



中原銀行股份有限公司

ZHONGYUAN BANK CO., LTD.

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

Stock Code: 1216

Preference Shares Stock Code: 4617

INTERIM 2023 REPORT



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I. Corporate Information

Legal Name of the Company

中原銀行股份有限公司¹ (abbreviated as 中原銀行)

English Name of the Company

ZHONGYUAN BANK CO., LTD.¹ (abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, PRC

Headquarters in China

Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province, PRC

Principal Business Place in Hong Kong

40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong

Board of Directors

Executive Directors²:

Mr. GUO Hao (Chairman)
Mr. WANG Jiong
Mr. LI Yulin

Non-Executive Directors:

Ms. ZHANG Qiuyun
Mr. MI Hongjun

Independent non-executive Directors:

Ms. PANG Hong
Mr. LI Hongchang
Mr. JIA Tingyu
Mr. CHAN Ngai Sang Kenny

¹ Zhongyuan Bank Co., Ltd. is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking and/or deposit-taking business in Hong Kong.

² On April 6, 2023, Mr. XU Nuojin, an executive Director and the chairman of the Board, tendered his resignation to the Board and resigned as an executive Director, the chairman of the Board and the chairman of the Strategy and Development Committee of the Board of the Bank due to change of work arrangement with effect from April 6, 2023. For more details, please refer to the Bank's announcement dated April 6, 2023.

On April 14, 2023, the Bank held the 47th meeting of the second session of the Board to propose the appointment of Mr. GUO Hao as an executive Director of the second session of the Board of the Bank. On May 8, 2023, the Bank held the 2023 1st extraordinary general meeting to elect Mr. GUO Hao as an executive Director of the second session of the Board. On May 15, 2023, the Bank held the 48th meeting of the second session of the Board, at which Mr. Guo Hao was elected as the chairman of the Board of the Bank and the chairman of the Strategy and Development Committee of the Board. The qualifications of Mr. Guo Hao as a Director and the chairman of the Board were approved by the former China Banking and Insurance Regulatory Commission Henan Office on May 12, 2023 and June 12, 2023, respectively. For details, please refer to the announcements of the Bank dated April 14, 2023, May 8, 2023, May 12, 2023, May 15, 2023 and June 12, 2023 and the circular of the Bank dated April 14, 2023.

I. Corporate Information

Legal Representative¹

Mr. GUO Hao

Authorized Representatives

Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke
Ms. CHAN Yin Wah

Unified Social Credit Code

9141000031741675X6

Financial License Institution Number

B0615H241010001

Auditors

PRC Auditors

KPMG Huazhen LLP
8/F, KPMG Tower E2, Oriental Plaza, 1 East Chang'an Avenue,
Dongcheng District, Beijing, PRC

International Auditors

KPMG (Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance)
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

¹ The Bank completed the registration for the change of legal representative on June 25, 2023 with the approval of the Administration for Market Regulation of Henan Province.

I. Corporate Information

Legal Advisors as to PRC Laws

King & Wood Mallesons
17-18/F, East Tower, World Financial Center, 1 Dongsanhuan Zhonglu, Chaoyang District, Beijing,
PRC

Legal Advisors as to Hong Kong Laws

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

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Domestic Shares Trustee Agency

China Securities Depository and Clearing Corporation Limited
Western Hall, 2/F, Shenzhen Stock Exchange Building, 2012 Shennan Avenue, Futian District,
Shenzhen

H Share Stock Code

1216

Preference Share Stock Code

4617

Investor's Enquiry

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II. Summary of Accounting Information and Financial Indicators

	For the six months ended June 30		
	2023	2022	Change over the corresponding period of last year
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Operating Results			Rate of Change (%)
Net interest income	10,892.9	8,377.1	30.0
Net fee and commission income	1,013.4	994.5	1.9
Operating income	13,551.2	10,407.2	30.2
Operating expenses	(4,406.6)	(3,324.3)	32.6
Impairment losses on assets	(7,013.2)	(5,071.9)	38.3
Profit before tax	2,213.1	2,153.6	2.8
Net profit	2,061.9	2,139.2	(3.6)
Net profit attributable to equity shareholders of the Bank	2,002.0	2,093.3	(4.4)
Calculated on a per share basis (RMB)			Rate of Change (%)
Net assets per share attributable to equity shareholders of the Bank ⁽¹⁾	2.13	2.04	4.4
Earnings per share ⁽²⁾	0.05	0.09	(44.4)
Profitability Indicators (%)			Change
Return on average total assets ^{(3)*}	0.31	0.42	(0.11)
Return on average equity ^{(4)*}	5.03	7.21	(2.18)
Net interest spread ^{(5)*}	1.55	1.88	(0.33)
Net interest margin ^{(6)*}	1.70	2.03	(0.33)
Net fee and commission income to operating income	7.48	9.56	(2.08)
Cost-to-income ratio ⁽⁷⁾	31.20	30.89	0.31

Note: *Indicating annualized ratios

II. Summary of Accounting Information and Financial Indicators

	June 30, 2023	December 31, 2022	Change over the end of last year
<i>(Expressed in millions of Renminbi, unless otherwise stated)</i>			
Capital adequacy ratio indicators⁽⁹⁾ (%)			Change
Calculated based on the Capital Administrative Measures			
Core Tier-one capital adequacy ratio	8.06	7.98	0.08
Tier-one capital adequacy ratio	10.36	9.47	0.89
Capital adequacy ratio	12.67	11.83	0.84
Total equity to total assets	7.04	7.06	(0.02)
Asset quality indicators (%)			Change
Non-performing loans to total loans ⁽⁹⁾	2.19	1.93	0.26
Allowance for loan impairment losses to non-performing loans ⁽¹⁰⁾	150.51	157.08	(6.57)
Allowance for loan impairment losses to total loans ⁽¹¹⁾	3.30	3.03	0.27
Other indicators (%)			
Loan-to-deposit ratio	82.52	82.69	(0.17)
Scale indicators			Rate of Change (%)
Total assets	1,362,496.0	1,326,736.4	2.7
Of which: Net loans and advances to customers	703,711.9	666,892.4	5.5
Total liabilities	1,266,523.5	1,233,101.9	2.7
Of which: deposits from customers	896,088.5	845,257.2	6.0
Share capital	36,549.8	36,549.8	–
Equity attributable to equity shareholders of the Bank	91,502.5	89,228.4	2.5
Non-controlling interests	4,470.0	4,406.1	1.5
Total equity	95,972.5	93,634.5	2.5

II. Summary of Accounting Information and Financial Indicators

Notes:

- (1) Calculated by dividing equity attributable to equity holders of the parent company after deduction of other equity instruments at the end of the period by the total number of ordinary shares at the end of the period.
- (2) The ratio of net profit (net of dividends of preference shares and interests of perpetual bonds distributed during the year) attributable to shareholders of the Bank to weighted average number of ordinary shares.
- (3) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (4) Calculated based on the “Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for the period.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (7) Calculated by dividing operating expenses after deduction of taxes and surcharges by operating income.
- (8) The Administrative Measures for the Capital of Commercial Banks was issued on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- (9) Calculated by dividing total non-performing loans and advances to customers by gross loans and advances to customers. Gross loans and advances to customers are exclusive of accrued interest.
- (10) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans. Total allowance for impairment losses on loans and advances to customers included allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.
- (11) Calculated by dividing allowance for impairment losses on loans and advances to customers by gross loans and advances to customers.

III. Management Discussion and Analysis

1. Past Economic and Financial Environment and Future Prospects

During the Reporting Period, global economic growth generally maintained the momentum of recovery. The inflation in the US and European countries continued to decline from the high base. Monetary policies of major developed economies maintained the tightening trend with a slower pace. The international financial market experienced drastic fluctuations under the impacts of the Silicon Valley Bank, Credit Suisse and other incidents, but the overall performance improved with the recovery of market sentiment. In the future, the inflation in major economies will decline slowly, but there are still risks on the escalation of geopolitical conflicts. The rising protectionism and unilateralism will also further affect the global economic order.

During the Reporting Period, the domestic economy in China comprehensively resumed normalized operation. With the gradual recovery of market demand, the continuous increase in production and supply, the overall stability in employment situation, the effective livelihood guarantee and the continuous improvement in development quality, the national economy recovered and improved. The national economic growth improved on the whole, with a GDP of RMB59,303.4 billion, representing a year-on-year increase of 5.5% at constant price. Market sales maintained a strong growth trend, with total retail sales of consumer goods amounting to RMB22,758.8 billion, representing a year-on-year increase of 8.2%. Fixed asset investment continued to recover. Fixed asset investment (excluding farmers) amounted to RMB24,311.3 billion, representing a year-on-year increase of 3.8%. The import and export of goods maintained growth, with a total import and export volume of RMB20,101.6 billion, representing a year-on-year increase of 2.1%. The consumer price index (CPI) increased modestly, with a year-on-year increase of 0.7%. The resident income increased steadily. The nationwide per capita disposable income was RMB19,672, representing an actual year-on-year increase of 5.8%. Looking ahead, while the internal and external environment remains complex and challenging, China's economy will retain its positive long-term fundamentals featuring greater resilience, potential and vitality. With the accumulation of positive factors on promoting the economic development, the economy is expected to maintain the trend of recovery and improvement.

During the Reporting Period, the drivers to the economic development in Henan Province were continuously enhanced. With the stable recovery of production demand and the continuous promotion of transformation and upgrading, the economy showed a trend of progress and higher quality amid stability with stronger momentum. GDP was RMB3,132.6 billion, representing a year-on-year increase of 3.8% at constant price. The consumer goods market continued to recover, with the total retail sales of consumer goods increasing 5.8% year on year. The provincial consumer price index (CPI) remained stable on the whole, with a year-on-year increase of 0.3%. In the next stage, Henan Province will continue to promote the consumption expansion and quality improvement, facilitate stable growth in investment, boost efforts in assisting enterprises to effectively improve operating results and continuously consolidate and expand the momentum of economic improvement.

During the Reporting Period, the monetary policy of the Central Bank remained forward-looking, effective and sustainable. It reasonably controlled the pace and intensity based on changes in the situation and created a favorable monetary and financial environment for the economic recovery and improvement. The monetary credit grew reasonably. The balance of the broad money supply (M2) was RMB287.3 trillion, representing a year-on-year increase of 11.3%. Credit support for the real economy increased, with the balance of RMB and foreign currency loans of financial institutions reaching RMB235.7 trillion, representing a year-on-year increase of 10.6%. Public financing saw a rapid growth with existing public financing amounting to RMB365.5 trillion, representing a year-on-year increase of 9.0%. The RMB exchange rate showed bi-directional fluctuations and gave full play to the role as an automatic stabilizer of macroeconomics and international payments, remaining basically stable at an appropriate and balanced level. Moving forward, the Central Bank will ensure the precision and effectiveness of its prudent monetary policy and give better play to the dual functions of monetary policy tools in the total volume and structure to consolidate and support the recovery and development of the real economy.

III. Management Discussion and Analysis

2. Overall Operation Overview

During the Reporting Period, facing with the complex and severe internal and external situation and based on the new development stage of Zhongyuan Bank, the Bank focused on the goal of building a first-class city commercial bank and an outstanding bank, concentrated on the development positioning with “the Party’s leadership as the soul, the Party committee and the government as the reliance, the market environment as the environment, the institutional nature as a bank, the asset quality as life and the operating results as the fundamentals” and adhered to the work principles of “adhering to seeking progress while maintaining stability, integrity and innovation, the customer-centered philosophy, the enhancement of comprehensive competitive advantages, the improvement of systems and mechanisms, changes of working styles and the leadership of the Party building”. The whole Bank braced and overcame difficulties and maintained the momentum of steady development. The Bank ranked 145th amongst the Top 1,000 World Banks 2023 published by The Banker (UK), 35 places higher than the previous year. It ranked 475th amongst the Top 500 Listed Chinese Companies published by The Fortune, making it the only financial institution on the list in Henan Province.

The Bank achieved steady progress and stable development, actively expanded market, served customers, prevented risks and created profit, maintaining overall stability in all operations and businesses. As of June 30, 2023, the Bank’s total assets amounted to RMB1,362,496 million, representing an increase of RMB35,760 million or 2.7% as compared to the end of last year. The total loans (excluding accrued interest) amounted to RMB723,590 million, representing an increase of RMB39,515 million, or 5.8% as compared to the end of last year. The balance of deposits (excluding accrued interest) amounted to RMB876,912 million, representing an increase of RMB49,592 million or 6.0% as compared to the end of last year. The operating income was RMB13,551 million, representing a year-on-year increase of RMB3,144 million or 30.2%. The profit before allowance was RMB9,226 million, representing a year-on-year increase of RMB2,001 million or 27.7%. The net profit was RMB2,062 million, the non-performing loan ratio was 2.19%, and the allowance coverage ratio was 150.51%. The core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 8.06%, 10.36% and 12.67% respectively.

III. Management Discussion and Analysis

3. Analysis on Income Statement

For the six months ended June 30, 2023, the Bank achieved operating income of RMB13,551 million, representing a year-on-year increase of RMB3,144 million or 30.2%.

	For the six months ended June 30,			
	2023	2022	Change	Rate of change
	(in millions of RMB, except percentages)			
Interest income	25,113.7	17,136.6	7,977.1	46.6%
Interest expense	(14,220.8)	(8,759.5)	(5,461.3)	62.3%
Net interest income	10,892.9	8,377.1	2,515.8	30.0%
Fee and commission income	1,679.7	1,349.3	330.4	24.5%
Fee and commission expense	(666.3)	(354.8)	(311.5)	87.8%
Net fee and commission income	1,013.4	994.5	18.9	1.9%
Net trading gains	597.7	558.1	39.6	7.1%
Net gains arising from investment securities	843.0	416.6	426.4	102.4%
Other operating income ⁽¹⁾	204.2	60.9	143.3	235.3%
Operating income	13,551.2	10,407.2	3,144.0	30.2%
Operating expenses	(4,406.6)	(3,324.3)	(1,082.3)	32.6%
Impairment losses on assets	(7,013.2)	(5,071.9)	(1,941.3)	38.3%
Share of gains of joint ventures	81.7	142.6	(60.9)	(42.7%)
Operating profit	2,213.1	2,153.6	59.5	2.8%
Profit before taxation	2,213.1	2,153.6	59.5	2.8%
Income tax expense	(151.2)	(14.4)	(136.8)	950.0%
Net profit	2,061.9	2,139.2	(77.3)	(3.6%)
Net profit attributable to equity shareholders of the Bank	2,002.0	2,093.3	(91.3)	(4.4%)
Non-controlling interests	59.9	45.9	14.0	30.5%

Note:

- (1) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

III. Management Discussion and Analysis

3.1 Net interest income, net interest spread and net interest margin

For the six months ended June 30, 2023, the Bank recorded net interest income of RMB10,893 million, representing an increase of RMB2,516 million or 30.0% as compared to the same period of last year. Among this, a growth of net interest income of RMB5,245 million as compared to the same period of last year was attributable to the expansion of the Bank's business scale and a decrease in net interest income of RMB2,729 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost rate of these interest-bearing liabilities for the six months ended June 30, 2023 and 2022.

	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	708,120.6	16,699.5	4.72%	444,721.5	10,929.4	4.92%
Investment securities and other financial assets ⁽²⁾	342,144.4	4,753.2	2.78%	218,949.4	3,723.5	3.40%
Lease receivables	72,123.1	2,029.3	5.63%	38,343.4	1,314.8	6.86%
Deposits with the Central Bank	56,088.8	380.6	1.36%	40,561.1	263.8	1.30%
Deposits with banks and other financial institutions	28,490.1	316.6	2.22%	15,451.9	59.6	0.77%
Financial assets held under resale agreements	34,709.0	372.5	2.15%	23,801.9	199.4	1.68%
Placements with banks and other financial institutions	39,402.2	562.0	2.85%	44,996.2	646.1	2.87%
Total interest-earning assets	1,281,078.2	25,113.7	3.92%	826,825.4	17,136.6	4.15%
Interest-bearing liabilities						
Deposits from customers	868,071.6	9,883.5	2.28%	531,604.0	5,571.4	2.10%
Financial assets sold under repurchase agreements	52,233.4	524.3	2.01%	27,518.4	246.5	1.79%
Placements from banks and other financial institutions	57,121.0	863.4	3.02%	37,669.2	493.6	2.62%
Borrowings from the Central Bank	48,576.6	601.4	2.48%	48,301.3	603.5	2.50%
Deposits from banks and other financial institutions	30,353.6	380.4	2.51%	22,261.0	327.0	2.94%
Debt securities issued ⁽³⁾	141,453.7	1,967.8	2.78%	105,396.2	1,517.5	2.88%
Total interest-bearing liabilities	1,197,809.9	14,220.8	2.37%	772,750.1	8,759.5	2.27%
Net interest income		10,892.9			8,377.1	
Net interest spread⁽⁴⁾			1.55%			1.88%
Net interest margin⁽⁵⁾			1.70%			2.03%

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) Such interest-earning assets consist of financial assets at amortized cost and financial assets at fair value through other comprehensive income.
- (3) Mainly consists of interbank deposits issued, financial bonds and tier-two capital bonds.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets, and based on daily average interest-earning assets.

III. Management Discussion and Analysis

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interests.

For the six months ended June 30,			
2023 vs 2022			
Reasons for increase/(decrease)			
	Volume⁽¹⁾	Rate⁽²⁾	Net increase/ (decrease)⁽³⁾
(in millions of RMB)			
Interest-earning assets			
Loans and advances to customers	6,473.3	(703.2)	5,770.1
Investment securities and other financial assets	2,095.1	(1,065.4)	1,029.7
Lease receivables	1,158.3	(443.8)	714.5
Deposits with the Central Bank	101.0	15.8	116.8
Deposits with banks and other financial institutions	50.3	206.7	257.0
Financial assets held under resale agreements	91.4	81.7	173.1
Placements with banks and other financial institutions	(80.3)	(3.8)	(84.1)
Changes in interest income	9,889.1	(1,912.0)	7,977.1
Interest-bearing liabilities			
Deposits from customers	3,526.3	785.8	4,312.1
Financial assets sold under repurchase agreements	221.4	56.4	277.8
Placements from banks and other financial institutions	254.9	114.9	369.8
Borrowings from the Central Bank	3.4	(5.5)	(2.1)
Deposits from banks and other financial institutions	118.9	(65.5)	53.4
Debt securities issued	519.2	(68.9)	450.3
Changes in interest expense	4,644.1	817.2	5,461.3

Notes:

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

III. Management Discussion and Analysis

3.2 Interest income

For the six months ended June 30, 2023, the Bank's interest income increased by RMB7,977 million or 46.6% to RMB25,114 million as compared to the same period of last year, primarily attributable to the increase in the volume of loans and advances to customers.

3.2.1 Interest income from loans and advances to customers

For the six months ended June 30, 2023, the Bank's interest income from loans and advances to customers increased by RMB5,770 million or 52.8% to RMB16,700 million as compared to the same period of last year, primarily attributable to the increase in the average balance of loans and advances to customers.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the six months ended June 30,					
	Average balance	2023 Interest income	Average yield	Average balance	2022 Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans	395,629.5	9,877.8	4.99%	212,829.0	5,337.6	5.02%
Discounted bills	67,907.5	555.7	1.64%	39,360.3	487.0	2.47%
Personal loans	244,583.6	6,266.0	5.12%	192,532.2	5,104.8	5.30%
Total	708,120.6	16,699.5	4.72%	444,721.5	10,929.4	4.92%

3.2.2 Interest income from investment securities and other financial assets

For the six months ended June 30, 2023, the Bank's interest income from investment securities and other financial assets increased by RMB1,030 million or 27.7% to RMB4,753 million as compared to the same period of last year, primarily attributable to the increase in the average balance of investment securities and other financial assets.

III. Management Discussion and Analysis

3.2.3 Interest income from lease receivables

For the six months ended June 30, 2023, the Bank's interest income from lease receivables was RMB2,029 million, representing a year-on-year increase of RMB715 million or 54.3%, primarily attributable to the increase in the average balance of lease receivables.

3.2.4 Interest income from deposits with the Central Bank

For the six months ended June 30, 2023, the Bank's interest income from deposits with the Central Bank increased by RMB117 million or 44.3% to RMB381 million as compared to the same period of last year, primarily attributable to the increase in the average balance from deposits with the Central Bank.

3.2.5 Interest income from deposits with banks and other financial institutions

For the six months ended June 30, 2023, the Bank's interest income from deposits with banks and other financial institutions increased by RMB257 million or 431.2% to RMB317 million as compared to the same period of last year, primarily attributable to the increase in the average yield of deposits with banks and other financial institutions.

3.2.6 Interest income from financial assets held under resale agreements

For the six months ended June 30, 2023, the Bank's interest income from financial assets held under resale agreements increased by RMB173 million or 86.8% to RMB373 million as compared to the same period of last year, primarily attributable to the increase in the average balance of financial assets held under resale agreements.

3.2.7 Interest income from placements with banks and other financial institutions

For the six months ended June 30, 2023, the Bank's interest income from placements with banks and other financial institutions decreased by RMB84 million or 13.0% to RMB562 million as compared to the same period of last year, primarily attributable to the decrease in the average balance of placements with banks and other financial institutions.

III. Management Discussion and Analysis

3.3 Interest expense

For the six months ended June 30, 2023, the Bank's interest expense increased by RMB5,461 million or 62.3% to RMB14,221 million as compared to the same period of last year, primarily attributable to the increase in volume of deposits from customers.

3.3.1 Interest expense on deposits from customers

For the six months ended June 30, 2023, the Bank's interest expense on deposits from customers increased by RMB4,312 million or 77.4% to RMB9,884 million as compared to the same period of last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank.

	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	142,676.3	556.1	0.78%	120,316.8	493.9	0.82%
Time	211,233.2	2,523.9	2.39%	134,862.8	1,441.6	2.14%
Sub-total	353,909.5	3,080.0	1.74%	255,179.6	1,935.5	1.52%
Personal deposits						
Demand	93,822.6	122.9	0.26%	64,067.8	181.9	0.57%
Time	420,339.5	6,680.6	3.18%	212,356.6	3,454.0	3.25%
Sub-total	514,162.1	6,803.5	2.65%	276,424.4	3,635.9	2.63%
Total deposits from customers	868,071.6	9,883.5	2.28%	531,604.0	5,571.4	2.10%

3.3.2 Interest expense on debt securities issued

For the six months ended June 30, 2023, the Bank's interest expense on debt securities issued increased by RMB450 million or 29.7% to RMB1,968 million as compared to the same period of last year, primarily attributable to the increase in the average balance of debt securities issued.

3.3.3 Interest expense on placements from banks and other financial institutions

For the six months ended June 30, 2023, the Bank's interest expense on placements from banks and other financial institutions increased by RMB370 million or 74.9% to RMB863 million as compared to the same period of last year, primarily attributable to the increase in the average balance of placements from banks and other financial institutions.

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3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 1.88% for the same period of last year to 1.55% for the current period, while the Bank's net interest margin decreased from 2.03% for the same period of last year to 1.70% for the current period. The decrease in net interest spread and net interest margin was mainly due to (i) the decline in loan yield as a result of the decline in the loan prime rate (LPR) and the implementation of the national profit-concession policies by the Bank; and (ii) the decrease in the yield of investment and financing businesses as a result of the overall decline in market interest rates under the guide of more flexible and appropriate monetary policies.

3.4 Non-interest income

3.4.1 Net fee and commission income

For the six months ended June 30, 2023, the Bank's net fee and commission income increased by RMB19 million or 1.9% to RMB1,013 million as compared to the same period of last year, primarily attributable to the increase in income from settlement and clearing service fees such as letters of credit, bank acceptances and factoring as the Bank has continued to expand its service channels and improve service quality and efficiency.

	For the six months ended June 30,			
	2023	2022	Change	Rate of change
	(in millions of RMB, except percentages)			
Fee and commission income				
Bank card services fees	376.9	337.8	39.1	11.6%
Settlement and clearing services fees	381.6	149.0	232.6	156.1%
Agency services fees	122.7	87.0	35.7	41.0%
Underwriting fees	187.0	135.8	51.2	37.7%
Acceptance and guarantee services fees	51.7	64.7	(13.0)	(20.1%)
Advisory and consulting fees	234.2	93.2	141.0	151.3%
Custodial services fees	9.6	4.1	5.5	134.1%
Wealth management business fees	316.0	477.7	(161.7)	(33.8%)
Sub-total	1,679.7	1,349.3	330.4	24.5%
Fee and commission expense	(666.3)	(354.8)	(311.5)	87.8%
Net fee and commission income	1,013.4	994.5	18.9	1.9%

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3.4.2 Net trading gains

For the six months ended June 30, 2023, the Bank's net trading gains were RMB598 million, representing an increase of RMB40 million or 7.1% as compared to the same period of last year, primarily attributable to the increase in gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

3.4.3 Net gains arising from investment securities

For the six months ended June 30, 2023, the Bank's net gains arising from investment securities amounted to RMB843 million, representing an increase of RMB426 million or 102.4% as compared to the same period of last year, primarily attributable to the increase in the investment gains on financial assets at fair value through profit or loss.

3.5 Operating expenses

For the six months ended June 30, 2023, the Bank's operating expenses increased by RMB1,082 million or 32.6% to RMB4,407 million as compared to the same period of last year, primarily attributable to the increase of staff costs and depreciation and amortization charge as compared to the same period of last year due to the transfer of all personnel and outlets of the three banks to the Bank after the Merger by Absorption.

	For the six months ended June 30,			
	2023	2022	Change	Rate of change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	1,683.0	1,247.0	436.0	35.0%
Staff welfare	74.4	158.8	(84.4)	(53.1%)
Social insurance and annuity	467.8	303.5	164.3	54.1%
Housing fund	197.7	133.7	64.0	47.9%
Employee education expenses and labor union expenses	87.2	27.4	59.8	218.2%
Others ⁽¹⁾	74.3	43.1	31.2	72.4%
Sub-total of staff costs	2,584.4	1,913.5	670.9	35.1%
Tax and surcharges	179.2	109.4	69.8	63.8%
Depreciation and amortisation	882.1	559.3	322.8	57.7%
Other general and administrative expenses	760.9	742.1	18.8	2.5%
Total	4,406.6	3,324.3	1,082.3	32.6%

Note:

(1) Primarily included dispatched labor fees and supplementary retirement benefits.

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3.6 Impairment losses

For the six months ended June 30, 2023, the Bank's impairment losses increased by RMB1,941 million or 38.3% to RMB7,013 million as compared to the same period of last year, primarily due to the efforts of the Bank to make further provisions, the continuous consolidation of the basis for making provisions and the improvement in the risk mitigation capability of the Bank.

	For the six months ended June 30,			
	2023	2022	Change	Rate of change
	(in millions of RMB, except percentages)			
Loans and advances to customers	4,127.6	4,430.5	(302.9)	(6.8%)
Investment securities and other financial assets ⁽¹⁾	1,520.5	656.4	864.1	131.6%
Lease receivables	335.4	147.1	188.3	128.0%
Other assets ⁽²⁾	1,029.7	(162.1)	1,191.8	(735.2%)
Total impairment losses	7,013.2	5,071.9	1,941.3	38.3%

Notes:

- (1) The impairment losses on such assets include impairment losses on financial assets at amortized cost and financial assets at fair value through other comprehensive income.
- (2) The impairment losses on such assets mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset, repossessed assets, fixed assets, interest receivables and other receivables.

3.7 Income tax expense

For the six months ended June 30, 2023, the Bank's income tax expense increased by RMB137 million to RMB151 million as compared to the same period of last year.

	For the six months ended June 30,			
	2023	2022	Change	Rate of change
	(in millions of RMB, except percentages)			
Current income tax	442.2	143.7	298.5	207.7%
Deferred income tax	(322.0)	(129.3)	(192.7)	149.0%
Prior year income tax adjustments	31.0	–	31.0	N/A
Total income tax expenses	151.2	14.4	136.8	950.0%

III. Management Discussion and Analysis

4. Analysis on Major Items of Assets and Liabilities

4.1 Assets

As of June 30, 2023, the Bank's total assets increased by RMB35,760 million or 2.7% to RMB1,362,496 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets (net), representing 51.7% and 28.4% of the Bank's total assets as of June 30, 2023, respectively.

The following table sets forth the components of the Bank's total assets as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	727,523.2	53.4%	687,563.1	51.8%
Allowance for impairment losses	(23,811.3)	(1.7%)	(20,670.7)	(1.5%)
Net loans and advances to customers	703,711.9	51.7%	666,892.4	50.3%
Lease receivables	66,890.6	4.9%	60,314.1	4.5%
Investment securities and other financial assets	386,578.9	28.4%	373,437.6	28.1%
Financial assets held under resale agreements	55,570.4	4.1%	65,217.6	4.9%
Cash and deposits with Central Bank	77,883.5	5.7%	77,587.9	5.8%
Deposits with banks and other financial institutions	24,723.9	1.8%	21,187.0	1.6%
Placements with banks and other financial institutions	15,154.4	1.1%	30,768.5	2.3%
Derivative financial assets	38.4	0.0%	93.3	0.0%
Interest in joint venture	1,429.0	0.1%	1,347.3	0.1%
Other assets ⁽¹⁾	30,515.0	2.2%	29,890.7	2.4%
Total assets	1,362,496.0	100.0%	1,326,736.4	100.0%

Note:

- (1) Primarily consist of properties and equipment, deferred income tax assets, goodwill and other assets.

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4.1.1 Loans and advances to customers

As of June 30, 2023, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB39,515 million or 5.8% to RMB723,590 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

The following table sets forth the Bank's loans to customers by business line as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	406,805.7	55.9%	372,576.2	54.2%
Personal loans	256,618.9	35.3%	237,486.2	34.5%
Discounted bills	60,165.4	8.3%	74,012.3	10.8%
Sub-total	723,590.0	99.5%	684,074.7	99.5%
Accrued interest	3,933.2	0.5%	3,488.4	0.5%
Total loans and advances to customers	727,523.2	100.0%	687,563.1	100.0%

(1) Corporate loans

As of June 30, 2023, the Bank's corporate loans increased by RMB34,230 million or 9.2% to RMB406,806 million as compared to the end of last year, representing 55.9% of the Bank's gross loans and advances to customers, primarily attributable to the Bank's fulfilling the mission as a provincial incorporated bank and increasing supports to real economy.

