
Deposits from customers	-	85,242,086	820,395	1,141,978	38,581,090	134,012,700	5,347,348	265,145,597
Debt securities issued	-	273,030	2,138,549	5,192,119	16,203,779	4,999,903	5,699,671	34,507,051
Others	-	2,054,394	122,618	69,035	267,203	281,772	135,763	2,930,785
<b>Total liabilities</b>	<b>-</b>	<b>87,825,203</b>	<b>19,102,400</b>	<b>13,745,884</b>	<b>78,189,501</b>	<b>139,294,375</b>	<b>11,182,782</b>	<b>349,340,145</b>
<b>Net position</b>	<b>29,234,730</b>	<b>(75,065,526)</b>	<b>(2,992,045)</b>	<b>6,810,744</b>	<b>(4,994,561)</b>	<b>(23,504,726)</b>	<b>97,652,564</b>	<b>27,141,180</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (c) Liquidity risk (Cont'd)

	Indefinite Note (i)	Repayable on demand	Within one month	December 31, 2022				Total
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>								
Cash and deposits with the central bank	16,741,531	10,467,781	-	-	-	-	-	27,209,312
Deposits with banks and other financial institutions	6,210	1,090,042	-	46	-	-	-	1,096,298
Loans and advances to customers	2,695,612	1,539,600	6,218,564	11,748,794	53,701,812	51,396,185	34,449,787	161,750,354
Financial investments	2,991,187	-	7,318,641	1,106,834	10,066,761	40,812,779	65,895,083	128,191,285
Others	3,611,858	2,922,026	901,393	1,450,642	4,698,241	10,401,329	1,470,309	25,455,798
<b>Total assets</b>	<b>26,046,398</b>	<b>16,019,449</b>	<b>14,438,598</b>	<b>14,306,316</b>	<b>68,466,814</b>	<b>102,610,293</b>	<b>101,815,179</b>	<b>343,703,047</b>
<b>Liabilities</b>								
Borrowing from the central bank	-	-	1,036,358	940,387	8,316,007	-	-	10,292,752
Deposits from banks	-	229,762	-	1,236,367	3,336,319	-	-	4,802,448
Placements from banks and other financial institutions	-	-	3,027,915	4,094,178	12,916,585	-	-	20,038,678
Financial assets sold under repurchase agreements	-	-	9,804,971	-	-	-	-	9,804,971
Deposit from customers	-	64,573,751	10,771,893	20,580,218	44,621,690	93,939,936	-	234,487,488
Debt securities issued	-	85,285	1,588,259	9,319,150	13,735,899	5,000,000	5,699,640	35,428,233
Others	-	2,609,455	54,036	11,728	83,069	227,247	130,308	3,115,843
<b>Total liabilities</b>	<b>-</b>	<b>67,498,253</b>	<b>26,283,432</b>	<b>36,182,028</b>	<b>83,009,569</b>	<b>99,167,183</b>	<b>5,829,948</b>	<b>317,970,413</b>
<b>Net position</b>	<b>26,046,398</b>	<b>(51,478,804)</b>	<b>(11,844,834)</b>	<b>(21,875,712)</b>	<b>(14,542,755)</b>	<b>3,443,110</b>	<b>95,985,231</b>	<b>25,732,634</b>

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired financial investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (c) Liquidity risk (Cont'd)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Group at the end of each of the reporting period:

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	June 30, 2023				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowings from the central bank	11,609,944	11,800,802	-	2,127,011	2,689,219	6,984,572	-	-
Deposits from banks	3,411,477	3,613,781	255,692	1,222,759	2,135,330	-	-	-
Placements from banks and other financial institutions	21,934,303	22,292,216	-	2,972,469	3,653,002	14,990,876	675,869	-
Financial assets sold under repurchase agreements	9,800,988	9,802,007	-	9,802,007	-	-	-	-
Deposits from customers	265,145,597	268,583,270	72,311,041	8,316,754	17,728,638	57,961,315	112,265,522	-
Debt securities issued	34,507,051	37,345,679	-	2,178,788	5,510,885	16,849,352	6,215,092	6,591,562
Other financial liabilities	1,691,020	1,829,748	1,109,859	219,085	71,181	77,260	302,805	49,558
<b>Total non-derivative financial liabilities</b>	<b>348,100,380</b>	<b>355,267,503</b>	<b>73,676,592</b>	<b>26,838,873</b>	<b>31,788,255</b>	<b>96,863,375</b>	<b>119,459,288</b>	<b>6,641,120</b>