The following table sets forth a breakdown of the Bank's corporate loans by collateral as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	88,227.6	21.7%	73,294.8	19.7%
Guaranteed loans	178,174.3	43.8%	167,055.4	44.8%
Collateralised loans	81,915.1	20.1%	78,726.0	21.1%
Pledged loans	58,488.7	14.4%	53,500.0	14.4%
Total corporate loans	406,805.7	100.0%	372,576.2	100.0%

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(2) Personal loans

As of June 30, 2023, the Bank's personal loans increased by RMB19,133 million or 8.1% to RMB256,619 million (representing 35.3% of the total loans and advances granted by the Bank) as compared to the end of last year, primarily attributable to the Bank's support for local economic development and further strengthening its support for the growth of social consumption.

The following table sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage	116,890.7	45.6%	110,005.2	46.3%
Personal business loans	68,751.0	26.8%	65,251.5	27.5%
Personal consumption loans	49,815.7	19.4%	40,204.9	16.9%
Credit card loans	21,161.5	8.2%	22,024.6	9.3%
Total personal loans	256,618.9	100.0%	237,486.2	100.0%

(3) Discounted bills

As of June 30, 2023, the Bank's discounted bills decreased by RMB13,847 million or 18.7% to RMB60,165 million as compared to the end of last year, which was primarily due to the Bank's adjustment of the size of discounted bills according to customers' financing demand.

4.1.2 Investment securities and other financial assets

As of June 30, 2023, the Bank's net investment securities and other financial assets increased by RMB13,141 million or 3.5% to RMB386,579 million as compared to the end of last year, primarily attributable to an increase in the Bank's holding of the bonds issued by policy banks and other financial institutions.

The following table sets forth the composition of the Bank's investment securities and other financial assets as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial assets at fair value through profit or loss	53,094.9	13.6%	35,752.3	9.5%
Financial assets at fair value through other comprehensive income	90,182.6	23.1%	93,237.2	24.8%
Financial assets at amortized cost	246,500.0	63.3%	246,220.6	65.7%
Total investment securities and other financial assets	389,777.5	100.0%	375,210.1	100.0%
Add: accrued interest	4,779.4		4,804.9	
Less: impairment provisions	(7,978.0)		(6,577.4)	
Net investment securities and other financial assets	386,578.9		373,437.6	

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The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt securities				
Debt securities issued by the PRC government	175,956.1	45.5%	195,791.8	52.4%
Debt securities issued by PRC policy banks and other financial institutions	108,828.1	28.2%	81,010.1	21.7%
Debt securities issued by PRC corporate issuers	14,417.4	3.7%	12,360.0	3.3%
Sub-total	299,201.6	77.4%	289,161.9	77.4%
Other financial assets				
Asset management plans	3,408.3	0.9%	2,929.2	0.8%
Trust plans	33,880.7	8.8%	34,672.6	9.3%
Others	45,308.9	11.7%	41,869.0	11.2%
Sub-total	82,597.9	21.4%	79,470.8	21.3%
Accrued interest	4,779.4	1.2%	4,804.9	1.3%
Net investment securities and other financial assets	386,578.9	100.0%	373,437.6	100.0%

4.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements; (ii) cash and deposits with the Central Bank; (iii) deposits with banks and other financial institutions; (iv) placements with banks and other financial institutions; (v) lease receivables; and (vi) other assets.

As of June 30, 2023, the total financial assets held under resale agreements decreased by RMB9,647 million or 14.8% to RMB55,570 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the financial assets held under resale agreements at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of June 30, 2023, the total cash and deposits with the Central Bank increased by RMB296 million or 0.4% to RMB77,884 million as compared to the end of last year, primarily attributable to the Bank's cash and deposits with the Central Bank remained relatively stable.

As of June 30, 2023, the total deposits with banks and other financial institutions increased by RMB3,537 million or 16.7% to RMB24,724 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the deposits with banks and other financial institutions at the end of the Reporting Period after consideration of market price and the allocation demand of assets and liabilities.

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As of June 30, 2023, the total placements with banks and other financial institutions decreased by RMB15,614 million or 50.7% to RMB15,154 million as compared to the end of last year, primarily attributable to the Bank's adjustment of the size of the placements with banks and other financial institutions according to market demands.

As of June 30, 2023, the balance of lease receivables increased by RMB6,577 million or 10.9% to RMB66,891 million as compared to the end of last year. The increase was mainly due to the increased support of AB Leasing and BOL Financial Leasing (both are subsidiaries of the Bank) for the real economy, resulting in an increase in the balance of lease receivables.

4.2 Liabilities

As of June 30, 2023, the Bank's total liabilities increased by RMB33,422 million or 2.7% to RMB1,266,524 million as compared to the end of last year.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	896,088.5	70.8%	845,257.2	68.5%
Deposits from banks and other financial institutions	14,008.5	1.1%	30,116.0	2.4%
Debt securities issued	145,778.2	11.5%	145,158.7	11.8%
Financial assets sold under repurchase agreements	77,191.7	6.1%	101,706.1	8.2%
Placements from banks and other financial institutions	66,112.0	5.2%	51,806.4	4.2%
Borrowings from the Central Bank	53,804.4	4.2%	42,661.0	3.5%
Tax payable	125.8	0.0%	81.1	0.0%
Derivative financial liabilities	324.5	0.0%	562.7	0.0%
Other liabilities ⁽¹⁾	13,089.9	1.1%	15,752.7	1.4%
Total liabilities	1,266,523.5	100.0%	1,233,101.9	100.0%

Note:

- (1) Consist of payment and collection clearance accounts, staff salaries payable, finance lease deposits payable, lease liabilities, other tax payable, dividends payable, provisions, continuing involvement liabilities and other payables.

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4.2.1 Deposits from customers

As of June 30, 2023, the Bank's total deposits from customers (excluding accrued interest) increased by RMB49,592 million or 6.0% to RMB876,912 million as compared to the end of last year, primarily attributable to the Bank's active efforts in exploring the market, and continued efforts to improve quality of financial services, which effectively derived an increase in deposits.

The following table sets forth the Bank's deposits from customers by product type and maturity profile of deposits as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	152,374.3	17.1%	202,925.2	24.0%
Term	199,817.1	22.3%	160,341.6	19.0%
Sub-total	352,191.4	39.4%	363,266.8	43.0%
Personal deposits				
Demand	106,012.9	11.8%	94,524.6	11.2%
Term	418,707.4	46.7%	369,528.6	43.7%
Sub-total	524,720.3	58.5%	464,053.2	54.9%
Accrued interest	19,176.8	2.1%	17,937.2	2.1%
Total deposits from customers	896,088.5	100.0%	845,257.2	100.0%

4.2.2 Deposits from banks and other financial institutions

As of June 30, 2023, the Bank's balance of deposits from banks and other financial institutions decreased by RMB16,108 million or 53.5% to RMB14,009 million as compared to the end of last year, primarily because of the Bank's adjustment of the size of deposits from banks and other financial institutions according to capital demands.

4.2.3 Placements from banks and other financial institutions

As of June 30, 2023, the Bank's balance of placements from banks and other financial institutions increased by RMB14,306 million or 27.6% to RMB66,112 million as compared to the end of last year, primarily because of the Bank's adjustment of the size of the placements from banks and other financial institutions according to market liquidity and the Bank's capital demands at the end of the Reporting Period.

4.2.4 Debt securities issued

As of June 30, 2023, the Bank's balance of debt securities issued increased by RMB620 million or 0.4% to RMB145,778 million as compared to the end of last year. The increase in debt securities issued was mainly due to an increase in the balance of interbank certificates of deposit issued by the Bank at the end of the Reporting Period as compared with the end of last year.

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4.2.5 Financial assets sold under repurchase agreements

As of June 30, 2023, the Bank's balance of financial assets sold under repurchase agreements decreased by RMB24,514 million or 24.1% to RMB77,192 million as compared to the end of last year, primarily due to the decrease in the balance of securities sold under repurchase agreements by the Bank as compared to the end of last year.

4.3 Shareholders' Equity

As of June 30, 2023, the Bank's total shareholders' equity increased by RMB2,338 million or 2.5% to RMB95,973 million as compared to the end of last year; the total equity attributable to shareholders of the Bank increased by RMB2,274 million or 2.5% to RMB91,503 million as compared to the end of last year.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	36,549.8	38.1%	36,549.8	39.0%
Other equity instrument	13,632.5	14.2%	13,632.5	14.6%
Capital reserve	19,345.4	20.2%	19,345.4	20.7%
Surplus reserve	2,804.3	2.9%	2,804.3	3.0%
General reserve	13,793.9	14.4%	13,793.9	14.7%
Re-evaluation and impairment reserve	435.3	0.5%	19.2	0.0%
Retained earnings	4,941.3	5.1%	3,083.3	3.3%
Equity attributable to shareholders of the Bank	91,502.5	95.4%	89,228.4	95.3%
Non-controlling interests	4,470.0	4.6%	4,406.1	4.7%
Total shareholders' equity	95,972.5	100.0%	93,634.5	100.0%

5. Off-balance Sheet Commitments

The following table sets forth the contractual amounts of the Bank's off-balance sheet credit commitments as of the date indicated.

	As of	As of
	June 30, 2023	December 31, 2022
(in millions of RMB)		
Credit commitments		
Loan commitments	14,159.1	12,552.2
Bank acceptance	87,759.3	106,432.7
Letters of credit	42,147.2	30,175.9
Letters of guarantees	4,664.8	4,412.0
Total	148,730.4	153,572.8

III. Management Discussion and Analysis

6. Analysis on Loan Quality

In 2023, in face of the complicated economic and financial situation, the Bank further deepened the adjustment of credit structure, continued to strengthen credit risk management, optimized credit procedures and strengthened post-loan management measures to step up its efforts on collection and disposal of non-performing loans, so as to keep the loan quality at a generally manageable level. As of June 30, 2023, the balance of non-performing loans of the Bank amounted to RMB15,871 million, representing an increase of RMB2,672 million as compared to the end of last year. The non-performing loan ratio was 2.19%, representing an increase of 0.26 percentage point as compared to the end of last year. Special mention loan accounted for 2.31%, representing a decrease of 0.29 percentage point as compared to the end of last year.

6.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by its five-category loan classification. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Normal	690,984.8	95.50%	653,067.3	95.47%
Special mention	16,734.1	2.31%	17,808.1	2.60%
Substandard	5,859.8	0.81%	5,313.2	0.78%
Doubtful	4,911.4	0.68%	5,001.9	0.73%
Loss	5,099.9	0.70%	2,884.2	0.42%
Total loans and advances to customers	723,590.0	100.00%	684,074.7	100.00%
Non-performing loans and non-performing loan ratio ⁽¹⁾	15,871.1	2.19%	13,199.3	1.93%

Note:

- (1) Non-performing loan ratio is calculated by dividing non-performing loans by total loans to customers.

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6.2 Distribution of Loans and Non-Performing Loans by Product Type

The following table sets forth the Bank's loans and non-performing loans by product type as of the dates indicated.

	As of June 30, 2023				As of December 31, 2022			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio ⁽⁴⁾	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	162,403.1	22.4%	3,737.4	2.30%	146,718.6	21.4%	2,818.5	1.92%
Medium-to-long-term loans ⁽²⁾	244,402.6	33.8%	5,029.7	2.06%	225,857.6	33.1%	4,096.7	1.81%
Sub-total	406,805.7	56.2%	8,767.1	2.16%	372,576.2	54.5%	6,915.2	1.86%
Personal loans								
Personal residential mortgage loans	116,890.7	16.2%	1,563.9	1.34%	110,005.1	16.1%	1,397.5	1.27%
Personal consumption loans	49,815.7	6.9%	1,431.3	2.87%	40,204.9	5.9%	1,326.6	3.30%
Personal business loans	68,751.0	9.5%	3,132.5	4.56%	65,251.6	9.5%	2,923.0	4.48%
Others ⁽³⁾	21,161.5	2.9%	966.3	4.57%	22,024.6	3.2%	627.0	2.85%
Sub-total	256,618.9	35.5%	7,094.0	2.76%	237,486.2	34.7%	6,274.1	2.64%
Discounted bills	60,165.4	8.3%	10.0	0.02%	74,012.3	10.8%	10.0	0.01%
Total	723,590.0	100.0%	15,871.1	2.19%	684,074.7	100.0%	13,199.3	1.93%

Notes:

- (1) Short-term loans include loans with maturity of one year or less and advances.
- (2) Medium-to-long-term loans include loans with maturity of more than one year.
- (3) Others mainly include credit cards.
- (4) Non-performing loan ratio is calculated by dividing non-performing loans in each product type by gross loans in that product type.

As at June 30, 2023, the balance of corporate non-performing loans of the Bank amounted to RMB8,767 million, representing an increase of RMB1,852 million as compared with the end of last year. The non-performing loan ratio was 2.16%, representing an increase of 0.30 percentage point as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that in accordance with the latest guidelines of the regulatory authority on the risk classification of financial assets, the Bank implemented more prudent five-category loan classification system, resulting in an increase of the balance of non-performing loans.

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The balance of personal non-performing loans of the Bank amounted to RMB7,094 million, representing an increase of RMB820 million as compared with the end of last year. The non-performing loan ratio was 2.76%, representing an increase of 0.12 percentage point as compared with the end of last year. The increase in personal non-performing loans of the Bank was mainly due to the downturn in current economy and unstable income of residents, resulting in an increase of personal non-performing loan ratio.

6.3 Distribution of Loans and Non-Performing Loans by Industry

The following table sets forth the Bank's loans and non-performing loans by industry as of the dates indicated.

	As of June 30, 2023				As of December 31, 2022			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio ⁽¹⁾	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio
(in millions of RMB, except percentages)								
Manufacturing	63,214.0	8.7%	2,677.2	4.24%	57,044.5	8.3%	1,956.9	3.43%
Leasing and business services	135,740.9	18.8%	336.9	0.25%	121,232.5	17.9%	258.6	0.21%
Wholesale and retail	45,865.2	6.3%	1,227.3	2.68%	41,586.6	6.1%	1,009.8	2.43%
Real estate	27,296.1	3.8%	1,757.4	6.44%	26,929.6	3.9%	1,569.5	5.83%
Construction	37,767.0	5.2%	993.2	2.63%	34,358.0	5.0%	574.2	1.67%
Water, environment and public facility management	27,706.3	3.8%	125.2	0.45%	26,100.0	3.8%	67.0	0.26%
Electricity, gas and water production and supply	15,222.7	2.1%	90.0	0.59%	13,350.4	2.0%	36.4	0.27%
Agriculture, forestry, animal husbandry and fishery	6,207.6	0.9%	509.4	8.21%	6,103.1	0.9%	434.1	7.11%
Accommodation and catering	2,902.5	0.4%	106.3	3.66%	3,004.0	0.4%	124.2	4.13%
Education	7,511.4	1.0%	25.0	0.33%	6,421.5	0.9%	29.8	0.46%
Mining	9,284.9	1.3%	158.3	1.70%	8,993.7	1.3%	168.4	1.87%
Transportation, storage and postal services	8,846.1	1.2%	279.6	3.16%	9,528.1	1.4%	221.1	2.32%
Others	19,241.0	2.7%	481.3	2.50%	17,924.2	2.6%	465.2	2.60%
Total corporate loans	406,805.7	56.2%	8,767.1	2.16%	372,576.2	54.5%	6,915.2	1.86%
Total personal loans	256,618.9	35.5%	7,094.0	2.76%	237,486.2	34.7%	6,274.1	2.64%
Discounted bills	60,165.4	8.3%	10.0	0.02%	74,012.3	10.8%	10.0	0.01%
Total	723,590.0	100.0%	15,871.1	2.19%	684,074.7	100.0%	13,199.3	1.93%

Note:

- (1) Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

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As of June 30, 2023, the industries where the non-performing loan ratios of the Bank were relatively high, mainly including agriculture, forestry, animal husbandry and fishery industry, real estate industry and manufacturing industry, with non-performing loan ratio of 8.21%, 6.44% and 4.24%, respectively, of which:

- (i) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry increased by RMB75 million as compared with the end of last year, with an increase of 1.10 percentage points in non-performing loan ratio, which was mainly due to the fact that operation situation of credit clients of the Bank in agriculture, forestry, animal husbandry had been greatly deteriorated by the economic downturn, which resulted in the increase of non-performing loan in the industry.
- (ii) the balance of non-performing loans in the real estate industry increased by RMB188 million as compared with the end of last year, with an increase of 0.61 percentage point in the non-performing loan ratio, mainly due to the fact that the real estate industry continued its recessionary trend with difficulties in sales leading to weakened repayment ability.
- (iii) the balance of non-performing loans in the manufacturing industry increased by RMB720 million as compared with the end of last year, with an increase of 0.81 percentage point in the non-performing loan ratio. This was mainly due to the slowdown in economic growth, reduction in orders and capacity in the manufacturing industry and large fluctuations in raw material prices, resulting in lower revenue.

6.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by collateral.

	As of June 30, 2023				As of December 31, 2022			
	Loan amount	% of total	NPL Amount	NPL ratio ⁽¹⁾	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	139,031.1	19.2%	2,771.6	1.99%	116,432.5	17.0%	2,218.8	1.91%
Guaranteed loans	190,162.2	26.3%	5,033.1	2.65%	177,887.6	26.0%	4,135.4	2.32%
Collateralised loans	275,946.7	38.1%	7,568.3	2.74%	261,486.6	38.2%	6,542.6	2.50%
Pledged loans	118,450.0	16.4%	498.1	0.42%	128,268.0	18.8%	302.5	0.24%
Total	723,590.0	100.0%	15,871.1	2.19%	684,074.7	100.0%	13,199.3	1.93%

Note:

- (1) Non-performing loan ratio is calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

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As of June 30, 2023, the balance of our guaranteed non-performing loans increased by RMB898 million as compared with the end of last year, representing an increase in non-performing loan ratio of 0.33 percentage point, primarily because repayment abilities of certain customers of the Bank were deteriorated by the operation difficulties as a result of the current economic downside.

6.5 Borrowers Concentration

As of June 30, 2023, the balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank as of the dates indicated.

Industry		As of June 30, 2023		
		Balance	% of total loans	% of net capital
(in millions of RMB, except percentages)				
Borrower A	L—Leasing and commercial services	8,561.9	1.2%	7.1%
Borrower B	L—Leasing and commercial services	5,578.0	0.8%	4.6%
Borrower C	L—Leasing and commercial services	5,197.8	0.7%	4.3%
Borrower D	L—Leasing and commercial services	4,999.7	0.7%	4.1%
Borrower E	C—Manufacturing	3,972.9	0.5%	3.3%
Borrower F	L—Leasing and commercial services	3,019.1	0.4%	2.5%
Borrower G	L—Leasing and commercial services	2,831.0	0.4%	2.3%
Borrower H	L—Leasing and commercial services	2,499.9	0.3%	2.1%
Borrower I	C—Manufacturing	2,450.0	0.3%	2.0%
Borrower J	B—Mining	2,387.0	0.3%	2.0%
Total		41,497.3	5.6%	34.3%

As of June 30, 2023, the loan balance of the largest single borrower of the Bank was RMB8,562 million, accounting for 1.2% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was RMB41,497 million, accounting for 5.6% of the total amount of loans of the Bank.

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6.6 Overdue Loans

The following table sets forth the distribution of the Bank's loans to customers by maturity as of the dates indicated.

	As of June 30, 2023		As of December 31, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	697,573.6	96.40%	659,504.3	96.41%
Overdue loans ⁽¹⁾				
Up to 3 months	11,406.0	1.58%	13,191.6	1.93%
Over 3 months up to 1 year	7,360.0	1.02%	6,311.1	0.92%
Over 1 year up to 3 years	6,476.9	0.89%	4,269.1	0.62%
Over 3 years	773.5	0.11%	798.6	0.12%
Sub-total	26,016.4	3.60%	24,570.4	3.59%
Total loans	723,590.0	100.00%	684,074.7	100.00%

Note:

(1) Overdue loans represent the principal amount of the loans on which principal or interest is overdue.

As of June 30, 2023, the amount of overdue loans of the Bank totaled RMB26,016 million, representing an increase of RMB1,446 million as compared with the end of last year. Overdue loans accounted for 3.60% of the total loans, representing an increase of 0.01 percentage point as compared with the end of last year.

7. Business Operation Segment Report

The table below sets forth the Bank's total operating income by business segments for the periods as indicated.

	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	8,399.0	62.0%	5,771.9	55.5%
Retail banking business	3,018.2	22.3%	3,044.1	29.2%
Treasury business	2,087.5	15.4%	1,549.2	14.9%
Other businesses	46.5	0.3%	42.0	0.4%
Total operating income	13,551.2	100.0%	10,407.2	100.0%

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8. Analysis on Capital Adequacy Ratio

As of June 30, 2023, the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of the Bank were 8.06%, 10.36% and 12.67% respectively, representing an increase of 0.08 percentage point, 0.89 percentage point and 0.84 percentage point respectively, as compared to the numbers at the end of the last year. The measurement of capital and risk-weighted assets fulfilled the regulatory requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional).

In accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional), the capital adequacy ratio of the Bank was calculated as follows:

	As of June 30, 2023	As of December 31, 2022
	(in millions of RMB, except percentages)	
Share capital	36,549.8	36,549.8
Valid portion of capital reserve	19,345.4	19,345.4
Valid portion of other reserve	360.1	(44.0)
Surplus reserve	2,804.3	2,804.3
General reserve	13,793.9	13,793.9
Retained earnings	4,941.3	3,083.3
Valid portion of minority interests	2,072.8	1,970.9
Total core tier-one capital	79,867.6	77,503.6
Core tier-one capital regulatory deductions	(3,141.8)	(3,194.3)
Net core tier-one capital	76,725.8	74,309.3
Other tier-one capital	21,907.2	13,893.5
Net tier-one capital	98,633.0	88,202.8
Net tier-two capital	21,896.0	21,939.3
Net capital base	120,529.0	110,142.1
Total risk-weighted assets	951,633.9	930,901.6
Core tier-one capital adequacy ratio	8.06%	7.98%
Tier-one capital adequacy ratio	10.36%	9.47%
Capital adequacy ratio	12.67%	11.83%

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9. Business Review

9.1 Corporate Banking Business

9.1.1 Corporate deposits

In strict compliance with the regulatory requirements, the Bank continued to optimize the business structure of corporate debts and consolidated its deposit base in an orderly manner. By seizing market opportunities and securing large funds from key customers, the Bank increased the coverage over strategic customers. The Bank focused on following up the marketing opportunities for the regular bidding of the provincial treasury, local and municipal special bonds, land auction and other institutional businesses, further enhanced cooperation with credit customers, carried out chain marketing of financial funds, etc., continued to consolidate the basic customer groups, integrated into customer payment and settlement activities, and enhanced the contribution of settlement deposits, thus effectively promoting the increase in the scale of deposits. As of June 30, 2023, the balance of corporate deposits of the Bank (excluding accrued interest) was RMB352,191 million, and the market share ranked first in Henan Province.

9.1.2 Corporate loans

The Bank adhered to the principle of “projects first”, established a “closed-loop management” promotion mechanism, increased financial support, promoted high-quality economic development in Henan Province, and assisted in implementing major strategic deployment and realizing “ensuring high-quality building of modernization and high-level realization of modernization” (兩個確保) of Henan Province. As of June 30, 2023, the balance of corporate loans of the Bank (excluding accrued interest) was RMB406,806 million, representing an increase of RMB34,230 million as compared with the end of 2022, ranking second in Henan Province.

9.1.3 Corporate customers

During the Reporting Period, the Bank followed the national and regional strategies closely, maintained serving the real economy as its responsibilities and facilitated the high-quality economic and social development of Henan Province. The Bank adhered to being customer-oriented, reinforced the construction of the customer base, and carried out category-based operations and classified policies targeting at strategic customers, basic customer groups, institutional customers, and characteristic customer base. Customized service models and business strategies were adopted to continuously transform to in-depth operation and creation of value through professional competence, enhance the comprehensive service capability, and achieve comprehensive and coordinated development of the business benefits, quality and scale of the Company. As of June 30, 2023, the Bank had 420,100 corporate customers. During the Reporting Period, the Bank had 52,000 new accounts, with 16,400 new accounts meeting specified standards, representing 31.54% of the new accounts; and the Bank had 59,300 valid basic accounts, representing an increase of 1,952 as compared to the end of 2022.

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9.1.3.1 Strategic customers

The Bank earnestly practised the financial mission of returning to the origin and serving the entity, and continued to improve its ability to serve customers at different levels and operate in depth. Adhering to the idea of “roster management, hierarchical driving, special team marketing, program-level service and closed-loop optimization”, we continued to deepen the driving of strategic customer management and enhanced the value contribution of strategic customers. According to the decisions and arrangements of Henan provincial party committee and the provincial government, we formulated special action plans to support key industrial chains, set up special team, deeply understood industrial needs, solved difficulties, removed blockages and pain points for enterprises, and comprehensively enhanced the ability of serving the strategies and entities; further carried out the activities of “President’s Visit to 10,000 enterprises (行長進萬企)” to implement innovation-driven mechanism, provided services to each household, and promoted the deepening of business transformation. Adhering to the customer-oriented principle, the Bank provided list-based services for strategic customers, formulated comprehensive service plan of “one policy for one household (一戶一策)”; deepened the equity chain and industrial chain of strategic customers, helped enterprises solve the financial and non-financial needs of production, operation, investment and financing, expanded the breadth and depth of strategic customer cooperation, and assisted the enterprises in becoming bigger, stronger and better. As of June 30, 2023, the balance of the Bank’s headquarter-level credit assets to strategic customers increased by RMB19,186 million as compared with the end of 2022, and the average daily balance of corporate deposits increased by RMB2,692 million as compared with the end of 2022.

9.1.3.2 Basic customer groups

The Bank deepened the classified and stratified operation of corporate customers, firmly grasped the construction of basic customer groups, seized the source of attracting investment through “assessment guidance, technology empowerment and precision management”, expanded the coverage of existing quality customers, and strengthened the empowering development of digital intelligence tools. The Bank effectively gave full play to the advantages of its personnel and network, drove the expansion and quality-improving of the basic customer groups, and consolidated the foundation for the development of corporate business.

In terms of customer acquisition from the source, 1,657 new entities in Henan Province with registered capital of more than RMB10 million opened accounts with the Bank during the Reporting Period, with a coverage ratio of 7.27%. With respect to cooperation with quality enterprises, the coverage ratio for listed enterprises reached 76%, the coverage ratio for key enterprises seeking listing reached 72%, the coverage ratio for enterprises above designated size reached 45% and the coverage ratio for sci-tech innovation enterprises reached 29%.

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9.1.3.3 Institutional customers

During the Reporting Period, with a focus on the major decisions and arrangements of the Henan provincial party committee and the provincial government, the Bank actively gave full play to the role and advantages as a provincial corporate bank, continuously deepened the cooperation between banks and governments, and made efforts to become the best bank serving local governments.

Firstly, the provincial special debt meeting was successfully held in 2023, which was attended by more than 300 persons in charge of special bond business from financial and development and reform departments at all levels in Henan Province, becoming the highest-level and largest-scale special bond exchange meeting in Henan Province, further expanding the brand influence of the Bank's special bond service.

Secondly, the Bank received honors from the government. The Bank was awarded the "Advanced Organization in Comprehensive Evaluation (綜合考評先進單位)" for non-tax income collection banks for the provincial government by Henan Provincial Department of Finance in 2022.

Thirdly, the Bank improved the linkage with the provincial departments and bureaus. The Bank steadily carried out the "ice-breaking (破冰)" action for the linkage with the provincial departments and bureaus, continuously expanded the scope of cooperation, innovated the service contents, enriched cooperative products, and established a regular mechanism of linkage with more than 20 provincial departments and bureaus.

Fourthly, the Bank became one of the first three banks having access to the provincial social insurance data. The Bank gave full play to the role of a business platform for institutions and societies, and accessed the social insurance data sharing system of the Social Insurance Center of the Department of Human Resources and Social Security of Henan Province in the first batch.

The institutional business services of the Bank have made a positive effect on improving the efficiency of government fund management and financing and promoting the smart construction of the government, building a good reputation of being based on local economic development and serving local economic development, and establishing a good relationship of mutual benefit and win-win and sustainable development with governments at all levels.

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9.1.3.4 Special customer groups

9.1.3.4.1 Customer groups in the industries of scientific and technological innovation and carbon industry

The Bank has focused on Henan provincial party committee and the provincial government's strategies for "invigorating the province through science and education, innovation and talent cultivation" and "green and low-carbon transition", and the new stage of development, seized the strategic opportunities to construct a new development paradigm, gained a foothold in Henan, vigorously supported the low carbon transition of traditional industries, cultivation and development of emerging industries, homeopathic development of green industries, and forward-looking arrangement for future industries, built a financial service organization system for the industry of carbon peaking and neutrality via scientific and technological innovation, enriched and improved the scientifically innovative and green financial product system, to create a brand image of the industry of carbon peaking and neutrality via scientific and technological innovation. As of June 30, 2023, the loan balance of the Bank's customer group in the industry of carbon peaking and neutrality via scientific and technological innovation was RMB84.540 billion, representing an increase of RMB15.480 billion or 22.42% as compared with the end of 2022. Among others, the balance of Loan to Enterprises that Apply Special, Sophisticated Techniques to Produce Unique and Novel Products amounted to RMB10.520 billion, representing an increase of RMB2.420 billion as compared with the end of 2022; during the Reporting Period, the green finance provided was RMB11.080 billion, the green credit balance was RMB33.480 billion, representing an increase of RMB6.350 billion or 23.40% as compared with the end of 2022.

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9.1.3.4.2 Customer groups in the healthcare industry

The Bank has assumed the responsibility of serving the development of the cause of the people's livelihood and continuously explored new financial service models. It has innovated service forms with a focus on the construction of regional medical centers at all levels, "four hospitals" at the municipal level, "three hospitals" at the county level, county-level closely-connected medical service communities, stable supply of medicine and medical device and enhancement of aged care service capabilities, etc. It has comprehensively used credit, science and technology, channels and other resources to provide inclusive, convenient and stable financial services to its customers, and supported the high-quality development of medical, health and aged care services, so as to achieve in-depth management of customer groups. As of June 30, 2023, the Bank cooperated with 87.00% of Class-II or above public hospitals and 60.50% of medical service communities in Henan Province; the balance of deposits in the medical, pharmaceutical and aged care sectors was RMB12.690 billion and the balance of corporate loan asset was RMB21.770 billion, in which the balance of on-balance-sheet loans was RMB16.110 billion.

9.1.3.4.3 Customer groups in the cultural tourism industry

In 2023, the development of domestic cultural tourism economy has entered a golden period of recovery, and the tourism industry has turned into a new stage of overall growth in travel willingness, consumption expectations and industrial confidence. In line with the general idea of serving the cultural tourism industry and the cultural tourism customers, serving the cultural tourism industry and boosting the local economy with the characteristic cultural tourism financial service system, products and modes, the Bank followed the general idea of "building scenarios, bi-directional empowering, digital intelligence guidance and brand building", to empower customers with the trinity of "product + plan + service" through focusing on characteristic products, enabling two customer groups, serving three major sectors, creating four types of value and giving full play to five advantages, which expanded the depth and breadth of cooperation with cultural tourism customer groups and enhanced the cultural and tourism financial brand of Zhongyuan Bank. As of June 30, 2023, the loans to customers of the Bank in cultural tourism sector amounted to RMB21.335 billion. The placement of credit assets for cultural tourism and cultural creation ranked at the top among all commercial banks in Henan Province.

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9.1.4 Corporate products

During the Reporting Period, the Bank innovated product strategies, optimized product functions, kept improving comprehensive and all-round product system and service capabilities, and improved customers' experience and satisfaction.

In terms of debt products, the Bank actively followed up regulatory policies, took customers as the center, used a combination of products and customer needs to customize, and met the requirements of liquidity and profitability of customers; and continued to optimize the transfer function of corporate large-denomination certificates of deposit, and continuously improved the competitiveness of the products in market.

In terms of investment banking products, the Bank actively expanded innovative business products such as non-financial corporate debt financing instrument underwriting, asset securitization, syndicated loan, fund matching, merger and acquisition loan, and credit debt investment.

In terms of financial products for the supply chain, based on the strategy of creating "data-based bank, technological bank", the Bank actively embraced the digital transformation and focused on creating its "Yinshang" platform. The construction of the platform was continued along the path of "online → intelligent → open", the online pace of credit links has been significantly accelerated, and the online signing of reverse factoring contracts and automatic loan payment of factoring have been realized. The online factoring business has been centrally audited through the platform, which further improved the efficiency of business processing and customer experience. As of June 30, 2023, the "Yinshang" platform had 50 core corporate customers and provided supply chain financing of RMB5.100 billion for 1,157 suppliers in total. At the same time, the Bank actively interconnected with core enterprises, deepened the payment scenarios of industrial transactions, provided differentiated and comprehensive financial service solutions covering "settlement + financing" and "finance + non-finance", and promote the integration of industry and finance.

In terms of international financial products, the Bank actively implemented the requirements of regulatory policies, steadily conducted business research, continuously strengthened financial support for export-oriented enterprises, and provided a package of international financial services such as international settlement, foreign exchange settlement and sale, trade financing and exchange rate hedging for import and export enterprises. Adhering to the principle of seeking progress while maintaining stability, the Bank successfully obtained the qualification of facilitation of foreign exchange receipts and payments in trade, continuously increased its market share in foreign exchange receipts and payments, and achieved a major breakthrough in capital business. Meanwhile, the Bank actively promoted the automation and digitalization of business, and launched a number of functions such as automation of domestic letters of credits and alternative currency payment with respect to the demands of customers, so as to enhance its service capabilities.

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In terms of financial services for the industry of carbon peaking and neutrality via scientific and technological innovation, the Bank has established a “Scientifically Innovative Zhongyuan” life-cycle exclusive product system and a “Green Finance of Zhongyuan Bank” green financial product system. The Bank customized exclusive products with a focus on the different stages of the life cycle of scientific and technological innovation enterprises, and provided full-scenario and featured financial services with a focus on “innovation, entrepreneurship, spending and wealth management” of scientific and technological innovation talents; the Bank provided five exclusive product and service systems covering financing, investment, inclusion, industrial chain and financial intelligence, with a focus on six major green project areas, including the green and low-carbon transition of traditional sectors and the green upgrading of infrastructure. The Bank continuously increased the innovation of financial products and service models. The Bank successively launched various featured products, including “Loan to Enterprises that Apply Special, Sophisticated Techniques to Produce Unique and Novel Products”, “IPR Pledge Loan”, “Zhongyuan Talent Loan”, “Green Technology Transformation Loan”, “Carbon Allowance Pledge Loan”, “Green Supply Chain”, “Achievement Transformation Loan” and “Sustainable Development Linkage Loan”. The Bank carried out the first business for various innovative products including “Loan to Enterprises that Apply Special, Sophisticated Techniques to Produce Unique and Novel Products”, “Loan with the Pledge of the Right to New Varieties of Plants” and “Loan with the Pledge of Geographical Indications” and “Sustainable Development Linkage Loan” in Henan Province; the Bank successfully issued Henan Province’s first science and technology innovation note – Perpetual Medium Term Note of Pingdingshan Tianan Coal Mining, and granted the first loan for transformation of scientific and technological achievements (科技成果转化贷); the Bank granted the loan to the plant project of domestic first and the world’s largest carbon dioxide hydrogenation to make green low-carbon methanol. The Bank signed a strategic cooperation agreement with Henan Science and Technology Department to promote the in-depth cooperation between the Bank and the government in the field of sci-tech innovation finance. The Bank obtained the qualification for supportive tools for carbon emission reduction from the PBOC. The Bank held a financial forum on “Finance Contributing to Industrial Innovation and Green Development” to continuously enhance the Zhongyuan Bank’s brand influence characterized by “finance benefiting technology, reducing carbon emission contributing to sustainable development”.

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In terms of financial services for cultural tourism, through in-depth research on key customer groups and scenarios, and with featured cultural tourism products as the starting point, the Bank realized product innovation under new models and in new areas. Firstly, the Bank provided the “loans for homestay operators” as its “standard product” in financial services for cultural tourism, got an in-depth knowledge of customer demands and financing pain points, and formulated its unique risk control model and standards of access to provide comprehensive financial service solutions for extensive homestay operators. Secondly, the Bank established a comprehensive financial service platform for cultural tourism to provide one-stop and professional business travel and corporate-individual linkage services for corporate users. Currently, the construction of phase 1 of the business travel platform has completed, realizing the online booking of air tickets, train tickets, hotels, vehicles and other products. Employees’ business travel needs have been figured out and submitted for the construction of phase 2 of the business travel platform, which will provide support for the business travel needs of other enterprises and the cultural tourism business of the Bank. Thirdly, relying on the brand advantage, network advantage, platform advantage and customer advantage, the Bank provided channel support for the majority of scenic spots in terms of customer acquisition and attraction. The Bank launched the “Zhongyuan Travel Pass (中原旅遊通)”, which is connected to over a hundred top-rated scenic spots within Henan Province, to establish an service platform of intelligent scenic spots integrated with sales, activation, reservation and cancellation. The Bank, centering on its strategy of building a “data-based bank and technological bank”, carried out digital transformation through its strong technological power to establish the digital and intelligent cultural tourism platform of Zhongyuan Bank, acquire customers online and by batches and continue to enhance the competitiveness of the company’s products.

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9.1.5 Investment banking

During the Reporting Period, the Bank vigorously promoted the stable development and transformation of investment banking business, continued to enrich investment banking business products, and actively participated in serving the corporate bond business in Henan Province, with a total scale of RMB7.657 billion, including successfully underwriting 12 non-financial corporate debt financing instruments, with a total scale of RMB6.550 billion.

The Bank tapped into the channels of bond market investment institutions, continued to strengthen the construction of financial industry circles, improved the “headquarters-to-headquarters” communication mechanism, built bridges between provincial enterprises and national investment institutions through online and offline exchanges and roadshows, etc., to “bring in investment for Henan” and support the development of the regional bond market; the Bank kept track of and researched the latest developments of the bond market to enable the high-quality development of the bond market in Henan Province by enhancing the comprehensive service level for key customers through investments in credit debt.

The Bank actively revitalized the resources of its peers, established a cooperation circle with other banks, insurance, trust, and leasing financial institutions, met the differentiated demands of its customers through syndicated loans for the construction of major projects and fund matching to “bring in investment for Henan”, led and established a syndicate with a total asset scale of over RMB20 billion to provide comprehensive and multichannel integrated financial services for customers in Henan Province. With a focus on strategic directions such as industrial integration, livelihood operations, real estate bail-out, the Bank increased its financing support for M&As to promote industry upgrading and the integration of industry resources, economic transformation and high-quality development of Henan Province.

III. Management Discussion and Analysis

9.1.6 Supply chain finance

With regard to its supply chain finance business, the Bank adhered to the customer-oriented principle, supported the construction of major projects in Henan Province, promoted industrial transformation and development, and empowered business development through digital and intelligent transformation.

9.1.6.1 Treasury management

Through independent research and development and product innovation, the Bank has established a relatively complete cash management product system including account management, collection and payment management, liquidity management, investment and financing management, and multi-bank fund management, which can provide standardized and personalized cash management service solutions for various types of customers such as enterprises, governments and public institutions. During the Reporting Period, the Bank launched a corporate settlement package service for micro, small and medium-sized enterprises, and signed contracts with an accumulative number of 5,588 customers online, further improving its customer service capability and product online level. As of June 30, 2023, the Bank had 22,281 treasury management accounts, representing an increase of 5,145 accounts as compared with the end of 2022; the daily average deposit balance was RMB74.969 billion and the time point balance amounted to RMB73.974 billion.

9.1.6.2 Supply chain finance services

The Bank adhered to the customer-oriented principle and took “onlineization, digitization, intellectualization and application” as the path. The Bank integrated financial services into transaction scenarios including the procurement, inventory, sales and payment collection of upstream and downstream enterprises in the industrial chain through ZY e-chains, asset pool, online prepayment, electronic guarantee and other financial blockbusters of online supply chains, to provide convenient and efficient online financial services for small and medium-sized enterprises in the industrial chain. During the Reporting Period, the Bank successfully launched an inter-bank refactoring product and introduced low-interest funds services from other banks, which further reduced the financing cost of enterprises and expanded its product supply chain system. As of June 30, 2023, the Bank provided financing services in the supply chain of RMB36.430 billion to a total of 2,039 enterprises, representing an increase of 27.00% as compared with the same period of last year.

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9.1.7 International finance

According to the strategic arrangement of the state and Henan provincial party committee, the Bank supports the stability maintenance and quality improvement of foreign trade, assists small and medium-sized foreign trade enterprises, and persists in customer research and peer benchmarking. As of June 30, 2023, the international business of the Bank recorded cross-border foreign exchange collection and payment of USD2.134 billion, representing a year-on-year increase of 14.50%, with the market share of the Bank increasing from 5.30% as at the end of 2022 to 6.77%. International financing amounted to RMB59.400 billion, representing a year-on-year increase of 84.00%.

9.2 Retail Banking Business

9.2.1 Retail deposits

During the Reporting Period, the Bank insisted on optimizing its services and strengthening its deposit brand to achieve continuous growth in the scale of savings deposits. The Bank continuously enhanced its customer experience by optimizing the interface and processes of mobile banking, machines at lobby and other channel products. The Bank made continued efforts to promote online and offline for hot-selling products such as Dingqibao No. 1 (定期寶1號), Huinongbao (惠農寶), and Zhihuicun (智慧存) to expand its brand influence and drive growth in deposit. The Bank enhanced its capacity to offer comprehensive service to customers, and strengthened the management of customer groups such as payment agency and the elderly to increase the stickiness of deposit customers. As of June 30, 2023, the balance of the personal deposits (excluding accrued interest) was RMB524.720 billion, representing an increase of RMB60.667 billion or 13.07% as compared with the end of 2022; the balance of AUM was RMB600.643 billion, representing an increase of RMB32.319 billion or 5.69% as compared with the end of 2022.

9.2.2 Retail loans

During the Reporting Period, the Bank made overall planning centering on the market and devised the loan growth strategy for the simultaneous increase in housing mortgage loans and consumption loans. The first is to optimize the major brand portfolio of products, innovate and launch featured products such as mortgage loans for the youth, house replacement loans for the middle-aged, and loans for settlement in counties, demonstrating its differentiated competitive advantage of “having services not possessed by others, and having better services than those possessed by others”; the second is to constantly optimize consumption credit product mix, further refine business processes, accurately identify risks, increase the approval rate of customer loan application and loan limit to be approved to address customers’ consumption pain points of “short term, small amount, high frequency and urgent need” and satisfy its customers’ demand. As of June 30, 2023, the balance of the personal loans (excluding accrued interest) was RMB256.619 billion, representing an increase of RMB19.133 billion or 8.06% as compared with the end of 2022.

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9.2.3 Retail customers

During the Reporting Period, the Bank adhered to the concept of organized, online, and integrated acquisition of batches of customers, focused on improving the customer acquisition capabilities in public-private partnership projects, scenarios and initiatives to benefit farmers in counties, and laid down exclusive marketing initiatives for customer groups from the perspectives of products, activities and benefits. As of June 30, 2023, the Bank's retail customers reached 32,939,900, representing an increase of 1,024,100 or 3.21% as compared with the end of 2022.

9.2.3.1 Mass customers

As of June 30, 2023, the scale of assets under management (including savings) of the Bank's mass customers was RMB444.918 billion, representing an increase of RMB24.628 billion as compared with the end of 2022, of which the scale of savings deposits was RMB392.397 billion, representing an increase of RMB35.647 billion as compared with the end of 2022. During the Reporting Period, the Bank achieved an increase of 561,500 payment agency customers, the assets under management (including savings) increased by RMB8.274 billion as compared with the end of 2022, accounting for 25.60% of the increase in the Bank's total retail assets under management (including savings).

9.2.3.2 Wealth management and private banking customer groups

As of June 30, 2023, the scale of assets under management (including savings) of wealth management and private banking customer groups of the Bank was RMB154.984 billion, representing an increase of RMB6.950 billion or 4.69% as compared with the end of 2022, of which the savings deposits of wealth management and private banking customers increased by RMB13.873 billion or 14.84%; and the balance of off-balance sheet assets was RMB47.606 billion.

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9.2.4 Key customer groups' management

During the Reporting Period, the Bank continuously strengthened its service capabilities with a focus on key customer groups. For value customers, the Bank strengthened product portfolio marketing, launched activities such as “Wealth Appreciation Season (財富增值季)” and “Gifts for New Customers (新客有禮)”, and increased efforts in publicity and promotion; for the payment agency customer group, the Bank made differentiated product allocation, launched the “Kai Xin Afternoon Tea (開薪下午茶)” payment agency exclusive brand activity to strengthen channel operation; for the aged customer group, the Bank made asset allocation by using pension-purpose deposits and wealth products, intensified pension publicity and education, and regularly carried out featured and localized brand activities; for the new citizen customer group, the Bank implemented exclusive financial products and services such as start-ups and employment, consumer credit, recreational vehicle finance, migrant worker services, and exclusive services at outlets by refining the mechanism for identification of new citizens to improve the quality and efficiency of financial services for new citizens. At the same time, by adhering to the business philosophy of the life-cycle of customers, the Bank improved the activity operation system, innovated publicity channels, and enhanced customer stickiness. As of June 30, 2023, the online activities have reached out to more than 14 million in terms of number of participation and more than 5.5 million participants in total for the year.

During the Reporting Period, the Bank continuously optimized various online scenario-based platforms to promote customer experience. The Bank made the connection to the online and offline reward point rights and interests system, and developed and integrated the online mall, comprehensive mall and reward point mall within the Bank into a unified mall. The Bank optimized cloud-based payment business functions and improved the coverage of payment merchants. The Bank, through Zhongyuan Acquiring Alliance, provided a comprehensive product and service system covering payment and settlement, digital operation, financing advisor and wealth management to local micro, small and medium-sized enterprises in Henan, and bolstered the digital operation of the mall underpinned by the resources of the Bank such as reward point rights and interests and customer traffic direction. As of June 30, 2023, the Bank had a total of 11,135,700 registered users of payment and mall business, representing an increase of 400,800 as compared to the end of 2022; and Zhongyuan Acquiring Alliance offered services to 360,000 customers, and provided 130 million transactions of clearing services for the year, with a transaction amount of approximately RMB51.400 billion.

III. Management Discussion and Analysis

9.2.5 Wealth and private banking business

During the Reporting Period, the Bank adhered to the customer-centered philosophy, firmly abided by the principle of prudent operation, kept abreast of the market, continued to enrich the offerings of wealth products and optimized and upgraded the “3+1+N” system of high-net-worth exclusive products. By expanding external high-quality cooperative institutions and putting emphasis on research on investment products, we continued to enrich the supply of products such as “Perfect Choice – Fixed Income”, “Best Choice – Pure Bond Investment”, “Smart Choice – Fixed Income Enhancement”, and “Selected Manager – Diversified Strategies”, so as to improve the service ability to allocate customers’ assets, and satisfy the demands of customers for exclusive and personalized comprehensive financial services. As of June 30, 2023, the Bank’s business scale of high-net-worth exclusive products such as trust on a commission basis and asset management plans continued to grow, and the sales of high-net-worth exclusive products amounted to RMB11.513 billion, and maintained its position as a tier-1 bank among 28 banks in Henna Province.

9.2.6 Credit card business

During the Reporting Period, for credit card business, sticking to the customer-centric approach, the Bank offered its customers with premium services through enriching product mix, refined and layered operations, and optimizing risk prevention and control strategies, so as to provide credit support for the real economy. By closely following the strategy of the integration of cultural tourism sector and cultural and creative sector, the Bank launched Zhongyuan Travel Credit Card to meet the needs of customers in cultural tourism and continued to create an excellent tourism eco-system. Centering on the life-cycle of customers, the Bank used digital tools to strengthen refined operation capabilities, carried out brand activities in online and offline high-frequency consumption scenarios, and continuously enhanced the brand influence of credit cards. By enhancing its capabilities to offer comprehensive service to customers through synergy of scenarios, the Bank carried out large-amount installment marketing for housing-related customers, and carried out parking lot installment marketing for housing mortgage customers. The Bank focused on optimizing risk levels, deepening data applications and refining customer group classification, continued to devote special efforts in special projects, adjust credit-granting models and improve loan renewal experience, and constantly improved the whole-process and intelligent risk control system. As of June 30, 2023, the Bank issued a total of 3,909,400 credit cards, representing an increase of 274,600 as compared with the end of 2022; during the Reporting Period, the transaction amount was RMB61.788 billion, representing a year-on-year increase of 5.86%; and the loan balance was RMB21.162 billion.

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9.2.7 Housing finance business

During the Reporting Period, in terms of the housing finance business, the Bank focused on the financial and non-financial needs of housing-related customers such as house developers, house buyers and house owners, set up the four-in-one (四位一體) service system, namely “integration of public and private marketing, integration of assets and liabilities, integration of customer acquisition and active customers, and integration of development and risk control”, so as to create a housing-related ecosystem, promote the high-quality and high-standard development of housing finance, and enhance the housing finance brand of the Bank. At the same time, strengthening its responsibility was to take concrete action in the work of “ensuring housing project delivery (保交樓)”, so as to promote the stable and healthy development of the real estate market in Henan Province. As of June 30, 2023, the Bank provided personal housing mortgage loans of RMB14.111 billion in total for the Reporting Period, with a balance of RMB116.891 billion, representing an increase of RMB6.886 billion as compared to the end of 2022, and direct supporting financings for ensuring housing project delivery of RMB3.049 billion in total, ranking first among all financial institutions in Henan Province.

9.2.8 Auto finance business

During the Reporting Period, the Bank insisted on the purpose of “finance serving people (金融為民)”, comprehensively promoted the high-quality development of the auto finance business, and facilitated a better travel life for residents in Zhongyuan. Under the customer-oriented principle, the Bank focused on scenario-based customer acquisition, and continued to improve and optimize the Car e-loan (車e貸) series products, and focused on new citizens and launched the “Anytime Car Loan (隨心車貸)” product, which provides customized repayment plans. The Bank deeply developed the second-hand car consumption scenario, strengthened the market management, and iterated and optimized the second-hand car consumption loan products. The Bank grasped the opportunity of the policy of providing subsidies for rural residents to purchase new energy cars, gave full play to the advantages of the Bank’s outlet network covering various counties and villages in Henan Province, and explored to promote car penetration into the countryside. It continuously enriched and enhanced the brand connotation, focused on restoring and expanding auto consumption, and participated in the co-organization of a series of activities to “promote consumption and stabilize the economy (促消費穩經濟)” in Henan Province in 2023. It continued to strengthen the construction of digital and intelligent risk control system, and transformed from pure access automation to full-process digitization and intelligence, preventing and controlling business risks in a more accurate and effective manner. As of June 30, 2023, the Bank provided auto finance loans of RMB23.5 billion in total, serving more than 260,000 customers, and facilitating the transactions of RMB48.2 billion in auto supply chain finance.

III. Management Discussion and Analysis

9.3 Financial market business

9.3.1 Treasury business

During the Reporting Period, the Bank followed the principle of steady development and carried out monetary market business in a compliant and prudent manner. Based on ensuring its liquidity safety, the Bank actively assumed the responsibility as a “dealer in the monetary market”. The Bank has provided a cumulative liquidity support of RMB2.42 trillion for financial institutions in and out of Henan Province, and fully played the role of a market stabilizer, thus making an important contribution to the smooth operation of the inter-bank market. Meanwhile, the Bank actively promoted the application of innovative instruments in the inter-bank market, deeply participated in the innovative business of RFQ transactions, and ranked among the top 30 companies in “innovative and active dealers in repurchase” for the six consecutive months, thus maintaining its high market activity and continuously improving its market influence.

During the Reporting Period, due to the weaker expectation on the recovery of domestic economic fundamentals and the implementation of loose monetary policies on cutting the reserve requirement ratio and interest rates, overall capitals remained loose and the bond yield declined amid volatility. The Bank gave full play to its investment and research capabilities, grasped the law of the bond market, actively adjusted its position, adopted a dumbbell-shaped allocation strategy to boost bond yields and adopted a small swing trade strategy to steadily obtain interest spread income, leaving room for strategic response in the future. Meanwhile, the Bank actively tracked the changes in exchange rate trends, effectively researched the market trends, and chose the opportunity to conduct NDF operations. While effectively reducing the exchange rate risk exposure of overseas assets, it saved financial costs, increased actual returns, ensured the safety of the Bank’s foreign exchange assets, and realized asset appreciation.

9.3.2 Interbank business

Based on the industry, type, and scale of its customers, the Bank managed interbank customers by levels and categories, and continued to improve the customer service system. The Bank strengthened the interaction between the internal and external sectors and enhanced interbank communications and discussions, in cooperation with over 1,200 interbank institutions to build a brand for the interbank customer service of the Bank, so as to achieve win-win outcomes of cooperation in interbank businesses.

During the Reporting Period, the interbank business has returned to the origin of liquidity management and continued to provide liquidity support for the Bank. The Bank continuously optimized the structure of interbank liabilities, constantly led offline cooperative customers to join online trading of CFETS interbank deposits through the full use of online and offline channels, expanded the “circle of friends” for the interbank business, and improved business processing efficiency and market influence. As the major participating institution of CFETS interbank deposits, the Bank vigorously expanded the scope of CFETS interbank deposit business cooperation and has been awarded awards in the interbank domestic currency market by the China Foreign Exchange Trading System for three consecutive years. As of June 30, 2023, the Bank had cooperated with 73 CFETS interbank deposit institutions and the cumulative turnover of CFETS interbank deposits was RMB37.780 billion, representing a year-on-year increase of 17.15%.

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9.3.3 Bill business

During the Reporting Period, the Bank actively performed its responsibility and mission of serving the regional economic and social development, and practically solved the urgent problems of micro, small and medium-sized, and private enterprises including turnover and financing expansion, by providing professional, intimate and efficient bill services. The Bank established a good bill brand image with a comprehensive bill product system and formed a benign model of bills supporting the real economy and serving small and medium-sized enterprises.

The Bank has achieved the online discounting of bank bills and commercial bills, continuously deepened the innovative application of financial technology in the bill business, improved the discounting efficiency and enhanced the customer experience and the capability of the bill business of the Bank to serve the real economy. As of June 30, 2023, the Bank carried out the discounting business of RMB36.506 billion, thus ranking first among financial institutions in Henan Province. Specifically, the discounting business served over 1,300 customers, covering 12 industry groups and 156 industry subcategories, with a focus on advanced manufacturing industries, scientific and technological innovation, green and low-carbon transition and other industries that followed the national policy orientation.

The Bank persisted in the prevention of risks and steady operation for the bill trading business. During the Reporting Period, the Bank handled the bill trading business with a cumulative amount of RMB664.530 billion, ranking the top among financial institutions across the country. Its counterparties covered various participating institutions of the bill market across the country with strong market influence in the region or even across the whole country. Through direct transfer and linkage, the Bank constantly improved the capability of the bill business in serving corporate customers and the Bank's strategies. Through accurate market judgment and professional trading teams, the Bank continuously improved the liquidity of bills and the profitability of the business. The Bank accurately met the demands of different types of customers and built the core competitiveness of the bill business through customer segmentation.

The Bank actively supported the Central Bank in implementing monetary policy instruments including rediscount, properly and fully utilized national financial support policies, made efforts to support the bailout for enterprises, reduced financing costs of enterprises and practiced the philosophy of inclusive finance. As of June 30, 2023, the Bank ranked first among financial institutions in Henan Province in terms of rediscount and re-loan amount and balance.

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9.3.4 Asset management

During the Reporting Period, the Bank adhered to the concept of prudent investment, strictly implemented regulatory requirements, and strived to achieve the high-quality development of its wealth management business. Meanwhile, the Bank actively fulfilled its social responsibilities, conscientiously performed its duties as a product manager, persisted in maximizing customer benefits with customers as the center and strived to do a good job in “customer wealth management upon entrustment”. As of June 30, 2023, the balance of the Bank’s wealth management products was RMB65.814 billion, all of which were net-worth products that met the requirements of the new asset management regulations.

During the Reporting Period, the Bank followed the “customer-centered” philosophy in the creation of wealth management products, deeply studied customer demand and preference and developed a characteristic product system with clear hierarchy. Currently, the Bank has established a product system with fixed income as the core and fixed income + as a supplement. Its product types cover cash, fixed income and mixed products while the maturity covers short-term, medium-term and long-term maturities. Based on the complete public product system, the Bank issued private products with diversified strategies to qualified investors, so as to effectively meet the full-life-cycle asset allocation needs of customers. The Bank adhered to prudent operation and strict risk control and management, insisted in focusing on investment and research capabilities, continued to strengthen investment and research capabilities and developed differentiated investment strategies based on product positioning to realize the standardization, normalization and systematization of the investment. During the Reporting Period, the wealth management business developed steadily and a good wealth management brand image was established.

9.4 Inclusive finance business

9.4.1 Small and micro finance

During the Reporting Period, the Bank enhanced its political awareness, completely and accurately implemented the new development concept, adhered to the positioning of serving real economies and supporting small and micro enterprises, maintained the trend of increment and expansion, optimized the service structure and improved the accuracy of services in key areas. It developed a financial service system on small and micro enterprises which is suitable for the development of real economies, practically enhanced the sense of small and micro enterprises in obtaining financial services and played a greater role in boosting market confidence and supporting economic recovery and industrial development.

The Bank served real economies and comprehensively completed regulatory targets on inclusive small and micro enterprises. During the Reporting Period, the Bank provided inclusive small and micro loans of RMB36.577 billion for small and micro customers in total, with a weighted average rate of 4.27%. As of June 30, 2023, the balance of inclusive small and micro loans of the Bank was RMB83.858 billion, ranking fourth in terms of the balance in Henan Province and representing an increase of RMB7.661 billion as compared with the end of 2022. It ranked seventh in Henan Province in terms of increment with an increase of 10.05%, which is higher than the increase in all loans of the Bank. As of June 30, 2023, the Bank had 150,800 customers of inclusive small and micro credit, representing an increase of 22,100 as compared with the end of 2022. The Bank has comprehensively completed regulatory targets on inclusive small and micro enterprises.

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The Bank expanded and increased the business and optimized the supply of small and micro credit. During the Reporting Period, through boosting credit resources to small and micro customers and expanding diversified financing channels, the Bank increased the effective credit supply to small and micro enterprises to meet the financing demands of customers. The Bank established and improved the differentiated risk pricing mechanism, reasonably determined loan interest rates based on the risk characteristics of customers and realized the pricing of loan interest rates with the control of risks as the bottom line and market competitiveness.

The Bank strengthened innovation and improved the accessibility of loans for small and micro customers. In combination with the electronic corporate contract signing function launched and based on the “Shangyi Loan (商易貸) (for enterprises)”, the Bank achieved the automatic payment of corporate loans and improved the online accessibility of products. It implemented the category-based models and established the renewal system for loans to improve the verification pass rate of model-based approvals. The “Shangyi Loan (商易貸) (for individuals)” set up differentiated approval rules and limit strategies with the overall verification pass rate, the verification pass rate for the best customer groups and the verification pass rate for the renewal of loans improved to 33%, 62% and 72%, respectively. With the UnionPay data connected to the “Shangchao Loan (商超貸)”, the verification pass rate of models for the renewal of loans reached 93%.

The Bank led marketing and strengthened financial support to small and micro enterprises in key areas. Firstly, it established the “leading” marketing and service mechanism on small and micro businesses and developed cooperation and connection channels with government authorities, traffic platforms and core enterprises. With the two-wheel driver of “online + offline” means, the Bank obtained over 38,000 high-quality customers and boosted business growth by RMB6.455 billion, achieving batching, scaled and standardized customer acquisition and services. Secondly, it placed more emphasis on grass-roots services, stepped up efforts in visiting market entities and connecting services and focused on small and micro market entities in accommodation and catering, wholesale and retail and other industries as well as industries concerning people’s livelihood with high market capacity and unit value. Such services were accessible to 69 high-quality markets and 288 brand dealers in batch. The Bank provided integrated financial services to small and micro customers with credit products as drivers. Thirdly, the Bank provided financial support to small and micro enterprises based on industries and explored e-commerce, medical treatment, breeding and cultivation, distribution and transportation of agricultural products and other key industries. It has signed 35 plans for featured customer groups to support the rapid development of local key industries and small and micro enterprises.

The Bank implemented its professional mechanism to serve small and micro customers and enhanced the capacity of integrated financial services. It carried out four offline special trainings on marketing practice and due diligence on credit with a total of 447 participants; and organized over 30 online tutoring with a total of 16,000 participants. The Bank intensified the capacity building of small and micro teams from business marketing, customer service, due diligence, risk identification and other dimensions, improved the comprehensive service capability and strengthened the capability of business staff on due diligence and the prevention and control of risks. As of June 30, 2023, the Bank had 38 teams and 325 managers dedicated to small and micro customers.