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	December 31, 2022				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Borrowings from the central bank	10,292,752	10,397,787	-	1,036,378	981,070	8,380,339	-	-
Deposits from banks	4,802,448	5,025,663	229,796	37,694	1,262,851	3,495,322	-	-
Placements from banks and other financial institutions	20,038,678	20,610,087	-	3,062,683	4,207,174	13,340,230	-	-
Financial assets sold under repurchase agreements	9,804,971	9,806,451	-	9,806,451	-	-	-	-
Deposits from customers	234,487,488	243,695,852	64,235,967	9,901,766	20,923,513	45,542,536	103,092,070	-
Debt securities issued	35,428,233	38,455,540	-	1,628,808	9,466,895	14,553,183	6,215,092	6,591,562
Other financial liabilities	1,724,689	1,765,112	1,030,364	55,171	13,980	280,276	250,980	134,341
<b>Total non-derivative financial liabilities</b>	<b>316,579,259</b>	<b>329,756,492</b>	<b>65,496,127</b>	<b>25,528,951</b>	<b>36,855,483</b>	<b>85,591,886</b>	<b>109,558,142</b>	<b>6,725,903</b>

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 37. RISK MANAGEMENT (CONT'D)

### Risk management system (Cont'd)

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.
- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE

### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

#### (i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

#### (ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

#### (iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

### (b) Fair value measurement

#### (i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, loans and advances to customers and financial investments.

Deposits with the central bank and deposits with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE (CONT'D)

### (b) Fair value measurement (Cont'd)

#### (ii) *Financial liabilities*

The Group's financial liabilities mainly include borrowings from the central bank, deposits from banks, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 27. The carrying amounts of other financial liabilities approximate their fair value.

### (c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE (CONT'D)

### (c) Fair value hierarchy (Cont'd)

	June 30, 2023			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	2,276,625	–	2,276,625
– investment funds	–	5,723,904	–	5,723,904
– asset-backed securities	–	402,764	–	402,764
– investment management products	–	–	799,347	799,347
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	45,316,866	–	45,316,866
– equity investments	–	–	317,225	317,225
– assets-backed securities	–	121,164	–	121,164
– interbank deposits	–	590,341	–	590,341
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	10,610,332	–	10,610,332
<b>Total</b>	<b>–</b>	<b>65,041,996</b>	<b>1,116,572</b>	<b>66,158,568</b>

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
<b>Recurring fair value measurements</b>				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	2,065,413	–	2,065,413
– equity investments	37,790	–	–	37,790
– investment funds	–	5,865,583	–	5,865,583
– assets-backed securities	–	412,253	–	412,253
– investment management products	–	–	789,813	789,813
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	36,017,801	–	36,017,801
– equity investments	–	–	312,613	312,613
– assets-backed securities	–	83,583	–	83,583
– interbank deposits	–	669,373	–	669,373
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	10,325,794	–	10,325,794
<b>Total</b>	<b>37,790</b>	<b>55,439,800</b>	<b>1,102,426</b>	<b>56,580,016</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE (CONT'D)

### (c) Fair value hierarchy (Cont'd)

The movement during the each of the reporting period in the balance of Level 3 fair value measurements is as follows:

	January 1, 2023	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				June 30, 2023	Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss												
- investment management products	789,813	-	-	11,534	-	-	-	-	(2,000)	799,347	7,667	
Financial investments measured at fair value through other comprehensive income												
- equity investments	312,613	-	-	-	4,612	-	-	-	-	317,225	-	
<b>Total</b>	<b>1,102,426</b>	<b>-</b>	<b>-</b>	<b>11,534</b>	<b>4,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,000)</b>	<b>1,116,572</b>	<b>7,667</b>	