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9.4.2 Rural Revitalization and Finance

During the Reporting Period, with the focus on providing financial support to the building of Henan Province into an advanced agricultural province, the Bank innovated products, optimized channels and improved ancillary mechanisms, and comprehensively enhanced professional service capabilities on rural revitalization, achieving outstanding results in all work.

The Bank promoted the expansion of inclusive finance and the increase in industries with a higher political awareness. It established the characteristic service model for farmers with credit for village as a whole, developed inclusive loans for industries, launched service plans for featured industries and improved the capability and level of supporting rural revitalization with finance, meeting the financial demands in grains acquisition and storage, the construction of high-standard farms, the building of biological breeding industry, new agricultural operation entities, loans to farmers and other key areas and customer groups and achieving the expansion of inclusive finance and the increase in industries. As of June 30, 2023, the balance of agricultural loans was RMB166.154 billion, representing an increase of RMB18.114 billion as compared to the end of 2022. The balance of inclusive agricultural loans was RMB16.410 billion, representing an increase of RMB3.030 billion or 22.70% as compared to the end of 2022, higher than the growth in various loans.

The Bank facilitated the construction of online and offline channels with higher service standards. Through the layout of offline inclusive financial service stations, it achieved complementation with other physical outlets at the county level and was regarded as the channel for customer acquisition and the bridgehead for practicing the “strategies on events for rural residents”. As of June 30, 2023, the Bank had set up 180 sub-branches at the county level, 78 sub-branches at the township level and 8,129 inclusive financial service stations, which covered over 90% townships in 18 cities, served 9,742,000 customers at the county level and benefited over 20 million villagers. It brought the “windows” of banks to “villages” and allowed villagers to handle the withdrawal of agriculture-aid loans, transfer and remittance, living payment and other fundamental services in villages.

The Bank developed the mobile banking of “Yidiantong (online version for rural areas) (一點通(鄉村在線版))”. As an online comprehensive service platform for rural revitalization, it conducted online extension of agricultural and non-financial services of service stations. Leveraging the online platform of “Yidiantong (online version for rural areas)”, the Bank provided villagers with the governance of village-related affairs, the sale of agricultural and sideline products and other non-financial and financial services and developed comprehensive service systems under all scenarios in villages. It has served 2.470 million users in total, covering over 20,000 communities and administrative villages in 18 cities in Henan Province.

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The Bank advanced the effective control of the quality of assets with high-standard risk prevention and control. It continued to optimize loans to farmers and introduced Yu'nong Loan (豫農貸) 2.0, withdrawal models for inclusive loans for industries, regular post-lending inspections and risk inspection models. The Bank developed post-lending monitoring statements, formulated one-stop display board to demonstrate data on the application and payment of loans and the monitoring on non-performing loans, achieving automatic monitoring on major business indicators. For the compliant operation of service stations, the Bank strengthened all-process risk control and management on service stations, improved the risk control function of electronic maps of service stations and carried out spot inspections and overall self-inspections on service stations. It has equipped 5,000 smoke alarms, water-based fire extinguishers and other safety equipment to enhance the safety guarantee of stations.

9.5 Distribution Channels

During the Reporting Period, the Bank adhered to the customer-oriented principle, focused on the optimization and improvement of customer experience, enhanced the support to the operation of channels, strengthened the construction of platform-based capabilities and achieved a further upgrade of the customer service capabilities.

9.5.1 Mobile banking

During the Reporting Period, the Bank's mobile banking completed the upgrading of the facial recognition segment, launched the simple version of mobile banking and developed simple and quick service models. The Bank enhanced online and offline linkage, developed the online service model of customer managers and further improved the warmth and quality of online services. It enhanced the support of platforms, built the intelligent scheduling management system of mobile banking and further improved the digital and intelligent operation capabilities of mobile banking. The Bank strengthened the government-bank cooperation and explored new models of coordinated marketing in various fields and scenarios. It promoted local operation and coordinated with branches in carrying out 56 online activities, achieved the activation of 571,700 customers and propelled the increase of the AUM of customers by RMB1,579 million. As of June 30, 2023, the number of registered users of the Bank's mobile banking reached 15.0547 million, representing an increase of 1,087,500 as compared with the end of 2022.

9.5.2 WeChat banking

During the Reporting Period, the Bank improved multi-channel collaboration and carried out planning on the development of the WeChat banking channel; optimized the 3*5 menu function of WeChat banking and added the access to activities and enhanced the attraction and transformation of customers through the channel. During the Reporting Period, WeChat official account of the Bank has sent 139 tweets in 24 issues in aggregate, which have been viewed for 3.341 million times, and the brand influence has been further enhanced. As of June 30, 2023, the number of fans of the official account of the Bank's WeChat banking reached 8.3989 million, representing an increase of 409.9 thousand as compared to the end of 2022, of which there were 5.3723 million card binding customers, representing an increase of 335.1 thousand as compared to the end of 2022.

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9.5.3 Personal online banking

During the Reporting Period, the Bank's personal online banking attracted 15.1 thousand new users, with the total number of users reaching 1.6540 million; and the total number of transactions reached 5.7999 million, and the total transaction amount reached RMB392.596 billion.

9.5.4 Customer service center

During the Reporting Period, the Bank's customer service center of remote banking received a total of 2,100,000 incoming customer calls, including 1,107,000 calls transferred to automated voice service, accounting for 52.71% and 993,000 calls transferred to manual service, accounting for 47.29%. 94.51% of calls were received, with customer satisfaction of 99.69% in the first half of the year; 2,320,700 customer calls, including 165,400 calls transferred to manual service, were received by online customer service, and 92.87% of the calls were transferred to intelligent text service, with customer satisfaction of 94.38%.

9.5.5 Direct banking

During the Reporting Period, the Bank kept on implementing the new concept of initiating open and win-win cooperation, devoted to promoting the jointly innovative business of perpetual loans and optimized the services to cooperative banks to support them in providing housing mortgage services for individuals and small and micro merchants in the area where they conducted businesses. As of June 30, 2023, a total of 31 cooperative banks have signed agreements with us on jointly innovative business of perpetual loans. The cooperative banks have granted RMB47.054 billion of loans in total, establishing a good brand image and word-of-mouth effect in the industry. At the same time, the Bank continued to enrich the product variety of jointly innovative products, launched two types of model and management products, and carried out five jointly innovative cooperation projects of new products.

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9.6 Information Technology

During the Reporting Period, the Bank focused on the constructive guidelines of “Five Modernizations of Science and Technology (科技五化)”, continuously promoted the digital and intelligent transformation in a practical and deep manner, consolidated technological fundamentals, deepened the application of digital and intelligent means and solidified the bottom line for safe production and operation, so as to facilitate the high-quality development of the Bank.

9.6.1 Deepening digital and intelligent transformation

With the digital and intelligent transformation as the core driver to promote the deep integration of business and technology and facilitate its high-quality development, the Bank determined the planning on the digital and intelligent transformation blueprint with “Yidiantong and Intelligence (一點通、智相隨)” as the core, clarified 38 transformation projects and developed the product brand system with “NICE” as the core and the E-series standard products. As of June 30, 2023, the number of monthly active mobile banking users of the Bank was nearly 4 million. The operational capabilities of “Yidiantong” and other online channels were continuously enhanced.

9.6.2 Reinforcing infrastructure

Improving top design. The Bank improved the top governance framework of information technology structure, initiated the planning project on the enterprise-level structure, studied and formulated the blueprint and implementation paths of the IT structure suitable for the strategic development of enterprises in the future and improved the capabilities on structural governance.

Intensifying the support of intermediate platform. As for technology intermediate platform, the mobile terminal platform completed the R&D and delivery of five functions, including the testing on screen sharing, connected the original e-loan scenarios with the anti-fraud platform and achieved zero theft through the “Yidiantong” APP. The Bank newly launched the intelligent quality testing platform on videos and the content creation platform through independent R&D. As for business intermediate platform, the Bank accelerated the construction of the intermediate platform of retail channels, completed the localized operation of the credit card center, the credit center and the financial trading center in parallel. It initiated the phase-II of the new-generation payment system, reshaped application services for large and small-amount payment and effectively supported the demand in payment business under 39 scenarios of the Bank. As for data intermediate platform, the Bank improved the intelligent decision-making platform and supported the handling of 3,646 million credit businesses and 1,384,500 anti-fraud data. It optimized the real-time data development platform, carried out 424 real-time tasks in total and focused on supporting real-time statements on corporate deposits of CRM government institutions, real-time monitoring on businesses under centralized operation and other scenarios. The Bank deepened RPA application scenarios and introduced 90 new RPA robots, resulting in savings of approximately 1,018 person-months (approximately 179,000 hours) of labor costs.

III. Management Discussion and Analysis

Reinforcing back-office fundamentals. The Bank enhanced the construction of disaster recovery systems and smoothly relocated the remote disaster recovery center to the province and realized the group construction of the ADG for 33 databases of Top 27 systems and localized distributed databases, which solved the restrictions on the expansion of the remote disaster recovery center and saved the cost by RMB1.48 million each year. It completed the unified management of technology stack such as QingCloud and container cloud on information innovation and achieved the unified management of physical servers, the allocation of IPv6 and other management capabilities.

Strictly holding the red line on safety. The Bank completed the approval of safety monitoring program on mobile terminals and conducted trial application in the personal mobile banking system. It has analyzed a total of over 4,000 high-risk warnings on equipment, banned over 190 illegal equipment and established a normalized operation mechanism. The information system of the Bank was running smoothly as a whole with no major production liability incident incurred.

9.6.3 Speeding up in innovation practice

The Bank explored technological innovation applications such as big data and artificial intelligence (AI), as well as realized the innovation achievements of new technologies in various fields such as knowledge questions and intelligent risk control. The Bank actively promoted the application of AIGC technology, carried out connection testing on large models with well-known internet enterprises, conducted exercises on open source big models and the reserve of application technology and completed the trial launching of compliance knowledge questions, creation of marketing plans and other scenarios. It explored the application of federated learning technology, carried out cooperation on federated anti-fraud models and achieved the joint construction and sharing of characteristics of fraudulent activities. The Bank identified 6,110 doubtful customers, identified 1,798 risks and achieved a retained balance of RMB16.45 million in customer accounts.

III. Management Discussion and Analysis

9.7 Investment business of subsidiaries and joint ventures

9.7.1 Village bank business

9.7.1.1 Shareholding percentages of village banks

Name	Percentage of shareholding of the Bank
Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行股份有限公司)	51.00%
Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司)	51.00%
Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司)	78.46%
Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司)	51.00%
Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司)	51.00%
Xiangcheng Zhongyuan County Bank Co., Ltd. (襄城中原村鎮銀行股份有限公司)	51.00%
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司)	51.73%
Xiping Zhongyuan County Bank Co., Ltd. (西平中原村鎮銀行股份有限公司)	43.69%
Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司)	51.02%
Shenzhen Nanshan Baosheng County Bank Co., Ltd. (深圳南山寶生村鎮銀行股份有限公司)	42.05%
Henan Luanchuan Minfeng County Bank Co., Ltd. (河南欒川民豐村鎮銀行股份有限公司)	30.33%
Mengjin Minfeng County Bank Co., Ltd. (孟津民豐村鎮銀行股份有限公司)	34.58%
Jiaxian Guangtian County Bank Co., Ltd. (郊縣廣天村鎮銀行股份有限公司)	51.28%
Luohe Yancheng Zhongyuan County Bank Co., Ltd. (漯河鄆城中原村鎮銀行有限責任公司)	51.00%

9.7.1.2 Business development during the Reporting Period

The 14 county banks provide local small and micro enterprises and retail banking customers with a broad range of financial products and services, including business and consumer loans, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. The Bank leveraged its resources and advantages including its own technology, products and management to help the 14 county banks to continuously enrich their own financial service system, better serve the target customer base of county banks, contribute financial strength of county banks to the local rural revitalization, and further enhance the Bank's brand awareness.

III. Management Discussion and Analysis

During the Reporting Period, the 14 county banks always adhered to their market positioning of “supporting the agriculture and small and micro enterprises (支農支小)” and upheld the principles of “micro and disperse (小額、分散)”. They focused on the actual financial needs of the four rural customer groups of “agriculture, rural areas, farmers, and migrant workers (四農)”, continued to optimize their products and processes, further brought their staff and services down to the primary level, kept improving their ability to serve rural revitalization, deeply practised inclusive finance, and strived to promote business structure optimization and comprehensive transformation and development, along with intensified support to agriculture and small and micro enterprises. They adhered to seeking progress while maintaining stability in performance and followed the path of high-quality development featured with scientific governance, strict internal control, controllable risks and outstanding services.

9.7.2 Consumer Finance Company

During the Reporting Period, Consumer Finance Company always adhered to the guidance of the Party building, adhered to the people-centered concept, vigorously practised inclusive finance, set up a firm bottom line for risks, strengthened the foundation of compliance, and continuously promoted high-quality development, achieving steady growth in business scale, continuous growth in profitability and stable asset quality.

9.7.3 Financial Leasing Companies

During the Reporting Period, AB Leasing actively integrated into the development strategy of the Group, further strengthened the leadership of the Party, strengthened its top design, continuously improved corporate governance, effectively prevented and dissolved business risks, unswervingly deepened its transformation and development and insistently promoted synergistic development with the Bank. It made steady progress in all work and steadily improved its operating results.

BOL Financial Leasing maintained its strategic focus and development confidence, focused on the work targets and plans set at the beginning of the year, highlighted business transformation, risk and compliance control, the disposal of non-performing assets, interbank expansion and other key work, adapted to the changing circumstances and overcame difficulties, achieving outstanding operation results and maintaining the momentum of steady development.

III. Management Discussion and Analysis

10. Risk Management

The Bank always maintains its prudent risk preference, continuously improves the risk management system covering all institutions, all employees, all processes and all products, comprehensively promotes the digital and intelligent construction of risk management and constantly displays the value of risk management to facilitate the high-quality development of the Bank. During the Reporting Period, the Bank maintained the strategic determination of risk management, strengthened the research and judgment on risks and carried out the identification, measurement, monitoring, appraisal, reporting, control or releasing of various risks in an orderly manner, and continuously improved professional and targeted risk management, effectively preventing various risks and ensuring the steady development of the Bank.

10.1 Credit Risk Management

The Bank improved credit risk management strategies and enhanced the guiding role of policies. The Bank planned its annual risk preference, formulated credit policies on key industries, products and areas based on internal and external situation to lead the steady business development and improve the control and guiding role on the credit business. It strengthened the management of large amount risk exposure and strictly controlled the level of concentration. In strict compliance with the requirements of regulatory authorities on the management of large amount risk exposure, the Bank regularly carried out the measurement, monitoring and reporting of large amount risk exposure and effectively implemented the management of various risk limits.

The Bank promoted the reform of the credit approval system and improved the management of the credit business under all standards and in all processes. It promoted the optimization and improvement of credit approval processes, advanced standardized and intelligent management of due diligence on credit, after-approval monitoring, post-credit management and other key links in an orderly manner to comprehensively improve the whole-process credit management capabilities.

The Bank strengthened early warning and inspection management and guaranteed the steady operation of the quality of assets. It formulated annual targets and plans on the management and control of the quality of assets under all standards and in all processes, optimized the appraisal system on the quality of assets and maintained management and control efforts on the quality of assets. The Bank optimized the early warning and management system, strengthened the application of early warning and developed management chains on the early identification, continuous monitoring, accurate judgment and vigorous disposal of risks. It organized rolling risk inspections on asset businesses, continuously improved inspection mechanisms with internal and external linkage and carried out targeted inspections on key customers and key businesses. The Bank stepped up the efforts on recovery and disposal of non-performing assets, comprehensively used various means including litigation recovery, transfer of debts, writing-off bad debts and activation by restructuring to dispose of non-performing assets and fully promoted the mitigation for key projects to ensure the steady operation of the quality of assets.

The Bank continued to empower the construction of online, digital, intelligent risk management. It comprehensively established anti-fraud platform for enterprises and deployed full models for the retail credit business. The Bank iterated and optimized its internal non-retail rating model and continuously deepened the implementation of internal rating application results to improve the risk identification capability of customers. It improved the model management platform and managed the risk models for the Bank as a whole consistently and effectively to improve the risk control capabilities of the models and the efficiency to serve operations. The Bank improved the implementation and management system on the expected credit loss method and regularly conducted stress testing on credit risk to constantly enhance the refined and quantitative management of credit risk.

III. Management Discussion and Analysis

10.2 Market risk management

The Bank amended and improved the Measures for Data Control and Management under the Market Risk Management System of Zhongyuan Bank (《中原銀行市場風險管理系統數據控制管理辦法》), further standardized the scenarios and rules for the establishment of investment portfolios and continuously improved the system of market risk management system. It carried out the separation of books and the evaluation and review of investment portfolios, further clarified the rules for the separation of books, improved the mapping relationship between foreground and intermediate platforms and strengthened the refined management on the measurement of market risk. The Bank improved the management system of market risk limits, formulated the Measures for the Management of Secondary Limits of Market Risk of Zhongyuan Bank in 2023 (《中原銀行 2023 年市場風險二級限額管理方案》), carried out daily monitoring on limit indicators and sent risk warnings to relevant departments in case of exceeding alarming/limits and abnormal data in a timely manner to effectively guide, control and manage the steady development of all businesses. According to relevant requirements of Basel III, the Bank explored the comprehensive optimization and improvement of market risk systems and procedures, measurement models, stress testing and data governance, strengthened model testing, continuously improved plans for the implementation of market risk measurement, optimized market risk measurement systems and enhanced risk measurement capabilities. The Bank constantly conducted market risk monitoring and reporting, enhanced high-frequency measurement, monitoring and analysis on risk exposure and level based on the risk characteristics of different types of financial market businesses, improved the timeliness and effectiveness of market risk monitoring and control and strengthened risk analysis and control.

10.3 Operational and compliance risk management

During the Reporting Period, by leveraging the internal control compliance and operational risk management system, the Bank continued to enhance its refined management capabilities for operational risks. On the basis of strengthening internal control and implementing compliance management, focusing on internal inspection and system construction, and the backing of internal audit supervision, the Bank strengthened risk monitoring and with prevention in key positions and key areas to ensure that the operational risk identification, assessment, control, monitoring and reporting are carried out effectively, and build a long-term mechanism for internal control and compliance management.

During the Reporting Period, the Bank continuously deepened the application of operational risk management tools. It reviewed and optimized the library of key risk indicators for operational risk, improved the sensitivity and effectiveness of indicator monitoring and carried out indicator monitoring on operational risk, the collection of loss events and other work on a normalized basis. It optimized and improved procedures as well as self-appraisal methods for operational risk and control, constantly identified control defects and hidden risks on key procedures and strengthened the rectification of problems identified. Meanwhile, the Bank continued to strengthen business continuity management during critical periods, deeply carried out the inspection and renovation of risks on business continuity and vigorously guaranteed the continuous stability of financial services during critical periods. It continued to improve the outsourcing risk management, business continuity and emergency management mechanisms to ensure the effective measures taken by the Bank in the event of an emergency.

During the Reporting Period, the Bank's overall operation was standardized and orderly, and there was no major operational risk event.

III. Management Discussion and Analysis

10.4 Liquidity risk management

During the Reporting Period, the Bank constantly strengthened liquidity risk management and continuously improved construction of liquidity risk system, so the overall liquidity was relatively good, major liquidity supervision indicators satisfied the supervision requirements and was optimized and improved continuously.

During the Reporting Period, the Bank continued to optimize and improve the organizational structure of liquidity risk management, strengthened the three-level linkage among the head office, branches and sub-branches, clarified the responsibilities of all levels, establishing the coordinated management and control of the liquidity risk from the group level, guiding and assisting subsidiaries to strengthen liquidity management, regularly monitoring its operating conditions and liquidity risk levels to ensure the safety of the Group's liquidity; strengthening active asset-liability structure management and duration management, and rationally adjusting the business term structure. The level of overall term mismatch was controlled within a reasonable range; the active liability tools were rationally used to improve the diversity and stability of liability sources; the management of intraday positions was further refined, and the online and intelligent level of the management of intraday positions and liquidity monitoring were improved through continuously improving liquidity management information system to ensure sufficient intraday liquidity to fully meet the needs of various business development; it continued to improve the macro-level research and discussion mechanism, established and improved the joint work system on liquidity pricing, continued to improve its macroeconomic analysis capabilities, enhanced the forward-looking and proactive nature of liquidity management, and dynamically adjusted liquidity management strategies to guide the Bank's business development. During the Reporting Period, the liquidity risk of the Bank was safe and controllable.

10.5 Information technology risk management

During the Reporting Period, the Bank constantly improved its information technology risk management system and actively implemented the coordinated and common management of the three lines of defense of IT management. For various risk points in eight areas for information technology risk and their control measures, the Bank conducted self-appraisal on the control of information technology risk, carried out inspections and improvement on network security, data safety, information technology outsourcing and other key regulatory industries currently and further consolidated the line of defense for the management of information technology risk. It continuously optimized information technology key risk indicators and reasonably adjusted indicator thresholds and warning value to improve the effectiveness of risk monitoring and alarming. The Bank regularly monitored information technology key risk indicators, established the information technology risk periodic reporting mechanism, and formed an effective risk management process system that supports risk identification, assessment, control/release, and monitoring/reporting; the Bank continuously optimized the construction of disaster recovery system for infrastructure, promoted the construction of disaster recovery system of two places and three centers for IT rooms and high availability of external data; the Bank deepened the transformation of distributed technology architecture, enhanced the administration of research and development and strengthened the independent control, improved the construction of network security defense system in depth, kept on improving the application security ability system and intensified the life cycle management of data security; and comprehensively carried out network security guarantee during critical periods. The Bank organized self-inspections and appraisals on network security guarantee, deeply identified problems and conducted rectification and improvement in a timely manner. Meanwhile, it carried out 7*24 duty, conducted the monitoring and disposal of network security events from the dimensions of "cloud-network-terminal" based on the safe operation platform and strictly implemented the work requirements on network security guarantee during critical periods.

III. Management Discussion and Analysis

10.6 Reputational risk management

During the Reporting Period, the Bank continued to enhance the construction of reputational risk management system and continuously increased the level of reputational risk management.

The Bank improved the reputational risk working mechanism, strictly implemented accountability on appraisal, fully displayed the role of appraisal as the “baton” and the “weathervane”, clarified the responsibilities of entities at all levels and conducted accountability and investigation of responsibilities on significant losses caused by reputational events, the improper prevention and disposal or responsible persons for significant adverse effects. It strengthened the monitoring on public opinions, enhanced the prevention awareness and conducted all-process monitoring and real-time tracking on network information to effectively improve its capacity in handling online public opinions and implement category-based and classified disposal. The Bank regularly made investigations into the potential reputational risk to dig deep into the potential risks that may have a negative impact and established normalized warning mechanisms to achieve early identification, warning, and solution for risk signs. For important time nodes and sensitive periods, the Bank implemented special monitoring, formulated emergency plans in advance, responded and disposed them quickly and properly to avoid, eliminate or reduce the adverse effects of relevant events to the maximum extent and ensure the orderly progress of all operational work and the steady operation of the Bank. It strengthened team building and improved the handling capability. The Bank established the contact person system on reputational risk management covering the head office, branches, sub-branches and subsidiaries, clarified the responsibilities of positions, stepped up efforts in reputational risk trainings and enhanced its skills and capability on reputational risk management from different dimensions. At the same time, the Bank regularly organized reputational risk exercises, improved the capabilities of cadres and staff on reputational risk management and established coordinated and efficient emergency linkage and quick response mechanisms.

10.7 Exchange rate risk management

During the Reporting Period, the Bank maintained its prudent risk preference, closely monitored the changing trend of exchange rates, proactively analyzed the fluctuation of global exchange rate market, formulated staged foreign exchange hedging strategies, smoothed the hedging cost, and reduced foreign exchange exposure risk. The Bank scientifically formulated foreign exchange quota indicators, conducted the quota review on a regular basis to compact the exchange rate risk tolerance, paid continuous attention to the exposure positions of various foreign currencies held by the Bank during the daily management, carried out foreign exchange risk stress tests, and continuously managed foreign exchange business and quota. During the Reporting Period, the Bank’s exchange rate risk was stable and controllable.

10.8 ESG risk management

In recent years, the Bank has actively undertaken environmental and social responsibilities, and continuously improved its ESG performance. During the Reporting Period, the Bank strengthened the significant decision-making function of the Board of Directors and relevant committees in ESG management, prepared the 2022 Environmental, Social and Governance (ESG) Report of Zhongyuan Bank Co., Ltd. and disclosed it on the official websites of the Hong Kong Stock Exchange and the Bank, displaying the sound ESG management capabilities and corporate image of the Bank to investors.

ESG risk management was strengthened in the industry. The Bank implemented national policies, actively led credit resources to invest in green industries, including energy conservation and environmental protection, strategic emerging industries, which met the relevant ESG requirements with low energy consumption, low emission, low pollution and sound market prospects.

III. Management Discussion and Analysis

11. Corporate Strategies and Outlook

2023 is an important year for the full implementation of the spirit of the 20th CPC National Congress and China's economic development and operation catch wide attention. In the first half of 2023, the social economy showed a momentum of recovery. China's gross domestic product (GDP) reached RMB28,499.7 billion in the first quarter, representing a year-on-year increase of 4.5%. The growth of investment in the manufacturing industry recorded a year-on-year increase of 7%, which was 1.9 percentage points higher than the growth of total investments in fixed assets and formed driving effects on the economic growth. With the gradual recovery of consumption after the COVID-19 pandemic, residents' preference over savings declined in the first half of 2023, but the confidence in consumption and investment gradually recovered. Despite the economic recovery from the bottom, it still faces significant uncertainties with weak endogenous power and demand and the lack of confidence currently remains the major problem. Looking forward to the second half of 2023, with the introduction of policies on stabilizing economic growth and continuous and centralized efforts, domestic economy in China is likely to experience continuous recovery. However, uncertainties in the turmoil of the global financial systems still linger on and the banking industry still faces significant operational pressures.

Based on the current situation and in the second half of 2023, the Bank will continuously adhere to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and implement the concepts that "finance is the blood of real economies" and "vigorous and stable finance is essential for a vigorous and stable economy". It will clarify three major tasks in "serving real economies, preventing and controlling financial risks and deepening financial reform"; closely follow the guidelines of the Henan provincial party committee and the provincial government on "advancing the second half of the reform and reorganization of Zhongyuan Bank", specify the positioning of development, seize market opportunities, take initiative actions, seek progress while maintaining stability and promote the high-quality development of the Bank.

To adhere to integrity and innovation and improve the competitiveness. The Bank will always persist in high-quality development, uphold forward-looking thinking and strategic layout in product innovation, business promotion and customer marketing, strengthen internal and external cooperation and synergy through the integration of resources after reform and reorganization, focus on the building of symbiosis value chains with high integration of "finance + non-finance" and improve the quality of services. The Bank will improve customer experience, enhance the management of customer relationship and formulate comprehensive service plans to meet diversified customer demands and improve customer satisfaction; seize the opportunities of policies, actively apply for financial licenses and business qualifications and improve the comprehensive market competitiveness.

III. Management Discussion and Analysis

To undertake practical responsibilities and promote business development. The Bank will actively display the synergistic effects of the “three-level cooperation of the head office, branches and sub-branches and the interactive linkage of risks and businesses”, seize the favorable opportunity of “giving priority to recovering and expanding consumption”, boost comprehensive efforts with the orientation of strengthening profit appraisal and adjust investment and trading strategies in a timely manner through actively responding to market changes. It will continue to reinforce category-based operation of customers and expand the coverage of high-quality customer groups and markets; specify the list of marketable customers and accurately connect services; deepen the comprehensive operation of customer groups and scale up customer assets; implement category-based product strategies and intensify the supply of wealth management products and the promotion of marketing; optimize the layout of outlets at the county level, promote progress with stability and speed up in advancing the rapid development of all businesses.

To enhance risk awareness and improve risk control. The Bank will improve the category-based and classified risk management policies and systems, set up clear and steady risk management strategies, risk preference and risk limit in a scientific manner, strengthen the combination of risk management and financial technology and speed up in the construction of a robust risk control mid-office “with credit policies as the orientation, the construction of model groups and anti-fraud operation as the core, data derivation, telephone verification and case investigation as the basis and the credit system as the support” to effectively support business development; intensify internal control, improve business procedures and operational standards and clarify the responsibilities and obligations on risk management.

To focus on technology construction and promote digital intelligence transformation. The Bank will actively respond to the national “Internet +” strategy and leverage on the Internet, big data, AI and other digital technology to continuously improve the convenience and intelligence of financial services. It will promote the transformation of projects in an orderly manner, speed up in the construction of Yidiantong (一點通), Yinshang platform (銀商平台), derivative platforms with credit characteristics and other key projects and improve the product competitiveness. The Bank will deepen the cooperation between the technology lines and business departments, enhance data empowerment, improve business analysis capability and accuracy, perfect the functions and application of the data decision-making and analysis platform, speed up in the construction of intelligent operation systems and enhance management support capabilities, achieving cost reduction and efficiency improvement.

IV. Changes in Share Capital and Information on Shareholders

1. Changes in Ordinary Shares of the Bank during the Reporting Period

As of June 30, 2023, the total issued ordinary share capital of the Bank was 36,549,823,322 Shares¹, comprising 6,945,000,000 H Shares and 29,604,823,322 Domestic Shares.

2. Shareholdings of Top Ten Non-Overseas Listed Domestic Shareholders of the Bank

As of June 30, 2023, there was no controlling Shareholder and actual controller of the Bank. As at June 30, 2023, the shareholdings of the Bank's top Ten Shareholders of non-overseas listed Domestic Shares were as follows:

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held as at June 30, 2023	Approximate percentage of the total share capital of issued ordinary shares of the Bank as at June 30, 2023
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	2,264,396,518	6.20%
2	Luoyang Municipal Finance Bureau (洛陽市財政局)	State Shares	1,361,571,120	3.73%
3	China Tourism Group Corporation Limited (中國旅遊集團有限公司)	State-owned Legal Person Shares	1,061,521,911	2.90%
4	Zhongyuan Trust Co., Ltd. (中原信託有限公司)	State-owned Legal Person Shares	791,131,350	2.16%
5	Henan Zhaoteng Investment Group Co., Ltd. (河南省兆騰投資集團有限公司)	Privately-owned Legal Person Shares	683,252,415	1.87%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	553,109,303	1.51%
7	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	535,342,105	1.46%
8	Henan Machinery Investment Group Co., Ltd. (河南機械裝備投資集團有限責任公司)	State-owned Legal Person Shares	506,751,425	1.39%
9	Luoyang Urban and Rural Construction Investment Group Co., Ltd. (洛陽城鄉建設投資集團有限公司)	State-owned Legal Person Shares	504,435,685	1.38%
10	Bank of Jiujiang Co., Ltd. (九江銀行股份有限公司)	Privately-owned Legal Person Shares	500,000,000	1.37%
Total			8,761,511,832	23.97%

¹ On May 26, 2022, the registered capital of Zhongyuan Bank was changed from RMB20,075,000,000 to RMB36,549,823,322 with approval from the former CBIRC. As of the date of this report, the registration of change of registered capital with the competent authority of industry and commerce is still in progress.