	January 1, 2022	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2022	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss												
- investment management products	5,040,009	-	-	78,701	-	34,677	-	(4,335,515)	(28,059)	789,813	(328,047)	
Financial investments measured at fair value through other comprehensive income												
- equity investments	275,182	-	-	-	37,431	-	-	-	-	312,613	-	
<b>Total</b>	<b>5,315,191</b>	<b>-</b>	<b>-</b>	<b>78,701</b>	<b>37,431</b>	<b>34,677</b>	<b>-</b>	<b>(4,335,515)</b>	<b>(28,059)</b>	<b>1,102,426</b>	<b>(328,047)</b>	

During each of the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3 of the Group.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE (CONT'D)

### (c) Fair value hierarchy (Cont'd)

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at June 30, 2023	Valuation techniques	Unobservable input
<b>Financial investments measured at fair value through profit or loss</b> – investment management products	<b>799,347</b>	Discounted cash flow	Risk-adjusted discount rate, cash flow
<b>Financial investments measured at fair value through other comprehensive income</b> – equity investments	<b>317,225</b>	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at December 31, 2022	Valuation techniques	Unobservable input
<b>Financial investments measured at fair value through profit or loss</b> – investment management products	789,813	Discounted cash flow	Risk-adjusted discount rate, cash flow
<b>Financial investments measured at fair value through other comprehensive income</b> – equity investments	312,613	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the six months ended June 30, 2023 and year ended December 31, 2022, there were no significant change in the valuation techniques.

As at June 30, 2023 and December 31, 2022, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 38. FAIR VALUE (CONT'D)

### (c) Fair value hierarchy (Cont'd)

The sensitivity analysis of the fair value on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis is set out as below.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

	June 30, 2023			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
<b>Financial assets measured at fair value through profit or loss</b>				
– investment management products	5,995	(5,995)	–	–
<b>Financial investments measured at fair value through other comprehensive income</b>				
– equity investments	–	–	2,379	(2,379)

	December 31, 2022			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
<b>Financial assets measured at fair value through profit or loss</b>				
– investment management products	5,924	(5,924)	–	–
<b>Financial investments measured at fair value through other comprehensive income</b>				
– equity investments	–	–	2,345	(2,345)

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 39. TRANSACTIONS ON BEHALF OF CUSTOMERS

### (a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group only acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	June 30, 2023	December 31, 2022
Entrusted loans	10,886,578	8,934,241
Entrusted funds	10,886,578	8,934,241

### (b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds and funds. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. At the end of each of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	June 30, 2023	December 31, 2022
Funds received from customers under wealth management services	35,676,663	35,392,376

# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 40. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit, financial guarantees and credit card commitments.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	June 30, 2023	December 31, 2022
Acceptances	46,561,089	44,405,496
Letters of credit	10,154,399	9,843,458
Letters of guarantees	1,043,763	689,112
Credit card commitments	2,337,530	2,135,680
Total	60,096,781	57,073,746

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

### (b) Credit risk-weighted amount for credit commitments

	June 30, 2023	December 31, 2022
Credit risk-weighted amounts	7,013,796	5,801,912

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.



# Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

## 40. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

### (c) Capital commitments

As at the end of each of the reporting period, the Group's authorised capital commitments are as follows:

	June 30, 2023	December 31, 2022
Property and equipment		
– Contracted but not paid for	19,796	72,158
Intangible assets		
– Contracted but not paid for	108,036	74,011
Total	127,832	146,169

### (d) Outstanding litigations and disputes

As at June 30, 2023 and December 31, 2022, the Group had not identified any outstanding litigations and disputes which the Group as defendant with an estimated gross amounts larger than RMB10 million. The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's internal lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group has not recognised the litigation provision at the reporting date. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

## 41. EVENT AFTER THE REPORTING PERIOD

### Issuance of green financial bonds

As approved by the People's Bank of China, the Bank has recently successfully issued the "2023 Green Financial Bonds" in the national inter-bank bond market. The Bank issued 3 years fixed interest rate green financial bonds with face value of RMB5,000 million with a coupon interest rate of 2.70% on July 24, 2023. Further details of the completion of issuance are set out in the announcement of the Bank dated July 24, 2023.