IV. Changes in Share Capital and Information on Shareholders

3. Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares

To the best knowledge of the Bank and the Directors, as of June 30, 2023, substantial Shareholders of the Bank and other persons (other than Directors, Supervisors and chief executives of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholders	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of ordinary shares of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. ⁽³⁾ (河南投資集團有限公司)	Domestic Shares	Beneficial owner	2,264,396,518(L)	7.65	6.20
	Domestic Shares	Interest in controlled corporation	808,828,276(L)	2.73	2.21
AMTD Group Company Limited ⁽⁴⁾	H Shares	Interest in controlled corporation	482,288,000(L)	6.94	1.32
L.R. Capital Management Company (Cayman) Limited ⁽⁴⁾	H Shares	Interest in controlled corporation	482,288,000(L)	6.94	1.32
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	453,636,000(L)	6.53	1.24
GOLD LEADING CAPITAL LIMITED	H Shares	Held Security interest in Shares	573,964,000(L)	8.26	1.57
DBS Group Holdings Ltd ⁽⁵⁾	H Shares	Interest in controlled corporation	1,210,773,348(L)	17.43	3.31
	H Shares	Interest in controlled corporation	1,210,773,348(S)	17.43	3.31
Piramid Park Co., Ltd ⁽⁶⁾	H Shares	Beneficial owner	999,831,000(L)	14.40	2.74
XU Yan (徐雁)	H Shares	Interest in controlled corporation	999,831,000(L)	14.40	2.74

IV. Changes in Share Capital and Information on Shareholders

Notes:

- (1) (L) represents the long position, (S) represents short position.
- (2) As at June 30, 2023, the number of total issued Shares of the Bank was 36,549,823,322, comprising 6,945,000,000 H Shares and 29,604,823,322 Domestic Shares. As of the date of this report, the registration for change with the competent authority of industry and commerce is still in progress.
- (3) Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly owned by the Finance Department of Henan Province (河南省財政廳). Henan Investment Group Co., Ltd. directly holds 2,264,396,518 Domestic Shares of the Bank (long position), indirectly holds 17,696,926 Domestic Shares of the Bank (long position) through its controlled corporation, Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司), and indirectly holds 791,131,350 Domestic Shares of the Bank (long positions) through controlled corporation, Zhongyuan Trust Co., Ltd. (中原信託有限公司).
- (4) L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, indirectly holds 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.
- (5) DBS Bank Ltd. directly holds 1,210,773,348 H Shares (long positions) and 1,210,773,348 H Shares (short positions) of the Bank. DBS Bank Ltd. is a controlled corporation 100% owned by DBS Group Holdings Ltd. Therefore, by virtue of the SFO, DBS Group Holdings Ltd. is deemed to be interested in the 1,210,773,348 H Shares (long positions) and 1,210,773,348 H Shares (short positions) of the Bank held by DBS Bank Ltd.
- (6) Pyramid Park Co., Ltd is wholly owned by XU Yan (徐雁).

Save as disclosed above, to the knowledge of the Bank, none of the substantial Shareholders or other persons had, as at June 30, 2023, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

IV. Changes in Share Capital and Information on Shareholders

4 Shareholdings of Top Ten Shareholders as of June 30, 2023

As at June 30, 2023, the top ten Shareholders of the Bank together held 41.60% of the Bank's total share capital. Among the top ten Shareholders, the largest Shareholder of Non-overseas Listed Domestic Shares was Henan Investment Group Co., Ltd. (河南投資集團有限公司), which held 6.20% of the total share capital; the second largest Shareholder was Luoyang Municipal Finance Bureau (洛陽市財政局), which held 3.73% of the total share capital; and the third largest Shareholder was China Tourism Group Corporation Limited (中國旅遊集團有限公司), which held 2.90% of the total share capital. The first and third largest Shareholders of Non-overseas Listed Domestic Shares are wholly state-owned enterprises, the second largest Shareholder is a local finance department.

The shareholdings of the top ten Shareholders were as follows:

No.	Name of Shareholders	Nature of Shareholders	Nature of Shareholders	Number of Shares held as at June 30, 2023	Approximate percentage of the total share capital of issued ordinary shares of the Bank as at June 30, 2023 ⁽¹⁾
1	HKSCC Nominees Limited ⁽²⁾	H Shares	Other	6,944,269,900	19.00%
2	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	Domestic Shares	State-owned Legal Person Shares	2,264,396,518	6.20%
3	Luoyang Municipal Finance Bureau	Domestic Shares	State Shares	1,361,571,120	3.73%
4	China Tourism Group Corporation Limited (中國旅遊集團有限公司)	Domestic Shares	State-owned Legal Person Shares	1,061,521,911	2.90%
5	Zhongyuan Trust Co., Ltd. (中原信託有限公司)	Domestic Shares	State-owned Legal Person Shares	791,131,350	2.16%
6	Henan Zhaoteng Investment Group Co., Ltd. (河南省兆騰投資集團有限公司)	Domestic Shares	Privately-owned Legal Person Shares	683,252,415	1.87%
7	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Domestic Shares	Privately-owned Legal Person Shares	553,109,303	1.51%
8	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Domestic Shares	Privately-owned Legal Person Shares	535,342,105	1.46%
9	Henan Machinery Investment Group Co., Ltd. (河南機械裝備投資集團有限責任公司)	Domestic Shares	State-owned Legal Person Shares	506,751,425	1.39%
10	Luoyang Urban and Rural Construction Investment Group Co., Ltd. (洛陽城鄉建設投資集團有限公司)	Domestic Shares	State-owned Legal Person Shares	504,435,685	1.38%
Total				15,205,781,732	41.60%

(1) It was calculated on the basis of the total share capital of the Bank of 36,549,823,322 Shares.

(2) HKSCC Nominees Limited, as a nominee, held 6,944,269,900 H Shares in aggregate of the Bank on behalf of several clients, representing 19.00% of the issued share capital of the Bank. As a member of the Central Clearing and Settlement System, HKSCC Nominees Limited conducts registration and custodian business for clients.

IV. Changes in Share Capital and Information on Shareholders

5. Shareholders Holding 5% or More of the Total Ordinary Share Capital of the Bank

Please refer to the relevant section “Changes in Share Capital and Information on Shareholders” for details of the Shareholders with an interest in 5% or more of the share capital of the Bank.

6. Information on Substantial Shareholders to be Disclosed Under the Interim Measures for the Equity Management of Commercial Banks

According to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), only Henan Investment Group Co., Ltd. (河南投資集團有限公司) is a substantial Shareholder of the Bank.

7. Equity Pledge and Freezing

As of June 30, 2023, so far as is known to the Bank, the Bank’s 6,832,023,520 Domestic Shares were subject to pledge, which accounted for 18.69% of the total number of issued ordinary Shares. In addition, there were 2,763,927,415 Domestic Shares which were judicially frozen.

8. Purchase, Sale or Redemption of Listed Securities of the Bank

During the six months ended June 30, 2023, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.

9. Non-public Issuance of Offshore Preference Shares

9.1 The issuance and listing of Offshore Preference Shares

To replenish the Bank’s capital through diversified ways, further enhance the Bank’s capital strength and enhance the Bank’s risk resistance, the Bank, upon approved by relevant regulatory authority, issued USD1,395 million non-cumulative perpetual Offshore Preference Shares on November 21, 2018. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on November 22, 2018 (preference shares stock name: ZYBNK 18USDPREF, stock code: 04617). The Offshore Preference Shares have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares issued is 69,750,000, and were all issued fully paid in U.S. dollars.

Based on the CNY central parity rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the issuance of the Offshore Preference Shares amounted to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank’s additional tier-one capital, to increase the Bank’s tier-one capital adequacy ratio and optimize the capital structure, which was consistent with the specific use previously disclosed.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcement of the Bank published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

IV. Changes in Share Capital and Information on Shareholders

9.2 Number of Offshore Preference Shareholders and particulars of shareholding

As at June 30, 2023, the Bank had one Offshore Preference Shareholder.

The shareholding structure is set out in the table below (the following data are based on the register of Offshore Preference Shareholders as at June 30, 2023):

Name of Shareholder	Nature of Shareholder	Type of Shares	Increase/decrease during the Reporting Period (shares)	Shareholding percentage (%)	Total shareholdings (shares)	Number of Shares subject to restriction on sale (shares)	Number of Shares subject to restriction on sale (shares)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	-	100%	69,750,000	-	Unknown

Notes:

1. The shareholding of Offshore Preference Shareholders is based on the information set out in the register of Offshore Preference Shareholders of the Bank.
2. As the Offshore Preference Shares were issued by way of offshore non-public issuance, the information recorded on the register of Offshore Preference Shareholders is the information on the nominee of the investor(s) to whom the Offshore Preference Shares were allotted.

9.3 Profit distribution on the Offshore Preference Shares

Dividends would be paid in cash by the Bank to Preference Shareholders. Each dividend shall be payable annually in arrears on the dividend payment date. On November 22, 2022, the Bank completed the dividend payment of the Offshore Preference Shares. For details, please refer to the announcement on payment of a dividend for the Offshore Preference Shares published by the Bank separately on September 29, 2022. During the Reporting Period, the Offshore Preference Shares issued by the Bank were not yet due for dividend distribution, and no dividends on Offshore Preference Shares have been distributed.

Table on profit distribution in respect of Offshore Preference Shares in the past three years:

Unit: RMB'000

Year of distribution	Amount of distribution (before tax)	Net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank for the year of distribution	Percentage of net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank (%)	Balance accumulated to the next accounting year due to insufficiency of distributable profits or the part that can be used for the distribution of retained profits
2022	617,165	3,650,171	16.91	-
2021	563,012	3,565,013	15.79	-
2020	573,487	3,300,822	17.37	-

IV. Changes in Share Capital and Information on Shareholders

9.4 Other information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored, and there was no occurrence of any triggering event that would result in mandatory conversion of Offshore Preference Shares into H Shares.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares conform to the requirements as equity instruments, and will be calculated as equity instruments.

V. Directors, Supervisors, Senior Management and Employees

1. Existing Directors, Supervisors and Senior Management

The composition of the Board of Directors, the Board of Supervisors¹ and the senior management of the Bank as of the date of this report is as follows:

The Board of Directors of the Bank consisted of a total of 9 members, including 3 executive Directors, namely Mr. GUO Hao, Mr. WANG Jiong and Mr. LI Yulin; 2 non-executive Directors, namely Ms. ZHANG Qiuyun and Mr. MI Hongjun; and 4 independent non-executive Directors, namely Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.

The Board of Supervisors of the Bank consisted of 6 Supervisors, including 4 external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong, Mr. SUN Xuemin and Mr. PAN Xinmin; and 2 employee representative Supervisors, namely Mr. ZHANG Yixian and Ms. DAN Limin.

The senior management of the Bank consisted of 11 members, including 1 president, namely Mr. LIU Kai; 1 vice president, namely Mr. ZHOU Litao; 8 assistants to the president, namely Mr. LIU Qingfen, Mr. SHAO Qiang, Mr. WANG Tianqi, Mr. WANG Le, Ms. LIU Juan, Mr. YOU Xiang, Mr. YAO Hongbo and Ms. SUO Jia; and 1 secretary to the Board, namely Mr. ZHANG Ke.

2. Changes in the Information of Directors, Supervisors and Senior Management

During the Reporting Period, Ms. PANG Hong, an independent non-executive Director of the Bank, was appointed as an external supervisor of Bank of Kunlun Corporation Limited, and Mr. CHAN Ngai Sang Kenny, an independent non-executive Director, was appointed as an independent non-executive director of Jinshang Bank Co., Ltd.

¹ The Bank has adopted the code provisions set out in Part II of the Corporate Governance Code. Pursuant to code provision B.2.2, every Director (including Directors appointed for a specific term) should be subject to retirement by rotation at least once every three years. The term of three years of the second session of the Board of Directors and the Board of Supervisors has expired. Given that the re-election of the Board of Directors and the Board of Supervisors of the Bank is still in progress, in order to maintain the continuity of the work of the Board of Directors and the Board of Supervisors of the Bank, the terms of the second session of the Board of Directors and the Board of Supervisors of the Bank need to be extended for the purpose of carrying out the relevant re-election work. At the same time, the terms of office of the members of the special committees of the Board of Directors and the Board of Supervisors of the Bank are correspondingly extended. The Bank will publish an announcement and circular containing details of the candidates for the new session of the Board of Directors and Board of Supervisors as soon as practicable.

V. Directors, Supervisors, Senior Management and Employees

3. Changes of Directors, Supervisors and Senior Management during the Reporting Period

3.1 Changes of Directors

The qualification of Mr. WANG Jiong as the vice chairman of the Board was approved by the former China Banking and Insurance Regulatory Commission Henan Office on January 18, 2023. For more details, please refer to the Bank's announcement dated January 20, 2023.

On April 6, 2023, Mr. XU Nuojin, an executive Director and the chairman of the Board of the Bank, tendered his resignation to the Board and resigned as an executive Director, the chairman of the Board and the chairman of the Strategy and Development Committee of the Board of the Bank due to change of work arrangement with effect from April 6, 2023. For more details, please refer to the Bank's announcement dated April 6, 2023.

On April 14, 2023, the Bank held the 47th meeting of the second session of the Board, which proposed to appoint Mr. GUO Hao as an executive Director of the second session of the Board. On May 8, 2023, the Bank held the 2023 first extraordinary general meeting, which elected Mr. GUO Hao as an executive Director of the second session of the Board. On May 15, 2023, the Bank held the 48th meeting of the second session of the Board, which elected Mr. GUO Hao as the chairman of the Board and the chairman of the Strategy and Development Committee of the Bank. The qualifications of Mr. GUO Hao as a Director and the chairman of the Board were approved by the former China Banking and Insurance Regulatory Commission Henan Office on May 12, 2023 and June 12, 2023, respectively. For more details, please refer to the Bank's announcements dated April 14, 2023, May 8, 2023, May 12, 2023, May 15, 2023 and June 12, 2023 and circular dated April 14, 2023.

3.2 Changes of Supervisors

On January 3, 2023, Ms. JIA Jihong (賈繼紅), the vice chairwoman of the Board of Supervisors of the Bank, resigned as the vice chairwoman of the Board of Supervisors, an employee representative Supervisor and a member of each of the Nomination Committee of the Board of Supervisors and the Supervision Committee of the Board of Supervisors due to personal health reasons with effect from January 3, 2023. For more details, please refer to the Bank's announcement dated January 3, 2023.

On February 22, 2023, Ms. LI Weizhen (李偉真), a Supervisor of the Bank, resigned as a Supervisor and a member of the Supervision Committee of the Board of Supervisors due to her work adjustment with effect from February 22, 2023. For more details, please refer to the Bank's announcement dated February 22, 2023.

On June 20, 2023, Mr. Li Wanbin, a Supervisor of the Bank, resigned as a Supervisor and a member of the Supervision Committee of the Board of Supervisors as he intended to focus on other personal work commitments, with effect from June 20, 2023. For more details, please refer to the Bank's announcement dated June 20, 2023.

On July 21, 2023, at the second meeting of the third session of the meeting of employee representatives of the Bank, Ms. DAN Limin was elected as an employee Supervisor of the second session of the Board of Supervisors. For more details, please refer to the Bank's announcement dated July 21, 2023.

V. Directors, Supervisors, Senior Management and Employees

3.3 Changes of the Senior Management

The qualification of Mr. LIU Kai as the president of the Bank was approved by the former China Banking and Insurance Regulatory Commission Henan Office on January 18, 2023. For more details, please refer to the Bank's announcement dated January 20, 2023.

3.4 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Bank with terms no less exacting than those of the Model Code, for the relevant employees (as defined in the Hong Kong Listing Rules). The Bank has made specific enquiries with all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with during the Reporting Period. Having made specific enquiries with the relevant employees regarding their compliance with the guidelines of dealing in securities of the Bank, the Bank is not aware of any non-compliance with the guidelines.

4. Interests and Short Positions of Directors, Supervisors and Chief Executives in Shares, Underlying Shares and Debentures

As at June 30, 2023, none of the Directors, Supervisors and chief executives of the Bank have any interests or short positions which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

5. Employees' Remuneration Policies and Training Programs

5.1 Information of Employees

As at June 30, 2023, we had 19,119 employees in total, of which 2,069 employees at our head office and 17,050 employees at our branches and sub-branches (including direct sub-branches). We had 556 dispatched labor staff, who normally held non-key positions in the Bank. As at June 30, 2023, 16,254 employees or 85% of the total employees had bachelor's degrees or above, with an average age of 37.4. There were 9,629 male employees (accounting for approximately 50.40% of the total employees) and 9,490 female employees (accounting for approximately 49.60% of the total employees) overall in the Bank with reasonable gender structure.

V. Directors, Supervisors, Senior Management and Employees

5.2 Remuneration Policies

The remuneration management of the Bank adheres to the employee-centered, efficiency-oriented and performance-based principles with due consideration to fairness. According to the relevant laws and regulations and industry regulatory requirements, the remuneration structure has been designed based on the concept of paying for capabilities, responsibilities and contributions (為能力付薪、為責任付薪、為貢獻付薪), and a sound remuneration management system and a scientific and reasonable incentive and restraint mechanism have been established.

The Bank gave full play to the guiding role of remuneration in operation and risk management and control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints, the Bank implemented deferred payment of performance-based remuneration for applicable personnel, and improved the management measures of relevant performance recovery and deduction, so as to further promote the senior management and employee's stable operation and sustainable long-term development of the Bank.

The relevant remuneration management system of the Bank should be submitted to the Party Committee of the Bank, Employees' Representative Meeting, Nomination and Remuneration Committee under the Board and the Board of Directors for review. The Bank did not have any share schemes or employee share ownership plan during the Reporting Period.

5.3 Training Programs

Adhering to its talent-driven growth strategy, the Bank links the value of talents with the future development of the Bank together and sets the goal of "building a strong talent pool and realizing talent-driven growth". Focusing on "One Platform, One Base, Two Systems, Three Transformations and Four Services" (一個平台、一個基地、兩大體系、三個轉變、四個服務), the Bank built a category-based, professional and digitalized training system. Adopting a diversified training system which combines on-line and off-line trainings together and combines external and internal trainings together, the Bank provided various trainings to its employees of different hierarchies, categories and levels. During the Reporting Period, the Bank held a total of 64 level 1 training sessions with a total of 29,600 participants; 18 branches held 434 level 2 training sessions with a total of 55,900 participants; 369 persons from 22 departments of the head office attended external open classes. Over 3,200 online courses were provided through on-line learning platforms, the total number of courses attended by the trainees reached 5,130,000 and the total learning time reached 770,000 hours. Over 1,100 on-line examinations were held, and the number of examinations taken by the trainees reached 580,000.

The Bank strives to build a distinctive training brand and has formed the "Leading Plan" and "Voyage Plan" for management personnel, the "Sailing Plan" for new employees, the "Gold Mining Plan" and "Special Force Plan" for outstanding employees, and the "Spark Plan" for internal trainers. The Bank advocates the combination of internal training and employee self-learning, encourages employees to use fragmented spare time to obtain external qualifications and certificates according to the business knowledge updating requirements, broadens the career development path of employees, and improves the initiative of employee to learn. By identifying key positions, ensuring that key positions are offered to outstanding talents, and adopting differentiated "selection, use, cultivation, retention, and remuneration" management methods, the Bank strives to maximize the value and potential of the employees, provide talent support for building a first-class bank, and lay a talent foundation for its long-term development.

V. Directors, Supervisors, Senior Management and Employees

6. Basic Information of Institutions under the Bank

As of June 30, 2023, the Bank had 18 branches and 2 directly affiliated branches, with a total of 705 business outlets. Among them, there are 435 urban branches; 170 county branches; 78 township sub-branches; 20 community branches and 2 small and micro branches.

No.	Region	Name of Branch	Business Address	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No.23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou branch	No.6, Fengyi Road, Jinshui District, Zhengzhou City, Henan Province	In charge of one business department, 62 sub-branch institutions
3	Luoyang, Henan	Luoyang branch	Intersection of Kaiyuan Avenue and Tongji Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 89 sub-branch institutions
4	Kaifeng, Henan	Kaifeng branch	No.246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department, 29 sub-branch institutions
5	Xinyang, Henan	Xinyang branch	Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 34 sub-branch institutions
6	Anyang, Henan	Anyang branch	Northwest Corner, Intersection of Wenfeng Avenue and Guangming Road, Wenfeng District, Anyang City, Henan Province	In charge of one business department, 27 sub-branch institutions
7	Hebi, Henan	Hebi branch	Finance Centre, Northeast Corner, Intersection of Qishui Avenue and Chaoge Road, Qibin District, Hebi City, Henan Province	In charge of one business department, 15 sub-branch institutions
8	Luohe, Henan	Luohe branch	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 17 sub-branch institutions
9	Nanyang, Henan	Nanyang branch	Diyuan Garden, No.1 Zhongzhou East Road, Wancheng District, Nanyang City, Henan Province	In charge of one business department, 50 sub-branch institutions
10	Pingdingshan, Henan	Pingdingshan branch	No.7, Yaodian Avenue, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department, 66 sub-branch institutions
11	Puyang, Henan	Puyang branch	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department, 23 sub-branch institutions
12	Sanmenxia, Henan	Sanmenxia branch	No.2 Commercial Street South, Yingbin Avenue West, Central Business District, Sanmenxia City, Henan Province	In charge of one business department, 39 sub-branch institutions
13	Shangqiu, Henan	Shangqiu branch	No.195, Wenhua Road, Suiyang District, Shangqiu City, Henan Province	In charge of one business department, 48 sub-branch institutions
14	Xinxiang, Henan	Xinxiang branch	No.599, Pingyuan Road, Xinxiang City, Henan Province	In charge of one business department, 34 sub-branch institutions
15	Xuchang, Henan	Xuchang branch	East Jianan Avenue, Xuchang City, Henan Province	In charge of one business department, 32 sub-branch institutions
16	Zhoukou, Henan	Zhoukou branch	Changjian MOCO New World Business Office Building, Intersection of Qingfeng East Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department, 29 sub-branch institutions
17	Zhumadian, Henan	Zhumadian branch	No.168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department, 39 sub-branch institutions
18	Jiaozuo, Henan	Jiaozuo branch	No.1, Yingbin Road, Jiaozuo City, Henan Province	In charge of one business department, 49 sub-branch institutions
19	Jiyuan, Henan	Jiyuan branch	No.481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department, 3 sub-branch institutions

VI. Corporate Governance

1. Compliance with the Corporate Governance Code

Save for the deviation from code provision B.2.2 disclosed in “Chapter V Directors, Supervisors, Senior Management and Employees – 1. Existing Directors, Supervisors and Senior Management” of this report, the Bank has been in compliance with all the code provisions as stated in the Part 2 of Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, and most of the recommended best practices have been adopted by the Bank during the Reporting Period.

2. Information Regarding the Convening of the Shareholders’ General Meetings

The Bank held two Shareholders’ general meetings during the Reporting Period.

On May 8, 2023, in Zhengzhou, Henan, the Bank held the 2023 first extraordinary general meeting, which considered and approved the “Resolution on Electing of Mr. Guo Hao (郭浩) as an Executive Director of the Second Session of the Board of Zhongyuan Bank Co., Ltd.”.

On June 16, 2023, the Bank held the 2022 Annual General Meeting in Zhengzhou, Henan, at which proposals were considered and approved, including “Proposal on the Work Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2022”, “Proposal on the Work Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2022”, “Proposal on the Final Account Report of Zhongyuan Bank Co., Ltd. for 2022”, “Proposal on Profit Distribution Plan of Zhongyuan Bank Co., Ltd. for 2022” and “Proposal on Amendments to the Articles of Association of Zhongyuan Bank Co., Ltd.”.

3. Information Regarding the Convening of Meetings of the Board of Directors and its Special Committees

During the Reporting Period, three meetings of the Board of Directors were held, at which 82 items of business were heard or considered; the Strategic Development Committee of the Board of Directors met twice and heard or considered 19 items of business; the Related Party Transactions Control Committee of the Board of Directors met twice and heard or considered 6 items of business; the Consumer Rights Protection Committee of the Board of Directors met twice and heard or considered 6 items of business; the Risk Management Committee of the Board of Directors met twice and heard or considered 22 items of business; the Nomination and Remuneration Committee of the Board of Directors met 3 times and heard or considered 13 items of business; and the Audit Committee of the Board of Directors met twice and heard or considered 16 items of business.

4. Information Regarding the Convening of Meetings of the Board of Supervisors and its Special Committees

During the Reporting Period, two meetings of the Board of Supervisors were held, at which 56 items of business were heard or considered, and two meetings of the Supervisory Committee of the Board of Supervisors were held, at which 29 items of business were heard or considered. The Nomination Committee of the Board of Supervisors held three meetings, at which 10 items of business were considered.

5. Public Float

Based on the public information available to the Bank and so far as our Directors concerned, as of the date of this report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank’s listing.

VI. Corporate Governance

6. Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

The Bank continues to implement and optimize the defense mechanism comprising of three lines for internal control. The first line of defense for internal control consists of various branches and operating units, which have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, the business examination, the reporting of control deficiencies and the implementation of rectification measures. The second line of defense for internal control consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense for internal control consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank, following on the principle of "prudential operation with risk-based supervision", continued to improve internal control compliance and enhance the effectiveness of management tools for operational risks, optimize and upgrade the information integration system for internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to optimize its regulatory framework by establishing a three-tier system comprising basic norms, administrative measures and operational rules. The Bank had established a mechanism to assess internal control system and continued to modify and improve its internal control system in accordance with the changing requirements of the external laws and regulations and the regulatory requirements, to ensure compliance with external laws and regulations and regulatory requirements, and to provide a basis and support for the Bank's operational management, business operations and effective risk prevention and control.

The Bank continues to promote the culture building of internal control compliance and actively organized compliance training courses and campaigns for all of its staff, with a view to refining its long-term policy on compliance education, and further enhance the effectiveness of its internal control system through continuously organizing case study discussions, compliance speech competitions and special trainings on compliance and campaigns in different levels.

VII. Important Events

1. Use of Proceeds

As of June 30, 2023, the Bank has entered into the convertible negotiated deposit agreement (the “**Agreement**”) with Zhengzhou Finance Bureau as designated by Finance Department of Henan Province, and has received RMB8 billion from Zhengzhou Finance Bureau in the form of convertible negotiated deposit, which has been fully used to replenish other tier-one capital. For details, please refer to the announcement of the Bank dated on February 6, 2023.

On June 9, 2022, the Bank publicly issued special financial bonds for small and micro enterprises in the national inter-bank bond market, with an issuance size of RMB2.0 billion, an issue price of RMB100, a term of three years, and a coupon rate of 2.9%. The raised funds will be used to support small and micro enterprise credit loans and provide financial services for small and micro enterprises in accordance with applicable laws and the approval of the regulatory authorities. Please refer to the announcement of the Bank dated June 9, 2022 for details.

On May 12, 2022, the Bank publicly issued financial bonds in the national inter-bank bond market, with an issuance size of RMB3 billion, an issue price of RMB100, a term of three years, and a coupon rate of 2.95%. The raised funds will be used to support the ecological protection and high-quality development of the Yellow River Basin in accordance with applicable laws and the approval of the regulatory authorities, including credit supply in areas such as ecological protection, pollution prevention, efficient use of water resources, high-quality development, and cultural tourism. Please refer to the announcement of the Bank dated May 12, 2022 for details.

On May 10, 2022, the Bank issued 3.150 billion new H Shares, the total gross proceeds raised from the H Share Placement were approximately HK\$5,670 million and the net proceeds (after deducting any commission and relevant expenses) from the H Share Placement were approximately HK\$5,667 million. The net proceeds from the H Share Placement will be entirely used to replenish core tier-one capital of the Bank. Please refer to the announcement of the Bank dated May 10, 2022 for details.

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. For details of the use of proceeds from this issue of preference shares, please refer to “Changes in Share Capital and Information on Shareholders – 9.1 The Issuance and Listing of Offshore Preference Shares”.

2. Profits and Dividends

During the Reporting Period, the Board has not made any proposal on the payment of an interim dividend for the six months ended June 30, 2023. As approved at the Board meeting of the Bank on March 31, 2023, it is proposed that no final dividend for 2022 be declared to all Shareholders. Such proposal for no distribution of dividend has been approved at the Bank’s 2022 annual general meeting held on June 16, 2023.

VII. Important Events

3. Material Connected Transactions

The Bank conducted Merger by Absorption in 2022, which constitutes a very substantial acquisition. Zhongyuan Trust Co., Ltd. (中原信託有限公司) (“**Zhongyuan Trust**”, as one of converting shareholders) is a non-wholly owned subsidiary of Henan Investment Group Co., Ltd. (河南投資集團有限公司) (a substantial shareholder of the Bank), and Henan Tianli Energy Co., Ltd. (河南天利能源股份有限公司) (“**Henan Tianli**”, as one of converting shareholders) is a company effectively controlled by Mr. LI Wanbin (a former supervisor of the Bank, who resigned in June 2023), and therefore, Zhongyuan Trust and Henan Tianli are both connected persons of the Bank pursuant to the Hong Kong Listing Rules. Pursuant to the scheme of the Merger by Absorption, the Bank issued approximately 437,582,850 Domestic Shares to Zhongyuan Trust and approximately 120,068,000 Domestic Shares to Henan Tianli. The Merger by Absorption constituted a connected transaction of the Bank under Chapter 14A of the Hong Kong Listing Rules. For further details, please refer to the announcements of the Bank dated January 26, 2022, March 10, 2022 and June 20, 2023 and the circular of the Bank dated February 17, 2022.

4. Material Litigations and Arbitrations

As at June 30, 2023, the litigation cases in which the Bank was the defendant involved a total amount of RMB1,624.66 million and HK\$27.29 million.

4.1 Dispute in relation to equity transfer of Nanyang Branch of Zhongyuan Bank

The plaintiff of the case filed a lawsuit against Nanyang Branch of Zhongyuan Bank as the defendant for the dispute over equity transfer, and demanded compensation from Nanyang Branch of Zhongyuan Bank for its principal and interest. In the first instance, Nanyang Branch of Zhongyuan Bank was sentenced to pay the plaintiff RMB26.00 million and interest. Henan High People’s Court rejected the plaintiff’s claim in the second instance, and the Bank won the suit. The plaintiff filed an application for retrial. On May 29, 2023, Henan High People’s Court ruled against the plaintiff’s application for retrial. The case has been closed.

4.2 Dispute in relation to equity pledge guarantee of Zhongyuan Bank

The plaintiff of the case filed a lawsuit against Zhongyuan Bank as the defendant, requesting a denial of the validity of the guarantee contract and return of the proceeds from the disposal of the equity interest of approximately HK\$27.29 million in total, due to the dispute arising from the disposal by the Bank of the shares pledged by the plaintiff. The case has been filed in the High Court of Hong Kong and currently is pending for judgment.

4.3 Property damages dispute of Jiaozuo Branch of Zhongyuan Bank

The plaintiff of the case incurred losses in the criminal case involving bill fraud and believed that Jiaozuo Branch of Zhongyuan Bank (the former Jiaozuo Bank of China Travel Service) was at fault and should jointly compensate for the principal and corresponding interest losses totaling approximately RMB1,187.71 million with other defendants. On November 29, 2022, Zhengzhou Intermediate People’s Court has rejected the plaintiff’s claim at the first instance, and the Bank won the lawsuit. The case has been heard in the second instance of Henan High People’s Court, and currently is pending for judgment of second instance.

VII. Important Events

4.4 Dispute in relation to property preservation and damage liability of Xuchang Branch of Zhongyuan Bank

The plaintiff of the case requested Xuchang Branch of Zhongyuan Bank to undertake the total property loss of approximately RMB140.87 million, for the losses as a result of wrong property preservation and other infringement mistakes in loan recovery by Xuchang Branch of Zhongyuan Bank. The case currently is pending for judgment of first instance.

4.5 Contract dispute of Jiaozuo Branch of Zhongyuan Bank

The plaintiff of the case requested Jiaozuo Branch of Zhongyuan Bank (the former Jiaozuo Bank of China Travel Service) to pay its on-lending fund and fund occupation fee totaling approximately RMB23.45 million as the customer of Jiaozuo Branch of Zhongyuan Bank (the former Jiaozuo Bank of China Travel Service) used its emergency on-lending fund to repay the loan of Jiaozuo Branch of Zhongyuan Bank (the former Jiaozuo Bank of China Travel Service) and failed to repay the emergency on-lending funds in full on schedule due to poor post-lending supervision of Jiaozuo Branch of Zhongyuan Bank (the former Jiaozuo Bank of China Travel Service), resulting in losses to the plaintiff. The case currently is pending for judgment of first instance.

4.6 Dispute in relation to entrusted construction contract of Zhoukou Branch of Zhongyuan Bank

The plaintiff of the case requested Zhoukou Branch of Zhongyuan Bank (formerly Zhoukou City Credit Cooperative) to compensate the expenses and losses borne by it of approximately RMB110.91 million due to the fact that Zhoukou Branch of Zhongyuan Bank (formerly Zhoukou City Credit Cooperative) entrusted the plaintiff to build an employee residential quarter in 2004, and still owed the land payment, tax, overdue fine and fine, and the construction cost of the project. The case currently is pending for judgment of first instance.

4.7 Dispute in relation to debt transfer contract of Zhengzhou Branch of Zhongyuan Bank

The plaintiff of the case requested Zhengzhou Branch of Zhongyuan Bank to repay the debt transfer price and the fund occupation fee totaling RMB45.15 million as the plaintiff signed a debt transfer agreement and entrusted management agreement with the former Zhengzhou Branch of Bank of Luoyang in respect of two non-performing debts, and the former Zhengzhou Branch of Bank of Luoyang did not perform the obligations as agreed in the agreements, resulting in losses to the plaintiff. The case currently is pending for judgment of first instance.

4.8 Litigation against Lushi Zhongyuan County Bank in relation to alleged lending and borrowing

The plaintiff of the case filed a lawsuit against Lushi Zhongyuan County Bank as defendant for alleged lending and borrowing, requesting Lushi Zhongyuan County Bank to repay the principal and interest of the borrowing of approximately RMB45.50 million. After the Henan High People's Court rejected the plaintiff's claim in the second judgement, the plaintiff applied to the Supreme People's Court for a retrial, and the Supreme People's Court ruled and directed the Henan High People's Court to hear the case. The case has been heard on July 14, 2022, and currently is pending for judgment.

VII. Important Events

5. Penalties for the Bank and its Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank, its Directors, Supervisors and senior management had been subject to any material administrative penalty by the regulatory authorities that would affect the Bank's normal operations.

6. Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

The Bank's major Shareholders, their related parties and persons acting in concert have issued to the Bank a statement on the conditions and requirements for investment in the Bank, a statement on the equity relationship, a statement on the tax situation, a statement on the purpose of the shareholding and the source of funds, a statement on non-occurrence of noncompliance related party transactions, a statement on non-significant violations, a statement on the authenticity of materials, a statement on compliance holdings, and a statement on equity status and shareholder performance. They have also made commitments on compliance with laws and regulations, the Bank's Articles of Association and other relevant provisions, legal exercise of rights and performance of obligations and other matters.

7. Material Contracts and their Performance

No material contracts (including provision of relevant services) in relation to the Bank's business to which the Bank or its subsidiaries was a party and in which any of the Directors, Supervisors or members of its management had a material interest, whether directly or indirectly, subsisted during the Reporting Period.

8. Significant Investment, Acquisitions and Disposals of Assets and Business Mergers

No significant investment, acquisitions and disposals of assets and business mergers has occurred during the Reporting Period.

In 2022, the Bank entered into the Merger by Absorption agreement with Bank of Luoyang, Bank of Pingdingshan and Jiaozuo Bank of China Travel Service, all of which were target banks, and merged the target banks in accordance with the Company Law of the PRC (《中華人民共和國公司法》) and other applicable laws of China. On May 25, 2022, the Merger by Absorption of Bank of Luoyang, Bank of Pingdingshan and Jiaozuo Bank of China Travel Service by the Bank was approved by the former CBIRC. As of the date of this report, the Company is still dealing with the change of the registration particulars. For details, please refer to the announcements of the Bank dated January 26, 2022, March 10, 2022 and May 25, 2022 and the circular dated February 17, 2022.

9. Replenishment of Other Tier-one Capital through a Convertible Negotiated Deposit

The Bank held an extraordinary general meeting, the H shareholders' class meeting and the domestic shareholders' class meeting on November 11, 2022, and reviewed and approved the Bank's replenishment of other tier-one capital through a convertible negotiated deposit.

VII. Important Events

As of June 30, 2023, the Bank has entered into the Agreement with Zhengzhou Finance Bureau as designated by the Finance Department of Henan Province, and received a convertible negotiated deposit of RMB8 billion from Zhengzhou Finance Bureau, all of which has been used to replenish other tier-one capital of the Bank. As of June 30, 2023, the conditions for conversion set out in the Agreement were not satisfied, and the Bank has not issued any shares in accordance with the Agreement. Please refer to the Bank's announcements dated September 29, 2022 and February 6, 2023 and circular dated October 5, 2022 for details on replenishing other tier-one capital with convertible negotiated deposit.

10. Implementation of Share Schemes during the Reporting Period

During the Reporting Period, the Bank had not implemented any share schemes.

11. Appointment and Dismissal of Auditors

After consideration and approval in the 2022 annual general meeting convened on June 16, 2023, the Bank re-appointed KPMG Huazhen LLP and KPMG as our domestic and international auditors in 2023, respectively, with the term of office till the end of the next annual general meeting of the Bank.

12. Events after the End of the Reporting Period

On August 15, 2023, the Bank issued the 2023 Undated Capital Bonds of Zhongyuan Bank Co., Ltd. (the First Tranche) in China national inter-bank bond market, with an issuance size of RMB10 billion, and a coupon rate of 4.6% for the first 5 years, which will be reset every 5 years, and the issuer shall have conditional redemption right on every dividend payment date from the fifth year onwards. The proceeds from the issuance of undated capital bonds will be used to replenish the Bank's additional tier-one capital in accordance with applicable laws and approvals from regulatory authorities. Please refer to the Bank's announcements dated August 5, 2022, August 25, 2022, July 11, 2023 and August 15, 2023 for details.

Save as disclosed above, as of the date of this interim report, there are no significant subsequent events that need to be disclosed.

13. Review of the Interim Report

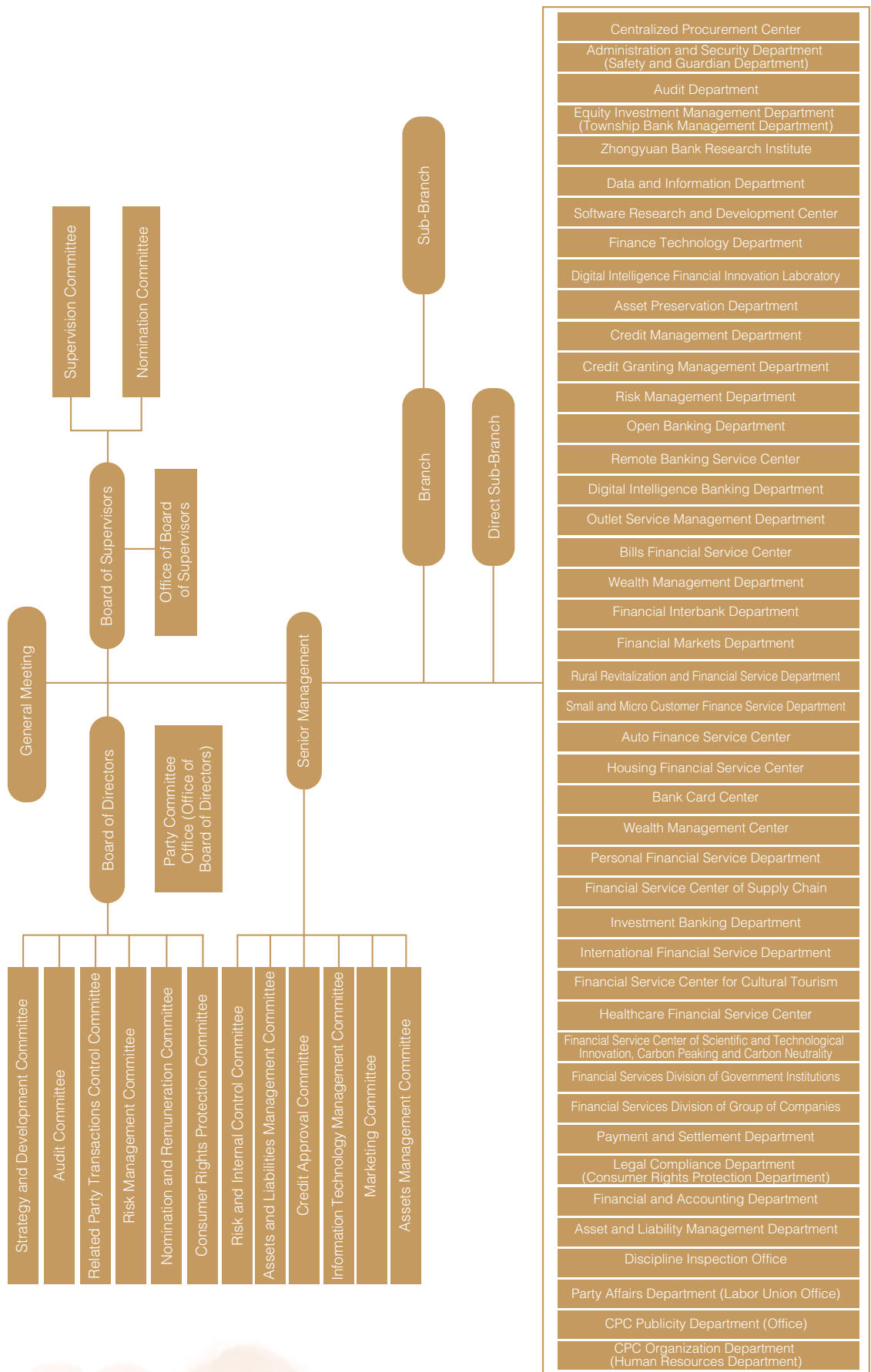
The interim financial statements disclosed in this report have not been audited. KPMG has reviewed the interim financial statements of the Bank for the six months ended June 30, 2023, which were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, pursuant to the Hong Kong Standards on Review Engagements.

On August 29, 2023, the audit committee has reviewed and confirmed the interim results announcement of the Group for the six months ended June 30, 2023, the 2023 interim report and the unaudited interim financial statements for the six months ended June 30, 2023 prepared in accordance with the requirements of the International Accounting Standards.

14. Interim Results

The interim results announcement of the Group for the six months ended June 30, 2023 has been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Bank's website (www.zybank.com.cn) on August 30, 2023.

VIII. Organizational Structure



IX. Review Report to the Board of Directors

Review report to the board of directors of Zhongyuan 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 report set out on page 86 to 179 which comprises the consolidated statement of financial position of Zhongyuan Bank Co., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) as at June 30, 2023 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion 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 the 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 report 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial report as at June 30, 2023 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
August 30, 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2023 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30,	
		2023	2022
Interest income		25,113,717	17,136,648
Interest expense		(14,220,830)	(8,759,537)
Net interest income	4	10,892,887	8,377,111
Fee and commission income		1,679,655	1,349,280
Fee and commission expense		(666,268)	(354,796)
Net fee and commission income	5	1,013,387	994,484
Net trading gains	6	597,675	558,061
Net gains arising from investment securities	7	842,958	416,616
Other operating income	8	204,292	60,943
Operating income		13,551,199	10,407,215
Operating expenses	9	(4,406,597)	(3,324,347)
Impairment losses on assets	10	(7,013,173)	(5,071,861)
Share of gains of joint venture		81,714	142,596
Profit before tax		2,213,143	2,153,603
Income tax	11	(151,223)	(14,436)
Net profit for the period		2,061,920	2,139,167
Net profit attributable to:			
Equity shareholders of the Bank		2,002,020	2,093,295
Non-controlling interests		59,900	45,872
Profit for the period		2,061,920	2,139,167
Basic and diluted earnings per share (in RMB)	12	0.05	0.09

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2023 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30,	
		2023	2022
Net profit for the period		2,061,920	2,139,167
Other comprehensive income			
<i>Other comprehensive income net of tax attributable to equity shareholders of the Bank</i>			
Items that may be reclassified subsequently to profit or loss:			
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	35(d)(i)	448,211	655,977
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	35(d)(ii)	(17,274)	(970,602)
Items that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	35(d)(iii)	(14,823)	51
<i>Other comprehensive income net of tax attributable to non-controlling interests</i>		3,988	(2,074)
Other comprehensive income, net of tax		420,102	(316,648)
Total comprehensive income		2,482,022	1,822,519
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,418,134	1,778,721
Non-controlling interests		63,888	43,798
Total comprehensive income		2,482,022	1,822,519

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Financial Position

at June 30, 2023 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2023	December 31, 2022
Assets			
Cash and deposits with the central bank	13	77,883,493	77,587,949
Deposits with banks and other financial institutions	14	24,723,860	21,186,979
Placements with banks and other financial institutions	15	15,154,424	30,768,528
Derivative financial assets	16	38,429	93,255
Financial assets held under resale agreements	17	55,570,382	65,217,612
Loans and advances to customers	18	703,711,856	666,892,425
Financial investments:	19		
Financial investments at fair value through profit or loss		53,094,919	35,752,312
Financial investments at fair value through other comprehensive income		91,302,850	94,427,751
Financial investments at amortised cost		242,181,114	243,257,466
Lease receivables	20	66,890,606	60,314,068
Interest in joint venture	21	1,429,021	1,347,307
Property and equipment	22	7,983,981	8,232,995
Deferred tax assets	23	10,377,208	10,205,981
Goodwill	24	1,982,050	1,982,050
Other assets	25	10,171,832	9,469,804
Total assets		1,362,496,025	1,326,736,482
Liabilities and equity			
Liabilities			
Borrowing from the central bank	27	53,804,353	42,660,996
Deposits from banks and other financial institutions	28	14,008,507	30,116,036
Placements from banks and other financial institutions	29	66,111,960	51,806,431
Derivative financial liabilities	16	324,548	562,679
Financial assets sold under repurchase agreements	30	77,191,683	101,706,083
Deposits from customers	31	896,088,498	845,257,154
Income tax payable		125,765	81,078
Debt securities issued	32	145,778,246	145,158,732
Other liabilities	33	13,089,899	15,752,749
Total liabilities		1,266,523,459	1,233,101,938

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Financial Position

at June 30, 2023 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2023	December 31, 2022
Equity			
Share capital	34	36,549,823	36,549,823
Other equity instruments	37	13,632,510	13,632,510
Reserves	35	36,378,954	35,962,840
Retained earnings	36	4,941,285	3,083,265
Total equity attributable to equity shareholders of the Bank		91,502,572	89,228,438
Non-controlling interests		4,469,994	4,406,106
Total equity		95,972,566	93,634,544
Total liabilities and equity		1,362,496,025	1,326,736,482

Approved and authorised for issue by the board of directors on August 30, 2023.

Guo Hao

*Chairman of the Board of Directors
Executive Director*

Liu Kai

*President
Executive Director*

Wang Le

*President Assistant in charge of
accounting affairs*

Tong Qi

*General Manager of the Planning and
Finance Department*

(Company chop)

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2023 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank								Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Sub-total		
Balance at December 31, 2022 and January 1, 2023	36,549,823	13,632,510	19,345,395	2,804,300	13,793,926	19,219	3,083,265	89,228,438	4,406,106	93,634,544
Changes in equity for the period:										
Net profit for the period	-	-	-	-	-	-	2,002,020	2,002,020	59,900	2,061,920
Other comprehensive income	-	-	-	-	-	416,114	-	416,114	3,988	420,102
Total comprehensive income	-	-	-	-	-	416,114	2,002,020	2,418,134	63,888	2,482,022
Cash interests on perpetual bond	-	-	-	-	-	-	(144,000)	(144,000)	-	(144,000)
Balance at June 30, 2023	36,549,823	13,632,510	19,345,395	2,804,300	13,793,926	435,333	4,941,285	91,502,572	4,469,994	95,972,566

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2023 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

Attributable to equity shareholders of the Bank

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at December 31, 2021 and January 1, 2022	20,075,000	9,632,791	14,317,981	2,424,709	9,705,709	343,885	4,710,067	61,210,142	1,169,490	62,379,632
Changes in equity for the period:										
Net profit for the period	-	-	-	-	-	-	2,093,295	2,093,295	45,872	2,139,167
Other comprehensive income	-	-	-	-	-	(314,574)	-	(314,574)	(2,074)	(316,648)
Total comprehensive income	-	-	-	-	-	(314,574)	2,093,295	1,778,721	43,798	1,822,519
Issuance of H shares	3,150,000	-	1,696,208	-	-	-	-	4,846,208	-	4,846,208
Issuance of shares for merger by absorption	13,324,823	-	3,331,206	-	-	-	-	16,656,029	-	16,656,029
Arising from merger by absorption	-	3,999,719	-	-	-	-	-	3,999,719	2,907,658	6,907,377
Cash dividends on common shares	-	-	-	-	-	-	-	-	(1,439)	(1,439)
Cash interests on perpetual bond	-	-	-	-	-	-	(144,000)	(144,000)	-	(144,000)
Balance at June 30, 2022	36,549,823	13,632,510	19,345,395	2,424,709	9,705,709	29,311	6,659,362	88,346,819	4,119,507	92,466,326

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2023 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to equity shareholders of the Bank							Sub-total	Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other reserves	Retained earnings			
Balance at June 30, 2022 and July 1, 2022	36,549,823	13,632,510	19,345,395	2,424,709	9,705,709	29,311	6,659,362	88,346,819	4,119,507	92,466,326
Changes in equity for the period:										
Net profit for the period	-	-	-	-	-	-	1,556,876	1,556,876	129,079	1,685,955
Other comprehensive income	-	-	-	-	-	(10,092)	-	(10,092)	3,197	(6,895)
Total comprehensive income	-	-	-	-	-	(10,092)	1,556,876	1,546,784	132,276	1,679,060
Acquisition of subsidiary	-	-	-	-	-	-	-	-	236,086	236,086
Appropriation to surplus reserve	-	-	-	379,591	-	-	(379,591)	-	-	-
Appropriation to general reserve	-	-	-	-	4,088,217	-	(4,088,217)	-	-	-
Cash dividends on common shares	-	-	-	-	-	-	-	-	(81,763)	(81,763)
Cash dividends on preference shares	-	-	-	-	-	-	(617,165)	(617,165)	-	(617,165)
Cash interests on perpetual bond	-	-	-	-	-	-	(48,000)	(48,000)	-	(48,000)
Balance at December 31, 2022	36,549,823	13,632,510	19,345,395	2,804,300	13,793,926	19,219	3,083,265	89,228,438	4,406,106	93,634,544

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Cash Flow Statement

for the six months ended June 30, 2023 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2023	2022
Cash flows from operating activities		
Profit before tax	2,213,143	2,153,603
Adjustments for:		
– Impairment losses on assets	7,013,173	5,071,861
– Depreciation and amortization	882,053	559,271
– Depreciation of investment properties	1,597	369
– Unrealized foreign exchange gains	(844,585)	(1,153,392)
– Net gains on disposal of property and equipment	(2,406)	(22,673)
– Net trading gains	(134,058)	(81,947)
– Net losses arising from fair value of derivatives	2,380	169,106
– Net gains on disposal of investment securities	(842,958)	(416,616)
– Share of gains of joint venture	(81,714)	(142,596)
– Interest expense on debts securities issued	1,967,774	1,517,458
– Interest expense on lease liabilities	25,704	24,854
	10,200,103	7,679,298
<i>Changes in operating assets</i>		
Net increase in deposits with the central bank	(353,741)	(649,729)
Net increase in deposits and placements with banks and other financial institutions	(3,297,561)	(10,671,443)
Net increase in financial assets held for trading	(10,780,045)	(118,040)
Net increase in loans and advances to customers	(40,829,853)	(39,944,205)
Net increase in lease receivables	(6,911,917)	(2,696,715)
Net (increase)/decrease in other operating assets	(2,597,112)	12,979,461
	(64,770,229)	(41,100,671)

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Cash Flow Statement

for the six months ended June 30, 2023 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2023	2022
Cash flows from operating activities		
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowing from central bank	10,856,399	(601,842)
Net decrease in deposits from banks and other financial institutions	(16,050,675)	(15,454,708)
Net increase in placements from banks and other financial institutions	14,192,983	5,730,794
Net (decrease)/increase in financial assets sold under repurchase agreements	(24,487,479)	17,654,375
Net increase in deposits from customers	49,591,728	44,658,398
Net decrease in other operating liabilities	(964,277)	(2,754,582)
	33,138,679	49,232,435
Net cash flows (used in)/generated from operating activities before income tax paid	(21,431,447)	15,811,062
Income tax paid	(131,087)	(1,954,147)
Net cash flows (used in)/generated from operating activities	(21,562,534)	13,856,915
Cash flows from investing activities		
Cash and cash equivalents from merger by absorption	–	24,947,128
Proceeds from disposal and redemption of investments	208,051,913	162,445,731
Proceeds from disposal of property and equipment, intangible assets and other assets	187,475	26,571
Payments on acquisition of investments	(209,878,049)	(182,929,725)
Payments on acquisition of property and equipment, intangible assets and other assets	(544,023)	(370,334)
Net cash flows (used in)/generated from investing activities	(2,182,684)	4,119,371

The notes on pages 96 to 179 form part of these financial statements.

Consolidated Cash Flow Statement

for the six months ended June 30, 2023 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30,	
		2023	2022
Cash flows from financing activities			
Proceeds from issued shares		–	4,846,208
Proceeds from issued debt securities		133,179,175	100,451,358
Repayment of debts securities issued		(132,825,025)	(96,879,526)
Interest paid on debts securities issued		(1,702,411)	(1,332,700)
Dividends paid		(135,617)	(164,546)
Capital element of lease liabilities paid		(222,491)	(178,312)
Interest element of lease liabilities paid		(17,028)	(43,168)
Net cash flows (used in)/generated from financing activities		(1,723,397)	6,699,314
Effect of foreign exchange rate changes on cash and cash equivalents		414,928	620,287
Net (decrease)/increase in cash and cash equivalents	40(a)	(25,053,687)	25,295,887
Cash and cash equivalents as at January 1		125,893,084	71,891,805
Cash and cash equivalents as at June 30	40(b)	100,839,397	97,187,692
Interest received		24,947,551	18,292,077
Interest paid (excluding interest expense on debts securities issued)		(10,697,712)	(7,052,460)

The notes on pages 96 to 179 form part of these financial statements.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business (the "Business") was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities.

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license with unified social credit code 9141000031741675X6 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by National Financial Regulatory Administration authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 01216).

On May 25, 2022, the Bank received the approval for the merger by absorption of Bank of Luoyang Co., Ltd. ("Bank of Luoyang"), Bank of Pingdingshan Co., Ltd. ("Bank of Pingdingshan") and Bank of Jiaozuo China Travel Service Co., Ltd. ("Bank of JZCTS") from the former China Banking Insurance Regulatory Commission (the former "CBIRC") and completed the merger by absorption.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing and other financial services as approved by the former CBRC.

2 Basis of preparation

This interim financial report has 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 (the "IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Basis of preparation (Continued)

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG 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.

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

3 Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The changes in accounting policies are also expected to be reflected in the Group’s annual financial statements for the year ending December 31, 2023.

None of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	Six months ended June 30,	
	2023	2022
Interest income arising from		
Deposits with the central bank	380,587	263,830
Deposits with banks and other financial institutions	316,579	59,647
Placements with banks and other financial institutions	562,008	646,062
Loans and advances to customers		
– Corporate loans and advances	9,877,821	5,337,631
– Personal loans and advances	6,266,010	5,104,803
– Discounted bills	555,704	486,945
Financial assets held under resale agreements	372,535	199,446
Financial investments	4,753,203	3,723,475
Lease receivables	2,029,270	1,314,809
Sub-total	25,113,717	17,136,648
Interest expenses arising from		
Borrowing from the central bank	(601,411)	(603,487)
Deposits from banks and other financial institutions	(380,353)	(326,974)
Placements from banks and other financial institutions	(863,366)	(493,626)
Deposits from customers	(9,883,580)	(5,571,477)
Financial assets sold under repurchase agreements	(524,346)	(246,515)
Debts securities issued	(1,967,774)	(1,517,458)
Sub-total	(14,220,830)	(8,759,537)
Net interest income	10,892,887	8,377,111

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	Six months ended June 30,	
	2023	2022
Fee and commission income		
Underwriting fees	187,004	135,842
Wealth management business fees	316,029	477,722
Bank card services fees	376,794	337,690
Settlement and clearing services fees	381,596	149,044
Advisory and consulting fees	234,176	93,200
Acceptance and guarantee services fees	51,706	64,671
Agency services fees	122,723	87,019
Custodial services fees	9,627	4,092
Sub-total	1,679,655	1,349,280
Fee and commission expense	(666,268)	(354,796)
Net fee and commission income	1,013,387	994,484

6 Net trading gains

	Note	Six months ended June 30,	
		2023	2022
Net gains from debt securities	(a)	114,400	25,663
Net foreign exchange gains	(b)	486,176	495,957
Net (losses)/gains from interest rate swaps		(2,901)	36,441
Total		597,675	558,061

- (a) Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.
- (b) Net foreign exchange gains mainly included gains from foreign currency derivatives, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains arising from investment securities

	Note	Six months ended June 30,	
		2023	2022
Net gains of financial investments at fair value through profit or loss	(a)	427,928	70,379
Net gains of financial investments at fair value through other comprehensive income		210,489	346,243
Net gains of financial investments at amortised cost		204,564	–
Others		(23)	(6)
Total		842,958	416,616

(a) Net gains of financial investments at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

	Six months ended June 30,	
	2023	2022
Government grants	163,747	5,834
Rental income	6,195	3,308
Net gains on disposal of property and equipment	2,406	22,673
Others	31,944	29,128
Total	204,292	60,943

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	Six months ended June 30,	
	2023	2022
Staff costs		
– Salaries, bonuses and allowances	1,683,023	1,246,997
– Social insurance and annuity	467,750	303,477
– Staff welfares	74,358	158,837
– Housing allowances	197,733	133,742
– Employee education expenses and labor union expenses	87,222	27,354
– Supplementary retirement benefits	16,156	2,581
– Others	58,162	40,515
Sub-total	2,584,404	1,913,503
Office expenses	585,406	467,459
Depreciation and amortization	696,575	407,072
Depreciation charge for the right-of-use assets	185,478	152,199
Taxes and surcharges	179,152	109,433
Interest expense on lease liabilities	25,704	24,854
Other general and administrative expenses	149,878	249,827
Total	4,406,597	3,324,347

10 Impairment losses on assets

	Six months ended June 30,	
	2023	2022
Loans and advances to customers	4,127,636	4,430,450
Financial investments	1,520,531	656,420
Credit commitments	(3,169)	(319,434)
Others	1,368,175	304,425
Total	7,013,173	5,071,861

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Income tax

	Six months ended June 30,	
	2023	2022
Current tax	442,227	143,696
Deferred tax	(321,960)	(129,260)
Adjustment for prior years	30,956	–
Total	151,223	14,436

12 Basic and diluted earnings per share

	Note	Six months ended June 30,	
		2023	2022
Earnings:			
Net profit attributable to equity shareholders of the Bank		2,002,020	2,093,295
Less: Profit for the year attributable to other equity instruments holders of the Bank		(144,000)	(144,000)
Net profit attributable to ordinary shareholders of the Bank		1,858,020	1,949,295
Weighted average number of ordinary shares (in thousands)	(i)	36,549,823	22,820,804
Basic and diluted earnings per share attributable to ordinary shareholders of the Bank (in RMB)		0.05	0.09

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

(i) Weighted average number of ordinary shares (in thousands)

	Six months ended June 30,	
	2023	2022
Number of ordinary shares as at January 1	36,549,823	20,075,000
New added weighted average number of ordinary shares	–	2,745,804
Weighted average number of ordinary shares	36,549,823	22,820,804

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Cash and deposits with the central bank

	Note	June 30, 2023	December 31, 2022
Cash on hand		2,022,568	2,301,915
Deposits with the central bank			
– Statutory deposit reserves	(a)	43,419,413	42,493,783
– Surplus deposit reserves	(b)	31,823,107	31,600,103
– Fiscal deposits		590,470	1,162,359
Sub-total		75,832,990	75,256,245
Accrued interest		27,935	29,789
Total		77,883,493	77,587,949

(a) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at June 30, 2023 and December 31, 2022, the statutory deposit reserve ratios applicable to the Bank were as follows:

	June 30, 2023	December 31, 2022
Reserve ratio for RMB deposits	5.00%	5.25%
Reserve ratio for foreign currency deposits	6.00%	6.00%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	June 30, 2023	December 31, 2022
Deposits in mainland China		
– Banks	10,137,153	7,987,995
– Other financial institutions	3,438,952	1,376,672
Sub-total	13,576,105	9,364,667
Deposits outside mainland China		
– Banks	10,777,857	11,671,928
Total	24,353,962	21,036,595
Accrued interest	374,551	157,603
Less: Provision for impairment losses	(4,653)	(7,219)
Net carrying amount	24,723,860	21,186,979

15 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	June 30, 2023	December 31, 2022
Placements in mainland China		
– Banks	230,843	1,023,936
– Other financial institutions	14,644,958	26,944,958
Sub-total	14,875,801	27,968,894
Placements outside mainland China		
– Banks	–	2,298,318
Sub-total	14,875,801	30,267,212
Accrued interest	303,456	524,853
Less: Provision for impairment losses	(24,833)	(23,537)
Net carrying amount	15,154,424	30,768,528

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, commodity price, foreign exchange rate, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

	Notional amount	June 30, 2023	
		Fair Value (Assets)	Fair Value (Liabilities)
Interest rate swaps	4,180,000	25,746	27,315
Foreign exchange forwards	7,225,800	–	291,111
Currency swaps	5,025,035	12,683	571
Precious metal derivatives	894,000	–	5,551
Total	17,324,835	38,429	324,548

	Notional amount	December 31, 2022	
		Fair Value (Assets)	Fair Value (Liabilities)
Interest rate swaps	4,760,000	19,119	18,308
Foreign exchange forwards	17,713,715	71,695	542,882
Currency swaps	168,730	2,441	1,489
Total	22,642,445	93,255	562,679

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	June 30, 2023	December 31, 2022
In mainland China		
– Banks	2,835,250	4,400,685
– Other financial institutions	52,724,835	60,785,139
Total	55,560,085	65,185,824
Accrued interest	14,760	36,658
Less: Provision for impairment losses	(4,463)	(4,870)
Net carrying amount	55,570,382	65,217,612

(b) Analyzed by type of security held

	June 30, 2023	December 31, 2022
Debt securities	53,673,505	65,185,824
Discounted bills	1,886,580	–
Sub-total	55,560,085	65,185,824
Accrued interest	14,760	36,658
Less: Provision for impairment losses	(4,463)	(4,870)
Net carrying amount	55,570,382	65,217,612

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers

(a) Analyzed by nature

	Note	June 30, 2023	December 31, 2022
Loans and advances to customers measured at amortised cost			
Corporate loans and advances		385,668,359	358,110,380
Personal loans and advances			
– Residential mortgage		116,890,744	110,005,149
– Personal consumption loans		49,815,717	40,204,885
– Personal business loans		68,751,009	65,251,482
– Others		21,161,462	22,024,647
Sub-total		256,618,932	237,486,163
Accrued interest		3,933,167	3,488,455
Less: Provision for loans and advances to customers measured at amortised cost		(23,811,335)	(20,670,715)
Sub-total		622,409,123	578,414,283
Loans and advances to customers measured at fair value through other comprehensive income			
Corporate loans and advances		21,137,303	14,465,836
Discounted bills	(i)	60,165,430	74,012,306
Sub-total		81,302,733	88,478,142
Net loans and advances to customers		703,711,856	666,892,425

(i) As at the end of the reporting period/year, certain discounted bills were pledged for repurchase agreements (Note 26(a)).