# CHAPTER 12 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The Bank discloses the unaudited supplementary financial information in accordance with the Listing Rules and the Banking (Disclosure) Rules as follows:

## 1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

- Liquidity coverage ratio

Liquidity coverage ratio (RMB'000)	June 30, 2023	December 31, 2022
Qualified and quality liquidity assets	97,252,827	78,372,886
Amount of net cash outflows in the next 30 days	37,479,898	31,910,002
Liquidity coverage ratio	259.48%	245.61%

According to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

- Leverage ratio

	June 30, 2023	December 31, 2022
Leverage ratio	6.12%	6.32%

Pursuant to the Administrative Measures on the Leverage Ratio Management of Commercial Banks (《商業銀行槓桿率管理辦法》) issued by the former China Banking Regulatory Commission and became effective since April 1, 2015, a minimum leverage ratio of 4% is required for commercial banks.

The following table sets forth the relevant accounting items corresponding to the regulatory leverage ratio items and the differences between the regulatory items and accounting items.

Unit: RMB'000

No.	Item	June 30, 2023	December 31, 2022
1	Consolidated total assets	376,253,700	343,170,184
2	Consolidated adjustments	—	—
3	Adjustments for client assets	—	—
4	Adjustments for derivatives	147,585	42,957
5	Adjustments for securities finance transactions	—	—
6	Adjustments for off-balance sheet items	51,858,996	47,146,503
7	Other adjustments	(246,086)	(335,364)
8	Balance of on- and off-balance sheet assets after adjustments	428,014,195	390,024,280

## Chapter 12 Unaudited Supplementary Financial Information

### 1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

- Leverage ratio (Cont'd)

The following table sets forth information on the Bank's leverage ratio, net tier-one capital, on – and off-balance sheet assets after adjustments and relevant breakdown.

Unit: RMB'000

No.	Item	June 30, 2023	December 31, 2022
1	On-balance sheet assets (excluding derivatives and securities finance transactions)	<b>376,253,700</b>	343,170,184
2	Less: Tier-one capital deductions	<b>(246,086)</b>	(335,364)
3	Balance of on-balance sheet assets after adjustments (excluding derivatives and securities finance transactions)	<b>376,007,614</b>	342,834,820
4	Replacement cost of various derivatives (net of qualified security deposits)	–	–
5	Potential risk exposure of various derivatives	<b>147,585</b>	42,957
6	Total collateral and pledges charged to the balance sheet	–	–
7	Less: Assets receivable arising from provision of qualified security deposits	–	–
8	Less: Balance of assets of derivatives arising from transactions with central counterparties when providing clearing services to customers	–	–
9	Notional principal amount of sold credit derivatives	–	–
10	Less: Balance of deductible assets of sold credit derivatives	–	–
11	Balance of assets of derivatives	<b>147,585</b>	42,957
12	Balance of accounting assets for securities finance transactions	–	–
13	Less: Balance of deductible assets of securities finance transactions	–	–
14	Counterparty credit risk exposure of securities finance transactions	–	–
15	Balance of assets of securities finance transactions arising from agency securities finance transactions	–	–
16	Balance of assets of securities finance transactions	–	–
17	Balance of off-balance sheet items	<b>51,858,996</b>	47,146,503
18	Less: Balance of off-balance sheet items deducted by credit conversion	–	–
19	Balance of off-balance sheet items after adjustments	<b>51,858,996</b>	47,146,503
20	Net tier-one capital	<b>26,174,038</b>	24,640,433
21	Balance of on – and off-balance sheet assets after adjustments	<b>428,014,195</b>	390,024,280
	<b>Leverage ratio</b>	<b>6.12%</b>	6.32%

**1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)**

- Net stable funding ratio

Net stable funding ratio (RMB'000)	June 30, 2023	December 31, 2022
Available stable funding	<b>246,023,977</b>	223,682,704
Required stable funding	<b>180,591,892</b>	167,128,964
Net stable funding ratio	<b>136.23%</b>	133.84%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), a minimum net stable funding ratio of 100% is required for commercial banks.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formulae announced by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

**2. CURRENCY CONCENTRATIONS**

Unit: RMB'000

	June 30, 2023			
	USD	HKD	Others	Total
Spot assets	<b>3,146,437</b>	<b>10,689</b>	<b>25,010</b>	<b>3,182,136</b>
Spot liabilities	<b>(3,591,403)</b>	–	<b>(6,290)</b>	<b>(3,597,693)</b>
Net position	<b>(444,966)</b>	<b>10,689</b>	<b>18,720</b>	<b>(415,557)</b>

	December 31, 2022			
	USD	HKD	Others	Total
Spot assets	2,861,562	12,614	25,256	2,899,432
Spot liabilities	(3,108,854)	–	(7,463)	(3,116,317)
Net position	(247,292)	12,614	17,793	(216,885)

### 3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all third parties claims outside Mainland China as international claims. International claims include loans and advances to customers, balances with Central Bank and amounts due from banks and other financial institutions.