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analyzed by economic sector

	June 30, 2023		
	Amount	Percentage	Loans and advances secured by collaterals
Renting and business activities	135,740,923	18.76%	36,274,658
Manufacturing	63,213,978	8.74%	18,172,255
Wholesale and retail trade	45,865,150	6.34%	15,639,440
Construction	37,767,024	5.22%	15,953,192
Water, environment and public utility	27,706,286	3.83%	10,526,870
Real estate	27,296,125	3.77%	20,573,663
Production and supply of electric power, gas and water	15,222,653	2.10%	3,595,889
Mining	9,284,924	1.28%	911,610
Transportation, storage and postal services	8,846,079	1.22%	2,659,953
Education	7,511,384	1.04%	4,083,749
Agriculture, forestry, animal husbandry and fishery	6,207,585	0.86%	2,134,401
Accommodation and catering	2,902,537	0.40%	1,939,979
Others	19,241,014	2.66%	7,938,193
Sub-total of corporate loans and advances	406,805,662	56.22%	140,403,852
Personal loans and advances	256,618,932	35.46%	194,590,833
Discounted bills	60,165,430	8.32%	59,402,062
Gross loans and advances to customers	723,590,024	100.00%	394,396,747

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analyzed by economic sector (Continued)

	December 31, 2022		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	121,232,536	17.71%	33,926,555
Manufacturing	57,044,502	8.34%	14,367,555
Wholesale and retail trade	41,586,599	6.08%	16,516,966
Construction	34,358,003	5.02%	14,525,914
Real estate	26,929,650	3.94%	20,018,641
Water, environment and public utility	26,099,964	3.82%	10,039,084
Production and supply of electric power, gas and water	13,350,374	1.95%	2,706,084
Transportation, storage and postal services	9,528,057	1.39%	4,416,528
Mining	8,993,712	1.31%	774,490
Education	6,421,474	0.94%	3,187,549
Agriculture, forestry, animal husbandry and fishery	6,103,110	0.89%	2,429,688
Accommodation and catering	3,003,969	0.44%	1,984,902
Others	17,924,266	2.62%	7,332,090
Sub-total of corporate loans and advances	372,576,216	54.45%	132,226,046
Personal loans and advances	237,486,163	34.72%	183,622,045
Discounted bills	74,012,306	10.83%	73,906,495
Gross loans and advances to customers	684,074,685	100.00%	389,754,586

(c) Analysed by type of collateral

	June 30, 2023	December 31, 2022
Unsecured loans	139,031,055	116,432,467
Guaranteed loans	190,162,222	177,887,632
Collateralised	275,946,766	261,486,605
Pledged	118,449,981	128,267,981
Gross loans and advances to customers	723,590,024	684,074,685
Accrued interest	3,933,167	3,488,455
Less: Provision for loans and advances to customers measured at amortised cost	(23,811,335)	(20,670,715)
Net loans and advances to customers	703,711,856	666,892,425

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(d) Overdue loans analyzed 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	1,567,240	1,426,378	1,247,576	94,109	4,335,303
Guaranteed loans	4,042,827	2,745,840	2,034,098	166,486	8,989,251
Collateralised	5,318,393	2,975,723	2,921,708	502,849	11,718,673
Pledged	477,537	212,052	273,603	10,018	973,210
Total	11,405,997	7,359,993	6,476,985	773,462	26,016,437
As a percentage of gross loans and advances to customers	1.58%	1.02%	0.89%	0.11%	3.60%

	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	1,441,363	1,115,015	971,169	78,500	3,606,047
Guaranteed loans	4,485,192	2,467,101	1,154,011	142,394	8,248,698
Collateralised	6,044,171	2,480,234	2,113,505	567,699	11,205,609
Pledged	1,220,891	248,725	30,448	10,000	1,510,064
Total	13,191,617	6,311,075	4,269,133	798,593	24,570,418
As a percentage of gross loans and advances to customers	1.93%	0.92%	0.62%	0.12%	3.59%

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

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(e) 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 loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Total loans and advances to customers measured at amortised cost	609,692,152	16,366,177	16,228,962	642,287,291
Accrued interest	3,933,167	–	–	3,933,167
Less: Provision for impairment losses	(9,042,959)	(3,848,552)	(10,919,824)	(23,811,335)
Carrying amount of loans and advances to customers measured at amortised cost	604,582,360	12,517,625	5,309,138	622,409,123
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	81,292,733	–	10,000	81,302,733
Total carrying amount of loans and advances to customers	685,875,093	12,517,625	5,319,138	703,711,856
	December 31, 2022			
	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	Total
Total loans and advances to customers measured at amortised cost	564,599,145	17,800,515	13,196,883	595,596,543
Accrued interest	3,488,455	–	–	3,488,455
Less: Provision for impairment losses	(8,433,119)	(3,794,333)	(8,443,263)	(20,670,715)
Carrying amount of loans and advances to customers measured at amortised cost	559,654,481	14,006,182	4,753,620	578,414,283
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	88,468,142	–	10,000	88,478,142
Total carrying amount of loans and advances to customers	648,122,623	14,006,182	4,763,620	666,892,425

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

- (i) Movements of provision for impairment 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 loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	8,433,119	3,794,333	8,443,263	20,670,715
Transferred:				
– to expected credit losses over the next 12 months	1,076,128	(952,791)	(123,337)	–
– to lifetime expected credit losses: not credit-impaired loans	(145,235)	316,754	(171,519)	–
– to lifetime expected credit losses: credit-impaired loans	(70,090)	(806,693)	876,783	–
(Release)/charge for the period	(250,963)	1,496,949	2,869,549	4,115,535
Recoveries	–	–	284,835	284,835
Write-offs and disposals	–	–	(1,259,750)	(1,259,750)
As at June 30, 2023	9,042,959	3,848,552	10,919,824	23,811,335

	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	4,021,330	2,565,993	5,943,222	12,530,545
Arising from merger by absorption	6,160,979	1,759,740	3,561,034	11,481,753
Acquisition of subsidiary	93,788	14,009	127,270	235,067
Transferred:				
– to expected credit losses over the next 12 months	1,150,051	(551,111)	(598,940)	–
– to lifetime expected credit losses: not credit-impaired loans	(216,609)	1,110,877	(894,268)	–
– to lifetime expected credit losses: credit-impaired loans	(120,853)	(768,770)	889,623	–
(Release)/charge for the year	(2,655,567)	(336,405)	10,226,039	7,234,067
Recoveries	–	–	247,659	247,659
Write-offs and disposals	–	–	(11,058,376)	(11,058,376)
As at December 31	8,433,119	3,794,333	8,443,263	20,670,715

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

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

(ii) Movements of provision for impairment 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 loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	53,164	–	10,000	63,164
Charge for the period	12,101	–	–	12,101
As at June 30, 2023	65,265	–	10,000	75,265

	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	6,139	–	473,981	480,120
Charge for the year	47,025	–	10,000	57,025
Write-offs and disposals	–	–	(473,981)	(473,981)
As at December 31, 2022	53,164	–	10,000	63,164

(g) Disposal of loans and advances to customers

In the first half of 2023, the Group disposed loans and advances with gross amount of RMB470.46 million. The consideration received by the Group amounted to RMB190.83 million.

In the first half of 2022, the Group disposed loans and advances with gross amount of RMB15,533.42 million. The consideration received by the Group amounted to RMB6,496.81 million.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments

	Note	June 30, 2023	December 31, 2022
Financial investments at fair value through profit or loss	(a)	53,094,919	35,752,312
Financial investments at fair value through other comprehensive income	(b)	91,302,850	94,427,751
Financial investments at amortised cost	(c)	242,181,114	243,257,466
Total		386,578,883	373,437,529

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

	Note	June 30, 2023	December 31, 2022
Debt securities	(i)		
– Government		2,316,016	1,049,044
– Policy banks		1,422,908	577,341
– Banks and other financial institutions		12,256,354	4,549,968
– Corporate		275,011	–
Sub-total		16,270,289	6,176,353
Investment management products managed by securities companies		2,686,022	2,300,789
Investment management products managed by trust plans		49,697	24,465
Investment fund managed by public fund manager		33,840,062	26,896,389
Sub-total		36,575,781	29,221,643
Equity investments		248,849	354,316
Total		53,094,919	35,752,312
		June 30, 2023	December 31, 2022
Analysed into:			
Debt securities:			
Listed		2,316,016	1,049,044
Unlisted		13,954,273	5,127,309
Sub-total		16,270,289	6,176,353
Funds and other investments:			
Unlisted		36,575,781	29,221,643
Equity investments:			
Listed		248,849	354,316
Total		53,094,919	35,752,312

- (i) As at the end of the reporting period, certain debt securities were pledged for repurchase agreements (Note 26(a)). No other investment was subject to material restrictions in the realization.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

	Note	June 30, 2023	December 31, 2022
Debt securities	(i)		
– Government		52,321,842	67,285,715
– Policy banks		29,331,388	20,671,563
– Banks and other financial institutions		2,180,056	1,627,167
– Corporate		6,194,251	3,527,901
Sub-total		90,027,537	93,112,346
Accrued interest		1,120,259	1,190,526
Equity investments	(ii)	155,054	124,879
Total		91,302,850	94,427,751
Analysed into:			
Debt securities:			
Listed		55,026,220	69,217,692
Unlisted		36,121,576	25,085,180
Sub-total		91,147,796	94,302,872
Equity investments:			
Unlisted		155,054	124,879
Total		91,302,850	94,427,751

(i) As at the end of the reporting period, certain debt securities were pledged for repurchase agreements (Note 26(a)). No other investment was subject to material restrictions in the realization.

(ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

(iii) Movements of provision for impairment of financial investments 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	
Balance at January 1, 2023	15,107	82,185	–	97,292
Charge/(release) for the period	310	(29,685)	–	(29,375)
Balance at June 30, 2023	15,417	52,500	–	67,917

	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	
Balance at January 1, 2022	10,364	75,035	160,678	246,077
Charge for the year	4,743	7,150	6,295	18,188
Write-offs and disposal	–	–	(166,973)	(166,973)
Balance at December 31, 2022	15,107	82,185	–	97,292

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(c) Financial investments at amortised cost

	Note	June 30, 2023	December 31, 2022
Debt securities	(i)		
– Government		121,337,577	127,474,950
– Policy banks		62,493,692	52,573,707
– Banks and other financial institutions		1,155,386	1,020,339
– Corporate		9,113,408	9,700,349
Sub-total		194,100,063	190,769,345
Investment management products managed by trust plans		38,332,113	38,245,480
Debt investment plans		9,244,922	11,773,381
Investment fund managed by private fund manager		3,507,058	3,835,995
Investment management products managed by securities companies		915,840	1,196,320
Others		400,000	400,000
Sub-total		52,399,933	55,451,176
Accrued interest		3,659,124	3,614,376
Less: Provision for impairment losses	(ii)	(7,978,006)	(6,577,431)
Total		242,181,114	243,257,466
Analysed into:			
Debt securities:			
Listed		122,340,573	128,213,140
Unlisted		73,012,035	64,082,004
Sub-total		195,352,608	192,295,144
Other investments:			
Unlisted		46,828,506	50,962,322
Total		242,181,114	243,257,466

- (i) As at the end of the reporting period, certain debt securities were pledged for repurchase agreements (Note 26(a)). No other investment was subject to material restrictions in the realization.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

(ii) Movements of provision for impairment of financial investments 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	
Balance at January 1, 2023	357,000	729,492	5,490,939	6,577,431
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(22,505)	22,505	–	–
– to lifetime expected credit losses: credit-impaired	(3,300)	(643,368)	646,668	–
(Release)/charge for the period	(2,638)	75,238	1,477,306	1,549,906
Recoveries	–	–	487	487
Write-offs and disposal	–	–	(149,818)	(149,818)
Balance at June 30, 2023	328,557	183,867	7,465,582	7,978,006
	Year ended December 31, 2022			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1, 2022	99,140	370,685	5,174,803	5,644,628
Arising from merger by absorption	300,476	2,416,754	2,600,964	5,318,194
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(1,573)	1,573	–	–
– to lifetime expected credit losses: credit-impaired	(2,063)	(324,278)	326,341	–
(Release)/charge for the year	(38,980)	(1,735,242)	4,128,304	2,354,082
Recoveries	–	–	130,149	130,149
Write-offs and disposal	–	–	(6,869,622)	(6,869,622)
Balance at December 31, 2022	357,000	729,492	5,490,939	6,577,431

(d) Disposal of financial investments

In the first half of 2023, the Group disposed financial investments with gross amount of RMB17.80 million(excluding interest receivables). The consideration received by the Group amounted to RMB18.27 million.

In the first half of 2022, the Group disposed financial investments with gross amount of RMB9,132.29 million(excluding interest receivables). The consideration received by the Group amounted to RMB3,390.16 million.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Lease receivables

	Note	June 30, 2023	December 31, 2022
Minimum finance lease receivables	(i)	3,317,095	1,929,772
Less: unearned finance lease income	(i)	(444,351)	(287,846)
Present value of finance lease receivables	(i)	2,872,744	1,641,926
Receivables from sale-and-leaseback transactions	(ii)	66,775,391	61,251,467
Sub-total		69,648,135	62,893,393
Less: provision for impairment losses	(iii)	(2,757,529)	(2,579,325)
Total		66,890,606	60,314,068

- (i) Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	June 30, 2023		
	Minimum finance lease receivables	Unearned finance income	Present value of finance lease receivables
Less than 1 year	15,789	(362)	15,427
1 year to 2 year	48,956	(3,001)	45,955
2 year to 3 year	438,022	(10,940)	427,082
3 year to 5 year	304,843	(48,878)	255,965
More than 5 year	2,509,485	(381,170)	2,128,315
Total	3,317,095	(444,351)	2,872,744

	December 31, 2022		
	Minimum finance lease receivables	Unearned finance income	Present value of finance lease receivables
1 year to 2 year	70,922	(2,388)	68,534
2 year to 3 year	213,955	(756)	213,199
3 year to 5 year	249,273	(46,236)	203,037
More than 5 year	1,395,622	(238,466)	1,157,156
Total	1,929,772	(287,846)	1,641,926

- (ii) Receivables from sale-and-leaseback transactions which do not satisfy sales under IFRS 15 for the seller-lessees, were recognised as receivables from sale-and-leaseback transactions.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Lease receivables (Continued)

(iii) Movements of provision for impairment losses:

	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	
Balance at January 1	1,370,326	770,140	438,859	2,579,325
Transfers:				
– to expected credit losses over the next 12 months	958	(882)	(76)	–
– to lifetime expected credit losses: not credit-impaired	(10,579)	153,398	(142,819)	–
– to lifetime expected credit losses: credit-impaired	(21,505)	(170,839)	192,344	–
(Release)/charge for the period	(245,769)	(98,993)	680,139	335,377
Recoveries	–	–	10,782	10,782
Write-offs	–	–	(167,955)	(167,955)
Balance at June 30	1,093,431	652,824	1,011,274	2,757,529
	Year ended December 31, 2022			
	Expected credit losses over the next 12 months	Lifetime expected credit losses: not credit-impaired	Lifetime expected credit losses: credit-impaired	Total
Balance at January 1	1,031,496	379,196	312,807	1,723,499
Arising from merger by absorption	569,653	227,508	666,749	1,463,910
Transfers:				
– to expected credit losses over the next 12 months	416,545	(287,339)	(129,206)	–
– to lifetime expected credit losses: not credit-impaired	(24,878)	24,878	–	–
– to lifetime expected credit losses: credit-impaired	(70,252)	(30,072)	100,324	–
(Release)/charge for the year	(552,238)	455,969	766,707	670,438
Recoveries	–	–	11,472	11,472
Write-offs	–	–	(1,289,994)	(1,289,994)
Balance at December 31	1,370,326	770,140	438,859	2,579,325

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries and interest in joint venture

(a) Investment in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

Subsidiary	Note	Amount invested by the Bank		Percentage of equity interest		Voting rights		Registered capital	Establishment date	Place of incorporation registration	Principal activity
		June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	June 30, 2023	million			
				%	%	%					
AB Leasing Co., Ltd. (“邦銀金融租賃股份有限公司”)		4,525,199	4,525,199	90.00	90.00	90.00	3,000.00		August 16, 2013	Zhengzhou, Henan Province	Leasing
BOL Financial Leasing Co., Ltd. (“洛銀金融租賃股份有限公司”)	(i)	2,228,739	2,228,739	57.50	57.50	57.50	2,000.00		December 18, 2014	Luoyang, Henan Province	Leasing
Xiping Zhongyuan County Bank Co., Ltd. (“西平中原村鎮銀行股份有限公司”)	(ii)	176,686	176,686	43.69	43.69	67.64	208.52		December 17, 2009	Zhumadian, Henan Province	Banking
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (“信陽平橋中原村鎮銀行股份有限公司”)		38,341	38,341	51.73	51.73	51.73	83.52		December 13, 2010	Xinyang, Henan Province	Banking
Qixian Zhongyuan County Bank Co., Ltd. (“淇縣中原村鎮銀行股份有限公司”)		41,531	41,531	51.00	51.00	51.00	50.00		December 23, 2010	Hebi, Henan Province	Banking
Xinxiang Zhongyuan County Bank Co., Ltd. (“新鄉中原村鎮銀行股份有限公司”)		150,306	150,306	78.46	78.46	78.46	130.00		March 23, 2010	Xinxiang, Henan Province	Banking
Linzhou Zhongyuan County Bank Co., Ltd. (“林州中原村鎮銀行股份有限公司”)		29,771	29,771	51.00	51.00	51.00	75.00		September 30, 2011	Linzhou, Henan Province	Banking
Puyang Zhongyuan County Bank Co., Ltd. (“濮陽中原村鎮銀行股份有限公司”)		30,736	30,736	51.00	51.00	51.00	58.75		March 16, 2012	Puyang, Henan Province	Banking
Lushi Zhongyuan County Bank Co., Ltd. (“盧氏中原村鎮銀行股份有限公司”)		32,497	32,497	51.00	51.00	51.00	60.00		May 15, 2012	Sanmenxia, Henan Province	Banking
Xiangcheng Zhongyuan County Bank Co., Ltd. (“襄城中原村鎮銀行股份有限公司”)		38,044	38,044	51.00	51.00	51.00	61.00		October 27, 2011	Xuchang, Henan Province	Banking
Suiping Zhongyuan County Bank Co., Ltd. (“遂平中原村鎮銀行股份有限公司”)		35,084	35,084	51.02	51.02	51.02	56.15		March 12, 2012	Zhumadian, Henan Province	Banking
Jiaxian Guangtian County Bank Co., Ltd. (“郟縣廣天村鎮銀行股份有限公司”)	(iii)	-	-	51.28	51.28	51.28	78.00		October 23, 2009	Pingdingshan, Henan Province	Banking
Henan Luanchuan Minfeng County Bank Co., Ltd. (“河南樂川民豐村鎮銀行股份有限公司”)	(iv)	180,854	180,854	30.33	30.33	55.69	152.40		June 12, 2008	Luanchuan, Henan Province	Banking
Mengjin Minfeng County Bank Co., Ltd. (“孟津民豐村鎮銀行股份有限公司”)	(v)	140,376	140,376	34.58	34.58	61.08	150.00		November 23, 2011	Mengjin, Henan Province	Banking
Shenzhen Nanshan Baosheng County Bank Co., Ltd. (“深圳南山寶生村鎮銀行股份有限公司”)	(vi)	419,510	419,510	42.05	42.05	50.67	713.50		March 15, 2011	Nanshan, Shenzhen City	Banking
Luohe Yancheng Zhongyuan County Bank Co., Ltd. (“漯河鄆城中原村鎮銀行有限公司”)	(vii)	245,201	245,201	51.00	51.00	51.00	300.00		July 12, 2011	Luohe, Henan Province	Banking
Total		8,312,875	8,312,875								

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes:

- (i) The Bank assumed the equity of BOL Financial Leasing Co., Ltd. (“BOL Leasing”) held by the former Bank of Luoyang after the Bank completed merger by absorption of Bank of Luoyang on May 25, 2022. and the Bank holds 57.5% of equity interest and voting rights of BOL Leasing as at June 30, 2023. The fair value of the 57.5% of equity interest in BOL leasing is RMB2,228.74 million as at May 25, 2022.
- (ii) The Bank holds 43.69% of equity interest of Xiping Zhongyuan County Bank Co., Ltd. (“Xiping Zhongyuan”) as at June 30, 2023. According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Zhongyuan was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (iii) The Bank holds 51.28% of equity interest of Jiaxian Guangtian County Bank Co., Ltd. (“Jiaxian Guangtian”) as at June 30, 2023. Jiaxian Guangtian was initiated and established by the former Bank of Pingdingshan. The Bank assumed the equity of Jiaxian Guangtian held by the former Bank of Pingdingshan after the Bank completed merger by absorption of Bank of Pingdingshan on May 25, 2022. The fair value of the 51.28% of equity interest in Jiaxian Guangtian is zero as at May 25 2022.
- (iv) Henan Luanchuan Minfeng County Bank Co., Ltd. (“Luanchuan Minfeng”) was initiated and established by the former Bank of Luoyang. The Bank assumed the equity of Luanchuan Minfeng held by the former Bank of Luoyang after the Bank completed merger by absorption of Bank of Luoyang on May 25, 2022. As at June 30, 2023, the Bank held 30.33% of the equity of Luanchuan Minfeng, and according to the concerted action agreement signed by the former Bank of Luoyang and other shareholders who owned 25.36% of the equity of Luanchuan Minfeng. Luanchuan Minfeng is deemed to be controlled by the Bank, and the voting rights ratio of the Bank and the shareholders combined is 55.69%.
- (v) Mengjin Minfeng County Bank Co., Ltd. (“Mengjin Minfeng”) was initiated and established by the former Bank of Luoyang. The Bank assumed the equity of Mengjin Minfeng held by the former Bank of Luoyang after the Bank completed merger by absorption of Bank of Luoyang on May 25, 2022. As at June 30, 2023, the Bank held 34.58% of the equity of Mengjin Minfeng, and according to the concerted action agreement signed by the former Bank of Luoyang and other shareholders who owned 26.50% of the equity of Mengjin Minfeng. Mengjin Minfeng is deemed to be controlled by the Bank, and the voting rights ratio of the Bank and the shareholders combined is 61.08%.
- (vi) Shenzhen Nanshan Baosheng County Bank Co., Ltd. (“Nanshan Baosheng”) was initiated and established by the former Bank of Luoyang. The Bank assumed the equity of Nanshan Baosheng held by the former Bank of Luoyang after the Bank completed merger by absorption of Bank of Luoyang on May 25, 2022. As at June 30, 2023, the Bank held 42.05% of the equity of Nanshan Baosheng, and according to the concerted action agreement signed by the former Bank of Luoyang and other shareholders who owned 8.62% of the equity of Nanshan Baosheng. Nanshan Baosheng is deemed to be controlled by the Bank, and the voting rights ratio of the Bank and the shareholders combined is 50.67%.
- (vii) The Bank holds 51.00% of equity interest of Luohe Yancheng Zhongyuan County Bank Co., Ltd. (“Yancheng Zhongyuan”) as at June 30, 2023. On June 29, 2022, the Bank received the Approval for changing of shareholder of Luohe Yancheng Development County Bank Co., Ltd. (Yu Yin Bao Jian Fu [2022] No. [200]). The Bank fully paid consideration and the above acquisition was completed on July 1, 2022. The Bank held 51.00% of the shares and voting interest in Yancheng Zhongyuan. As the consideration is equal to the fair value of identifiable net assets acquired at the acquisition date, the Bank did not recognize the goodwill.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries and interest in joint venture (Continued)

(b) Interest in joint venture

	Note	June 30, 2023	December 31, 2022
Interest in joint venture	(i)	1,429,021	1,347,307

Note:

- (i) Henan Zhongyuan Consumer Finance Co., Ltd. (“Consumer Finance”) is a joint venture in which the Bank has joint control and a 49.25% ownership interest. Consumer Finance is not publicly listed.