A country or geographical area shall be immediately reported if it constitutes 10% or more of the aggregate amount of an international claim, after taking into account all of its risk transfers. A risk transfer shall only be made if the guarantor of a claim is located in a country different from that of a counterparty, or if a claim is made against an overseas branch of a bank whose head-office is located in another country.

Unit: RMB'000

	June 30, 2023		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	10,622	–	10,622
Europe	41,744	–	41,744
Others	406	–	406
<b>Total</b>	<b>52,772</b>	<b>–</b>	<b>52,772</b>

	December 31, 2022		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	4,074	–	4,074
Europe	19,874	–	19,874
Others	679	–	679
<b>Total</b>	<b>24,627</b>	<b>–</b>	<b>24,627</b>

#### 4. RISK EXPOSURE ANALYSIS

##### (1) Credit risk exposure and assessment

In accordance with the relevant provisions of the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) issued by the CBIRC and Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), the Bank has formulated comprehensive asset risk classification and administrative measures for all types of assets that are exposed to credit risk, and implemented five-category classification management for all types of credit assets based on their risk levels, namely, normal, special – mentioned, substandard, doubtful and loss. Special-mentioned assets represent that borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors. Nonperforming assets comprise the last three categories, which represent that borrowers cannot repay principal and interest in full and certain losses may ensue even when collaterals or guarantees are invoked. As at the end of the Reporting Period, the balance of principal of assets for which principal or interest is not repaid in accordance with the contractually stipulated terms was defined as overdue assets.

As of the end of the Reporting Period, our total credit risk exposure was RMB425,206 million. Among which, the on-balance sheet credit risk exposure was RMB373,432 million, while the off-balance sheet credit risk exposure was RMB51,774 million. During the Reporting Period, the maturity profile of our business remained stable, and our credit risk exposure was mainly distributed in Shandong and Tianjin, with industries concentrated in the leasing industry, the business services industry, the water conservancy, environment and public facilities management industry and the manufacturing industry.

When we measure the credit risk-weighted assets, the risk weights of each asset are in accordance with Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). Credit risk exposures by level of risk weights are detailed in the following table:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
0% combined	128,087.1	84,797.1
20% combined	33,330.8	33,216.1
25% combined	14,769.7	10,760.1
50% combined	15,667.5	15,667.5
75% combined	34,194.2	33,753.6
100% combined	196,622.0	185,176.0
250% combined	2,284.8	2,284.8
400% combined	199.0	199.0
1,250% combined	50.6	50.6
<b>Total</b>	<b>425,205.7</b>	<b>365,904.8</b>

#### 4. RISK EXPOSURE ANALYSIS (CONT'D)

##### (1) Credit risk exposure and assessment (Cont'd)

The details of the credit risk exposures by entity during the Reporting Period are as follows:

Unit: RMB million

	Risk exposure	Unmitigated risk exposure
Cash assets	25,316.5	25,316.5
Claims to the Central Government and the Central Bank	9,982.1	9,982.1
Claims to public sector entities	31,198.8	31,198.8
Claims to PRC financial institutions	67,343.3	65,179.0
Claims to financial institutions registered in other countries/regions	235.9	235.9
Claims to general businesses	180,845.3	169,401.7
Claims to qualified small and micro enterprises	6,514.7	6,156.4
Claims to individuals	43,346.9	43,264.6
Residual value of leased assets	0.0	0.0
Equity investments	273.2	273.2
Others	7,628.0	7,625.6
On-balance sheet items of asset securitization	747.2	747.2
Off-balance sheet credit risk exposure	51,773.8	6,523.8
<b>Total</b>	<b>425,205.7</b>	<b>365,904.8</b>

We continue to standardise the management of credit risk mitigation tools, and have formulated the systems and procedures covering guarantee management, collateral classification, valuation method and process, investigation and evaluation, stress test, establishment and duration management of collateral and pledges, and collateral return and disposal. We have also regularly evaluated the value of collateral and pledges and guarantee capabilities. All of the above have facilitated the effective function of risk mitigation. Our credit risk mitigation tools include collateral, pledges and guarantees. The pledge includes financial pledge, accounts receivable and other pledge (warehouse receipts, intellectual property rights, inventories, machinery and equipment, etc.). The collaterals mainly include land, real estate and other real estates. Real estate mortgage, land mortgage and financial product pledge represent a relatively high proportion of mitigation tools. The types of guarantors include sovereign institutions, financial institutions, credit guarantee institutions, general corporate legal entities and natural persons, etc., in which credit guarantee institutions, general corporate legal persons and natural persons account for a relatively high proportion, and have better overall guarantee qualifications. As at the end of the Reporting Period, the qualified mitigation tools calculated by us in accordance with Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) amounted to RMB59,301 million, all of which are pledges.

#### 4. RISK EXPOSURE ANALYSIS (CONT'D)

##### (2) Market risk exposure and assessment

Our market risk capital under the standardised approach is the sum of the capital requirements for interest rate risk and exchange rate risk. Interest rate risk capital is the sum of capital requirement for general market risk and capital requirement for specific risk.

The capital requirement for market risk under the standardised approach is the sum of the capital requirements for interest rate risk, exchange rate risk, commodity risk, equity risk and option risk. Capital requirement for interest rate risk and capital requirement for equity risk are the sum of capital requirement for general market risk and capital requirement for specific risk.

*Standardised approach of market risk basically measures the capital requirement for each type of risks*

Unit: RMB million

Type of risk	Capital requirement
Interest rate risk	61.7
General risk	35.5
Specific risk	26.2
Equity risk	–
General risk	–
Specific risk	–
Exchange rate risk	–
Commodity risk	–
Option risk	–
Specific risk to risk exposure of asset securitization in transaction accounts	–
<b>Total</b>	<b>61.7</b>

##### (3) Operational risk exposure and assessment

We use the basic indicator approach to measure our operational risk capital. In accordance with the basic indicator rules of Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), operational risk capital covers our overall business scale and corresponding operational risk exposure.



## Chapter 12 Unaudited Supplementary Financial Information

### 5. MATERIAL RELATED PARTY TRANSACTIONS

As at the end of the Reporting Period, the Bank's credit balance of material related party transactions (excluding net deposits, security deposits, etc.) was RMB4.574 billion, details of which are as follows:

Unit: RMB'000

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	250,000	0.83%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	250,000	0.83%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	250,000	0.83%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	250,000	0.83%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	280,000	0.93%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	220,000	0.73%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	280,000	0.93%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.66%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	100,000	0.33%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	100,000	0.33%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	Credit	200,000	0.66%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	176,000	0.58%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	172,000	0.57%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	76,000	0.25%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	76,000	0.25%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	200,000	0.66%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	92,000	0.30%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	80,000	0.26%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Letters of credit	Guarantees	128,000	0.42%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	176,000	0.58%

## 5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	150,000	0.50%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	Guarantees	150,000	0.50%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Debt investments	Credit	200,000	0.66%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Held-for-trading financial assets	Credit	400	0.00%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Held-for-trading financial assets	Credit	800	0.00%
Shandong High-Speed Forest Industry Supply Chain Co., Ltd.* (山東高速林產供應鏈有限公司)	Loan	Collateral	198,000	0.66%
Shandong Shifang Environmental Protection & bio-energy Co., Ltd. (山高十方環保能源集團有限公司)	Loan	Guarantees	99,990	0.33%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	17,500	0.06%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	6,900	0.02%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	19,400	0.06%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	10,100	0.03%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	Collateral	40,000	0.13%
Shandong Hi-Speed Lunan Logistics Development Co., Ltd.* (山東高速魯南物流發展有限公司)	Loan	Guarantees	73,990	0.24%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	11,023	0.04%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	951	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	249	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	390	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	788	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	267	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	1,002	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	240	0.00%

## 5. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Major type of guarantee	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	254	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	337	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	319	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	826	0.00%
Shandong Hi-Speed Construction Materials Co., Ltd.* (山東高速建材集團有限公司)	Letters of guarantee	Guarantees	867	0.00%
Qilu Wisdom (Shandong) Supply Chain Co., Ltd.* (齊魯智慧(山東)供應鏈有限公司)	Letters of guarantee	Guarantees	17,000	0.06%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of guarantee	Guarantees	2,764	0.01%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of guarantee	Guarantees	6,292	0.02%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of guarantee	Guarantees	2,426	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	82	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	1,144	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	733	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	340	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	193	0.00%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	1,656	0.01%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	Guarantees	339	0.00%
<b>Total</b>			<b>4,573,562</b>	<b>15.14%</b>

\* For identification purpose only

# LIST OF INSTITUTIONS

District	Name of organisation	Business address	Remarks
Weihai, Shandong	Headquarters	9 Bao Quan Road, Huancui District, Weihai City	51 licensed branches and sub-branches in Weihai District
Jinan, Shandong	Jinan Branch	The whole building of Building 1 (A3), Room 101-107, 1/F, Room 201-206, 2/F, Building 2 (A1), Xinyuanxin Center, 3 Huaxin Road, Licheng District, Jinan City	12 licensed branches and sub-branches in Jinan District
	Laiwu Branch	60 Luzhong East Main Street, Laiwu District, Jinan City, Shandong Province	2 licensed branches and sub-branches in Laiwu District
Qingdao, Shandong	Qingdao Branch	487 Changjiang Middle Road, Huangdao District, Qingdao City, Shandong Province	9 licensed branches and sub-branches in Qingdao District
Yantai, Shandong	Yantai Branch	218-1 Changjiang Road, Yantai Development Zone, Shandong Province	6 licensed branches and sub-branches in Yantai District
Dezhou, Shandong	Dezhou Branch	1337 Tianqu Middle Road, Decheng District, Dezhou City, Shandong Province	5 licensed branches and sub-branches in Dezhou District
Jining, Shandong	Jining Branch	9-1 Pipashan North Road, Jining High-tech Zone, Shandong Province	7 licensed branches and sub-branches in Jining District
Linyi, Shandong	Linyi Branch	0004 Yimeng Road, Lanshan District, Linyi City, Shandong Province	6 licensed branches and sub-branches in Linyi District
Weifang, Shandong	Weifang Branch	1589 Xinhua Road, Kuiwen District, Weifang City, Shandong Province	3 licensed branches and sub-branches in Weifang District

## List of Institutions

District	Name of organisation	Business address	Remarks
Dongying, Shandong	Dongying Branch	500 Xi'er Road, Dongying District, Dongying City, Shandong Province	2 licensed branches and sub-branches in Dongying District
Zibo, Shandong	Zibo Branch	227 Xincun West Road, Zhangdian District, Zibo City, Shandong Province	2 licensed branches and sub-branches in Zibo District
Liaocheng, Shandong	Liaocheng Branch	117 Dongchang West Road, Dongchangfu District, Liaocheng City, Shandong Province	2 licensed branches and sub-branches in Liaocheng District
Zaozhuang, Shandong	Zaozhuang Branch	117 Guangming West Road and 55 Deren North Road, Zaozhuang High-tech Zone, Shandong Province	2 licensed branches and sub-branches in Zaozhuang District
Heze, Shandong	Heze Branch	289 Yongchang Road, Heze Economic and Technological Development Zone, Shandong Province	2 licensed branches and sub-branches in Heze District
Tai'an, Shandong	Tai'an Branch	472 Dongyue Main Street, Taishan District, Tai'an City, Shandong Province	2 licensed branch and sub-branches in Tai'an District
Rizhao, Shandong	Rizhao Branch	59 Qinhuangdao Road, Economic and Technological Development Zone, Rizhao City, Shandong Province	1 licensed branch and sub-branch in Rizhao District
Binzhou, Shandong	Binzhou Branch	338 Huanghe 6th Road, Binzhou Economic and Technological Development Zone, Shandong Province	2 licensed branches and sub-branches in Binzhou District
Tianjin City	Tianjin Branch	150 Fuan Main Street, Heping District, Tianjin City	10 licensed branches and sub-branches in Tianjin District