Name	Percentages of equity/voting rights%		Place of incorporation/ registration	Business sector
	June 30, 2023	December 31, 2022		
Consumer Finance	49.25%	49.25%	Zhengzhou, China	Consumer credit

The following table illustrates the aggregate information of the Bank’s joint venture:

	June 30, 2023	December 31, 2022
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of the Bank	1,429,021	1,347,307
Aggregate amounts of the Bank’s share of results of the joint venture		
– Gains from continuing operations	81,714	164,075
– Other comprehensive income	–	–
– Total comprehensive income	81,714	164,075

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
As at January 1, 2022	5,297,109	10,095	1,357,353	24,086	517,300	1,160,868	8,366,811
Arising from merger by absorption	3,614,357	21,496	298,519	13,336	89,521	22,140	4,059,369
Acquisition of subsidiary	44,768	–	540	740	91	–	46,139
Additions	49,348	4,961	70,694	3,755	17,711	570,121	716,590
Disposals	(32,999)	–	(22,650)	(2,774)	(7,224)	–	(65,647)
Transfers out of construction in progress	–	–	–	–	–	(209,378)	(209,378)
As at December 31, 2022	8,972,583	36,552	1,704,456	39,143	617,399	1,543,751	12,913,884
Additions	195,432	–	50,770	800	6,984	201,746	455,732
Disposals	(232,699)	–	(17,739)	(3,378)	(1,457)	(53)	(255,326)
Transfers out of construction in progress	–	–	–	–	–	(27,200)	(27,200)
As at June 30, 2023	8,935,316	36,552	1,737,487	36,565	622,926	1,718,244	13,087,090
Accumulated depreciation							
As at January 1, 2022	(2,576,865)	(8,043)	(1,145,489)	(17,025)	(365,049)	–	(4,112,471)
Additions	(389,313)	(2,207)	(141,086)	(5,833)	(72,417)	–	(610,856)
Disposals	25,537	–	20,131	1,087	4,897	–	51,652
As at December 31, 2022	(2,940,641)	(10,250)	(1,266,444)	(21,771)	(432,569)	–	(4,671,675)
Additions	(327,101)	(1,597)	(123,798)	(4,373)	(35,614)	–	(492,483)
Disposals	49,147	–	16,942	3,002	1,058	–	70,149
As at June 30, 2023	(3,218,595)	(11,847)	(1,373,300)	(23,142)	(467,125)	–	(5,094,009)
Impairment							
As at January 1, 2022	(6,626)	–	(1,369)	(229)	(1,822)	–	(10,046)
Disposals	–	–	719	–	113	–	832
As at December 31, 2022	(6,626)	–	(650)	(229)	(1,709)	–	(9,214)
Disposals	–	–	106	–	8	–	114
As at June 30, 2023	(6,626)	–	(544)	(229)	(1,701)	–	(9,100)
Net book value							
As at December 31, 2022	6,025,316	26,302	437,362	17,143	183,121	1,543,751	8,232,995
As at June 30, 2023	5,710,095	24,705	363,643	13,194	154,100	1,718,244	7,983,981

The carrying amount of the premises with incomplete title deeds as June 30, 2023 was RMB3,159.71 million (December 31, 2022: RMB3,165.76 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Group are of the opinion that there would be no significant cost in obtaining the title deeds.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Property and equipment (Continued)

The net book values of premises as at the end of the reporting period are analyzed by the remaining terms of the leases as follows:

	June 30, 2023	December 31, 2022
Held in mainland China		
– Long-term leases (over 50 years)	704,102	700,749
– Medium-term leases (10 – 50 years)	4,175,711	4,375,627
– Short-term leases (less than 10 years)	830,282	948,940
Total	5,710,095	6,025,316

The net book value of investment properties as at the end of the reporting period are analyzed by the remaining terms of the leases as follows:

	June 30, 2023	December 31, 2022
Held in mainland China		
– Medium-term leases (10 – 50 years)	24,705	26,302

23 Deferred tax assets

	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/(liabilities):				
Allowance for impairment losses	38,394,428	9,598,607	33,285,316	8,321,329
Accrued staff cost payable	1,678,688	419,672	2,335,432	583,858
Supplemental retirement benefits	275,464	68,866	276,804	69,201
Fair value changes of financial assets	379,476	94,869	1,572,292	393,073
Deferred income	282,324	70,581	490,404	122,601
Assets appraisal and related depreciation	(4,338,764)	(1,084,691)	(4,519,100)	(1,129,775)
Deductible losses	4,615,712	1,153,928	6,852,292	1,713,073
Others	221,504	55,376	530,484	132,621
Net balances	41,508,832	10,377,208	40,823,924	10,205,981

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Goodwill

	Goodwill
Cost:	
At January 1, 2022	970,780
Arising from merger by absorption	1,011,270
<hr/>	
At December 31, 2022 and June 30, 2023	1,982,050
<hr style="border-top: 1px dashed #ccc;"/>	
Accumulated impairment losses:	
At January 1, 2022, December 31, 2022 and June 30, 2023	–
<hr style="border-top: 1px dashed #ccc;"/>	
Carrying amount:	
At December 31, 2022 and June 30, 2023	1,982,050

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	June 30, 2023	December 31, 2022
Corporate banking	1,432,016	1,432,016
Retail banking	426,501	426,501
Financial markets business	123,533	123,533
<hr/>		
Total	1,982,050	1,982,050

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets

	Note	June 30, 2023	December 31, 2022
Continuing involvement assets	(a)	1,594,852	1,623,703
Repossessed assets	(b)	1,347,049	1,346,985
Intangible assets	(c)	1,159,700	1,212,291
Land use rights		902,018	919,611
Right-of-use assets	(d)	828,421	924,500
Interests receivable	(e)	813,498	1,692,012
Leasehold improvements		283,806	328,853
Advanced payment of income tax		92,973	390,381
Other receivables		3,149,515	1,031,468
Total		10,171,832	9,469,804

(a) Continuing involvement assets

In 2020 and 2021, the Bank entered into securitization transactions by which it transferred its loans to the structured entities which issued asset-backed securities to investors at China Credit Assets Registration & Exchange Co., Ltd. The total loans amounted to RMB7,523.92 million. The total consideration amounted to RMB7,523.92 million and the Bank held the RMB1,680.28 million tranche.

The Bank retains part of interests in the form of senior and subordinated tranche which gives rise to the Bank's continuing involvement in the transferred assets. The financial asset is recognized on the consolidated statements of financial position to the extent of the Bank's continuing involvement. The extent of the Bank's continuing involvement is the extent to which the Bank is exposed to the changes in the value of the transferred assets.

As at June 30, 2023, arising from this continuing involvement, the Bank recognized continuing involvement assets and liabilities of RMB1,594.85 million respectively (December 31, 2022: RMB1,623.70 million).

(b) Repossessed assets

	June 30, 2023	December 31, 2022
Repossessed assets	2,289,365	2,178,521
Less: Provision for impairment losses	(942,316)	(831,536)
Net carrying amount	1,347,049	1,346,985

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(c) Intangible assets

	Computer software	Leasing license	Total
Cost			
As at January 1, 2022	1,330,644	173,305	1,503,949
Arising from merger by absorption	229,759	184,575	414,334
Acquisition of subsidiary	550	–	550
Additions	439,040	–	439,040
Disposals	(147,749)	–	(147,749)
As at December 31, 2022 and January 1, 2023	1,852,244	357,880	2,210,124
Additions	84,973	–	84,973
Disposals	(2,868)	–	(2,868)
As at June 30, 2023	1,934,349	357,880	2,292,229
Accumulated amortization			
As at January 1, 2022	(834,224)	–	(834,224)
Additions	(188,158)	–	(188,158)
Disposals	24,549	–	24,549
As at December 31, 2022 and January 1, 2023	(997,833)	–	(997,833)
Additions	(137,558)	–	(137,558)
Disposals	2,862	–	2,862
As at June 30, 2023	(1,132,529)	–	(1,132,529)
Impairment			
As at January 1, 2022, December 31, 2022 and June 30, 2023	–	–	–
Net book value			
As at December 31, 2022	854,411	357,880	1,212,291
As at June 30, 2023	801,820	357,880	1,159,700

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(d) Right-of-use assets

	Leased properties and buildings	Leased other equipments	Total
Cost			
As at January 1, 2022	1,277,083	18,628	1,295,711
Arising from merger by absorption	384,863	1,082	385,945
Acquisition of subsidiary	3,142	–	3,142
Additions	283,714	12,702	296,416
Disposals	(279,088)	(7,116)	(286,204)
As at December 31, 2022	1,669,714	25,296	1,695,010
Additions	89,047	352	89,399
Disposals	(149,090)	(544)	(149,634)
As at June 30, 2023	1,609,671	25,104	1,634,775
Accumulated depreciation			
As at January 1, 2022	(589,364)	(9,402)	(598,766)
Additions	(454,795)	(3,153)	(457,948)
Disposals	279,088	7,116	286,204
As at December 31, 2022	(765,071)	(5,439)	(770,510)
Additions	(183,841)	(1,637)	(185,478)
Disposals	149,090	544	149,634
As at June 30, 2023	(799,822)	(6,532)	(806,354)
Net book value			
As at December 31, 2022	904,643	19,857	924,500
As at June 30, 2023	809,849	18,572	828,421

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(e) Interests receivable

	June 30, 2023	December 31, 2022
Interests receivable arising from:		
Investments	679,016	1,780,248
Loans and advances to customers	589,052	486,384
Total	1,268,068	2,266,632
Less: Provision for impairment losses	(454,570)	(574,620)
Net carrying amount	813,498	1,692,012

Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

26 Pledged assets

(a) Assets pledged as collateral

	Note	June 30, 2023	December 31, 2022
For repurchase agreements			
– Discounted bills	18(a)	20,680,866	5,995,267
– Financial investments at fair value through other comprehensive income	19(b)	15,052,674	30,240,076
– Financial investments at amortised cost	19(c)	45,039,326	69,712,291
– Financial investments at fair value through profit or loss	19(a)	–	229,633
Total		80,772,866	106,177,267

Financial assets pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(b) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at June 30, 2023, fair value of the received pledged assets is RMB59,111.36 million (December 31, 2022: RMB71,282.22 million).

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Borrowing from the central bank

	June 30, 2023	December 31, 2022
Due to central bank	49,347,439	41,277,305
Re-discounted bills	3,905,437	1,119,172
Sub-total	53,252,876	42,396,477
Interest accrued	551,477	264,519
Total	53,804,353	42,660,996

Borrowing from the central bank mainly includes for two business: borrowing from the central bank and rediscount to the central bank.

28 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	June 30, 2023	December 31, 2022
In mainland China		
– Banks	6,959,426	4,990,904
– Other financial institutions	6,982,397	25,001,594
Sub-total	13,941,823	29,992,498
Accrued interest	66,684	123,538
Total	14,008,507	30,116,036

29 Placements from banks and other financial institutions

	June 30, 2023	December 31, 2022
In mainland China		
– Banks	52,939,284	45,085,261
– Other financial institutions	7,594,000	5,277,000
Sub-total	60,533,284	50,362,261
Outside mainland China		
– Banks	5,073,469	1,051,509
Sub-total	65,606,753	51,413,770
Accrued interest	505,207	392,661
Total	66,111,960	51,806,431

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	June 30, 2023	December 31, 2022
In mainland China		
– Banks	–	68,402,438
– PBOC	57,188,730	30,970,000
– Other financial institutions	19,500,000	300,771
Sub-total	76,688,730	99,673,209
Outside mainland China		
– Banks	495,000	1,998,000
Sub-total	77,183,730	101,671,209
Accrued interest	7,953	34,874
Total	77,191,683	101,706,083

(b) Analyzed by collateral

	June 30, 2023	December 31, 2022
Debt securities	56,507,500	95,678,141
Discounted bills	20,676,230	5,993,068
Sub-total	77,183,730	101,671,209
Accrued interest	7,953	34,874
Total	77,191,683	101,706,083

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Deposits from customers

	Note	June 30, 2023	December 31, 2022
Demand deposits			
– Corporate customers		144,701,456	154,193,374
– Individual customers		106,001,517	94,524,624
Sub-total		250,702,973	248,717,998
Time deposits			
– Corporate customers		128,718,886	137,680,484
– Individual customers		418,707,003	369,528,609
Sub-total		547,425,889	507,209,093
Pledged deposits		70,559,214	71,057,449
Convertible negotiated deposits	(a)	8,000,000	–
Inward and outward remittances		223,595	335,403
Accrued interest		19,176,827	17,937,211
Total		896,088,498	845,257,154

Notes:

- (a) On January 19, 2023, after obtaining the proceeds from issuance of Local Government Special Debt by Henan Provincial Department of Finance, Zhengzhou Finance Bureau deposited the relevant funds in the form of negotiated deposit into the special RMB deposit account it opened in the Bank. With the Finance Department of Henan Province contents to the conversion, when the core tier-one capital adequacy ratio of the Bank is lower than 5.125%, and upon the satisfaction of specific requirements on the Minimum Public Float prescribed by the Hong Kong Stock Exchange, Zhengzhou Finance Bureau shall convert the negotiated deposits into Ordinary Shares of the Bank in accordance with laws and regulations. If the conversion conditions are not satisfied, the principal of the convertible negotiated deposit is repayable by equal annual installments based on the total par value of the convertible negotiated deposit from 2028, i.e. 20% of the principal is repaid annually, amounting to RMB1.6 billion.

During the term of the convertible negotiated deposits, the Bank shall report the changes in the core tier-one capital adequacy ratio of the previous quarter by the twentieth day of the first month of each quarter to Zhengzhou Finance Bureau. When the core tier-one capital adequacy ratio of the Bank drops to 7.50%, and early warning is triggered, the Bank shall promptly inform Zhengzhou Finance Bureau of the situation, formulate emergency plans, and actively take emergency measures to improve the ability to resist risks and avoid the occurrence of triggering events.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Debt securities issued

	Note	June 30, 2023	December 31, 2022
Interbank deposits issued	(a)	119,114,315	118,759,807
Financial bonds	(b)	13,995,533	13,994,121
Tier-two capital bonds	(c)	11,999,667	11,999,640
Sub-total		145,109,515	144,753,568
Accrued interest		668,731	405,164
Total		145,778,246	145,158,732

Notes:

- (a) For the six months end June 30, 2023, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB134,740.00 million and duration between 1-12 months. The coupon rates ranged from 2.00% to 2.78% per annum.

In 2022, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB222,100.00 million and duration between 1-12 months. The coupon rates ranged from 1.35% to 3.30% per annum.

As at June 30, 2023, the fair value of interbank deposits issued was RMB118,221.79 million (December 31, 2022: RMB117,936.80 million).

- (b) Fixed rate financial bonds of RMB3 billion with a term of three years was issued by the Bank in May 2022. The coupon rate is 2.95% per annum.

Fixed rate micro-business financial bonds of RMB2 billion with a term of three years was issued by the Bank in June 2022. The coupon rate is 2.90% per annum.

Fixed rate financial bonds of RMB3 billion with a term of three years was issued by former Bank of Luoyang in September 2020. The bond has inherited by the Bank after the completion of the merger by absorption. The coupon rate is 3.68% per annum.

Fixed rate financial bonds of RMB2 billion with a term of three years was issued by the Bank in March 2021. The coupon rate is 3.60% per annum.

Fixed rate micro-business financial bonds of RMB2 billion with a term of three years was issued by the Bank in June 2021. The coupon rate is 3.48% per annum.

Fixed rate financial bonds of RMB2 billion with a term of three years was issued by BOL Leasing in November 2020. The coupon rate is 4.30% per annum.

As at June 30, 2023, the fair value of financial bonds issued was RMB14,069.16 million (December 31, 2022: RMB14,029.62 million).

- (c) Fixed rate tier-two capital bonds of RMB2 billion with a term of 10 years was issued by Bank of JZCTS in August 2019. The bond has inherited by the Bank after the completion of the merger by absorption. The coupon rate is 5.40% per annum.

Fixed rate tier-two capital bonds of RMB10 billion with a term of 10 years was issued by the Bank in September 2018. The coupon rate is 5.20% per annum.

As at June 30, 2023, the fair value of tier-two capital bonds issued was RMB12,094.16 million (December 31, 2022: RMB12,086.64 million).

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities

	Note	June 30, 2023	December 31, 2022
Finance lease deposits		4,351,151	4,376,771
Accrued staff cost	(a)	2,461,996	3,885,445
Continuing involvement in liabilities	25(a)	1,594,852	1,623,703
Payment and collection clearance accounts		1,016,427	1,929,239
Lease liabilities		792,991	956,256
Other tax payable		771,608	676,005
Provisions	(b)	196,939	157,100
Dividend payable		193,003	184,620
Other payable		1,710,932	1,963,610
Total		13,089,899	15,752,749

(a) Accrued staff cost

	June 30, 2023	December 31, 2022
Salary, bonuses and allowances payable	1,617,924	3,086,208
Labor union fee, staff and workers' education fee	207,545	195,403
Supplementary retirement benefits payable	502,421	488,939
Social insurance payable	130,647	107,513
Housing allowances payable	3,459	7,382
Total	2,461,996	3,885,445

(b) Provisions

	Note	June 30, 2023	December 31, 2022
Litigations and disputes provision		56,796	13,788
Credit commitments provision	(i)	140,143	143,312
Total		196,939	157,100

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other liabilities (Continued)

(b) Provisions (Continued)

(i) *movements of credit commitments provision 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	
Balance at January 1, 2023	107,144	21,637	14,531	143,312
Transfers:				
– to expected credit losses over the next 12 months	436	(424)	(12)	–
– to lifetime expected credit losses not credit-impaired	(21)	66	(45)	–
– to lifetime expected credit losses credit-impaired	(10)	(3,015)	3,025	–
(Release)/charge for the period	(3,229)	(9,989)	10,049	(3,169)
Balance at June 30, 2023	104,320	8,275	27,548	140,143
	Year ended December 31, 2022			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	97,336	5,787	252,491	355,614
Arising from merger by absorption	64,154	7,858	28,107	100,119
Transfers:				
– to expected credit losses over the next 12 months	37	(28)	(9)	–
– to lifetime expected credit losses not credit-impaired	(411)	425	(14)	–
– to lifetime expected credit losses credit-impaired	(13)	(156)	169	–
(Release)/charge for the year	(53,959)	7,751	(266,213)	(312,421)
Balance at December 31	107,144	21,637	14,531	143,312

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Share capital

Authorised and issued share capital

	Note	June 30, 2023	December 31, 2022
Ordinary shares in Mainland China		29,604,823	29,604,823
Ordinary shares listed in Hong Kong (H-share)	(a)	6,945,000	6,945,000
Total		36,549,823	36,549,823

Note:

- (a) On July 19, 2017, the Bank issued 3,000.00 million H-shares with a par value of RMB1 at an offering price of HKD2.45 per share (the "H-share offering"). On August 15, 2017, the Bank exercised the over-allotment option and issued 450.00 million H-shares with a nominal value of RMB1.00 at HKD2.45 per share. The capital contribution was verified by KPMG Huazhen LLP.

Immediately following the H-share offering, 345 million ordinary shares in Mainland China shares held by the National Council and Social Security Fund were converted to H-shares pursuant to the relevant PRC regulations relating to the reduction of state-owned shares.

On May 10, 2022, the Bank issued 3,150.00 million H-shares with a par value of RMB1 at an offering price of HKD1.80 per share, the registered capital and share capital of the Bank increased to RMB23,225 million. The capital contribution was verified by KPMG Huazhen LLP.

All the above H-shares have been listed on the Stock Exchange of Hong Kong Limited. The H-shares 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.

35 Reserves

(a) Capital reserve

	June 30, 2023	December 31, 2022
Share premium	19,504,885	19,504,885
Changes in ownership in subsidiaries without changes in control	(159,490)	(159,490)
Total	19,345,395	19,345,395

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Reserves (Continued)

(b) Surplus reserve

The surplus reserve at the end of reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(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 1.5% of the ending balance of its gross risk-bearing assets on an annual basis, and shall be raised within five years.

(d) Other reserves

	Note	June 30, 2023	December 31, 2022
Investment revaluation reserve	(i)	332,529	(115,682)
Impairment reserve	(ii)	143,182	160,456
Deficit on remeasurement of net defined benefit liability	(iii)	(40,378)	(25,555)
Total		435,333	19,219

(i) Investment revaluation reserve

	June 30, 2023	December 31, 2022
As at January 1	(115,682)	(378,330)
Changes in fair value recognised in other comprehensive income	638,359	458,427
Transfer to profit or loss upon disposal	(40,744)	(108,230)
Less: deferred income tax	(149,404)	(87,549)
Total	332,529	(115,682)

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Reserves (Continued)

(d) Other reserves (Continued)

(ii) Impairment reserve

	June 30, 2023	December 31, 2022
As at January 1	160,456	726,197
Impairment losses recognized in other comprehensive income	(17,274)	(565,741)
Total	143,182	160,456

(iii) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	June 30, 2023	December 31, 2022
As at January 1	(25,555)	(3,982)
Changes in fair value recognised in other comprehensive income	(14,823)	(21,573)
Total	(40,378)	(25,555)

36 Retained earnings

As at June 30, 2023, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB582.22 million of surplus reserve made by subsidiaries (December 31, 2022: RMB582.22 million).

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments

(1) Preference Shares

(a) Preference shares outstanding

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore preference shares	21/11/2018	Equity	5.60%	USD20/ share	69,750,000	1,395	9,688	None	Mandatory conversion trigger events
Less: issuing cost							(55)		
Book value							9,633		

(b) Main clause

(i) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

(ii) Dividend accumulation

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments (Continued)

(1) Preference Shares (Continued)

(b) Main clause (Continued)

(iii) Distribution of residual profits

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

(iv) Mandatory conversion trigger events

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the former CBRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(v) Conditional redemption

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the former CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares. The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments (Continued)

(2) Perpetual Bond

(a) Perpetual Bond outstanding

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Perpetual Bonds	December 2, 2020	Equity	4.80%	100CNY	10,000,000	1,000	1,000	N/A	N/A
Perpetual Bonds	June 25, 2021	Equity	4.80%	100CNY	10,000,000	1,000	1,000	N/A	N/A
Perpetual Bonds	June 25, 2021	Equity	4.80%	100CNY	20,000,000	2,000	2,000	N/A	N/A
Less: issuing cost							(0.29)		
Book value							3,999.71		

(b) Main clause

With the approvals of relevant regulatory authorities, Bank of Pingdingshan issued RMB1,000 million and RMB1,000 million of Perpetual Bonds on December 2, 2020 and June 25, 2021 respectively in the National Interbank Bond Market. Bank of Luoyang issued RMB2,000 million of Perpetual Bond on June 25, 2021 in the National Interbank Bond Market. The Bank inherited the Perpetual Bond after the completion of the merger by absorption.

(i) Interest

Each Perpetual Bond has a par value of RMB100, and the interest rate of the bonds for the first five years are 4.8% for Perpetual Bond, resetting every 5 years. The rates are determined by a benchmark rate plus a fixed spread.

(ii) Interest stopper and setting mechanism

The interest payment for Perpetual Bonds is non-cumulative. The Bank shall have the right to cancel, in whole or in part, distributions on the interest payment and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. However, the Bank shall not distribute profits to ordinary shareholders until resumption of full interest payment.

(iii) Order of distribution and liquidation method

The claims in respect of Perpetual Bonds will be subordinated to claims of depositors, general creditors, and subordinated indebtedness that rank senior to Perpetual Bonds, and will rank in priority to all classes of shares held by shareholders of the Bank. Perpetual Bond will rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the Perpetual Bonds.

(iv) Write down conditions

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write down all or part of the nominal amount of the outstanding Perpetual Bonds without the need for the consent of the bond holders.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other equity instruments (Continued)

(2) Perpetual Bond (Continued)

(b) Main clause (Continued)

(v) Redemption

The duration of the Perpetual Bonds is the same as the continuing operation of the Bank. Five years after the issuance date of the Perpetual Bonds, the Bank shall have the right to redeem them in whole or in part on each distribution payment date (including the fifth distribution payment date since the issuance). In the event that the Perpetual Bond is not classified as additional tier 1 capital due to unpredicted changes in regulations, the Bank shall have the right to redeem Perpetual Bonds fully instead of partly.

38 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 include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. 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 statements of financial position in which relevant assets are recognized as at June 30, 2023 and December 31, 2022:

	June 30, 2023	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	36,575,780	36,575,780
Financial investments at amortised cost	39,257,696	39,257,696
Total	75,833,476	75,833,476
	December 31, 2022	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	29,221,644	29,221,644
Financial investments at amortised cost	41,768,635	41,768,635
Total	70,990,279	70,990,279

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

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Involvement with unconsolidated structured entities (Continued)

(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 include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2023 and December 31, 2022, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at June 30, 2023, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB65,813.61 million (December 31, 2022: RMB93,268.96 million).

(c) Unconsolidated structure entities sponsored by the Group during the years which the Group does not consolidate but have an interest in at the end of the reporting period:

For the six months ended June 30, 2023, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 amounted to nil (December 31, 2022: RMB445.00 million).

39 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital 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 CBRC 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.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Capital management (Continued)

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.

The Group's capital adequacy ratios as at the end of the reporting period 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	36,549,823	36,549,823
– Qualifying portion of capital reserve	19,345,395	19,345,395
– Qualifying portion of other reserves	360,068	(43,945)
– Surplus reserve	2,804,300	2,804,300
– General reserve	13,793,926	13,793,926
– Retained earnings	4,941,285	3,083,265
– Qualifying portions of non-controlling interests	2,072,751	1,970,929
Core tier-one capital deductions	(3,141,750)	(3,194,341)
Net core tier-one capital	76,725,798	74,309,352
Other tier-one capital	21,907,153	13,893,485
Net tier-one capital	98,632,951	88,202,837
Tier-two capital		
– Instruments issued and share premium	11,999,667	11,999,640
– Surplus provision for loan impairment	9,365,499	9,414,698
– Qualifying portions of non-controlling interests	530,821	524,910
Net capital base	120,528,938	110,142,085
Total risk weighted assets	951,633,878	930,901,630
Core tier-one capital adequacy ratio	8.06%	7.98%
Tier-one capital adequacy ratio	10.36%	9.47%
Capital adequacy ratio	12.67%	11.83%

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Notes to the consolidated cash flow statement

(a) Net (decrease)/increase in cash and cash equivalents

	June 30, 2023	June 30, 2022
Cash and cash equivalents as at June 30	100,839,397	97,187,692
Less: Cash and cash equivalents as at January 1	125,893,084	71,891,805
Net (decrease)/increase in cash and cash equivalents	(25,053,687)	25,295,887

(b) Cash and cash equivalents

	June 30, 2023	June 30, 2022
Cash on hand	2,022,568	2,713,040
Deposits with the central bank	31,823,107	41,000,076
Deposits with banks and other financial institutions	11,433,637	17,196,668
Financial assets held under resale agreements	55,560,085	14,013,413
Placements with banks and other financial institutions	—	22,264,495
Total	100,839,397	97,187,692

41 Related party relationships and transactions

(a) Relationship of related parties:

(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 in the Bank.

Shareholding in the Bank:

	June 30, 2023	December 31, 2022
Henan Investment Group Co., Ltd.	6.20%	6.20%

(ii) Subsidiaries and joint venture of the Bank

The detailed information of the Bank's subsidiaries and joint venture are set out in Note 21.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors 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 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 41(a) or their controlling shareholders.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(b) Related party transactions and balances:

(i) Transactions between the Bank and major shareholders:

	Six months ended June 30,	
	2023	2022
Transactions during the reporting period:		
Interest income	20,752	31,608
Interest expense	470	208
	June 30, 2023	December 31, 2022
Balances at end of the reporting period/year:		
Loans and advances to customers	1,248,143	1,253,262
Right-of-use assets	1,226	116
Deposits from customers	149,526	55,583
Lease liabilities	–	349

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

(iii) Transactions between the Bank and other related parties and joint venture:

	Six months ended June 30,	
	2023	2022
Transactions during the reporting period:		
Interest income	173,999	229,412
Interest expense	6,886	9,099
Operating expense	–	11,337
Assets disposal	17,265	7,100
	June 30, 2023	December 31, 2022
Balances at end of the reporting period/year:		
Loans and advances to customers	4,566,443	8,604,902
Financial investments	1,891,916	4,087,697
Lease receivables	637,734	330,776
Deposits with banks and other financial institutions	2,798,961	–
Placements with banks and other financial institutions	909,985	2,580,576
Right-of-use assets	–	17,436
Deposits from customers	949,068	1,013,770
Deposits from banks and other financial institutions	1,642,237	2,849,005
Lease liabilities	–	19,714
	June 30, 2023	December 31, 2022
Balances of items off the consolidated statement of financial position outstanding at the end of the reporting period/year:		
Letters of credit	55,000	11,250
Bank acceptances	420,000	–

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (Continued)

(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 executive officers.

(i) Transactions between the Bank and key management personnel

	Six months ended June 30,	
	2023	2022
Transactions during the reporting period:		
Interest income	404	273
Interest expense	211	174
	June 30, 2023	December 31, 2022
Balances at end of the reporting period/year:		
Loans and advances to customers	15,626	21,938
Deposits from customers	22,636	23,929

(ii) Key management personnel compensation

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

	Six months ended June 30,	
	2023	2022
Salaries and other emoluments	8,068	5,391
Discretionary bonuses	3,835	2,359
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	775	506
Total	12,678	8,256

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

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	June 30, 2023	December 31, 2022
Aggregate amount of relevant loans outstanding at the end of the period/year	8,299	6,466
Maximum aggregate amount of relevant loans outstanding during the period/year	8,299	6,466

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at June 30, 2023 and December 31, 2022.

Notes to the unaudited interim financial statements

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42 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 and deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee 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 and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial markets business

This segment covers the Group's financial markets business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial markets 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 cannot 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 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. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the six months ended June 30, 2023 and year 2022 to acquire property and equipment, intangible assets and other long-term assets.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

Others (Continued)

	Six months ended June 30, 2023				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income/(expense)	9,424,694	(542,966)	2,011,159	–	10,892,887
Internal net interest (expense)/income	(2,255,421)	3,576,807	(1,321,386)	–	–
Net interest income	7,169,273	3,033,841	689,773	–	10,892,887
Net fee and commission income/(expense)	632,118	(16,283)	397,552	–	1,013,387
Net trading gains	440,858	–	156,817	–	597,675
Net gains arising from investment securities	262	–	842,696	–	842,958
Other operating income	156,479	644	662	46,507	204,292
Operating income	8,398,990	3,018,202	2,087,500	46,507	13,551,199
Operating expenses	(1,967,382)	(1,642,630)	(461,876)	(334,709)	(4,406,597)
Impairment losses on assets	(5,624,656)	(1,049,643)	(338,673)	(201)	(7,013,173)
Share of profits of joint venture	–	–	81,714	–	81,714
Profit/(loss) before tax	806,952	325,929	1,368,665	(288,403)	2,213,143
Other segment information					
– Depreciation and amortization	460,167	206,400	212,134	3,352	882,053
– Capital expenditure	283,816	127,301	130,838	2,067	544,022
	June 30, 2023				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Segment assets	580,890,439	296,506,131	469,815,057	4,907,190	1,352,118,817
Deferred tax assets	–	–	–	10,377,208	10,377,208
Total assets	580,890,439	296,506,131	469,815,057	15,284,398	1,362,496,025
Segment liabilities	352,660,830	544,071,073	360,715,563	9,075,993	1,266,523,459
Total liabilities	352,660,830	544,071,073	360,715,563	9,075,993	1,266,523,459

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

Others (Continued)

	Six months ended June 30, 2022				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	5,751,303	1,541,722	1,084,086	–	8,377,111
Internal net interest (expense)/income	(611,857)	1,187,511	(575,654)	–	–
Net interest income	5,139,446	2,729,233	508,432	–	8,377,111
Net fee and commission income	288,449	307,180	398,855	–	994,484
Net trading gains	331,371	–	226,690	–	558,061
Net gains arising from investment securities	630	–	415,986	–	416,616
Other operating income/(expense)	12,026	7,736	(768)	41,949	60,943
Operating income	5,771,922	3,044,149	1,549,195	41,949	10,407,215
Operating expenses	(1,390,752)	(1,448,194)	(313,786)	(171,615)	(3,324,347)
Impairment losses on assets	(3,696,822)	(351,794)	(913,719)	(109,526)	(5,071,861)
Share of profits of joint venture	–	–	142,596	–	142,596
Profit/(loss) before tax	684,348	1,244,161	464,286	(239,192)	2,153,603
Other segment information					
– Depreciation and amortization	285,173	190,823	80,982	2,293	559,271
– Capital expenditure	188,834	126,358	53,624	1,518	370,334
	December 31, 2022				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Segment assets	549,371,006	271,541,714	490,860,811	4,756,970	1,316,530,501
Deferred tax assets	–	–	–	10,205,981	10,205,981
Total assets	549,371,006	271,541,714	490,860,811	14,962,951	1,326,736,482
Segment liabilities	363,009,783	487,077,726	373,321,826	9,692,603	1,233,101,938
Total liabilities	363,009,783	487,077,726	373,321,826	9,692,603	1,233,101,938

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 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.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(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

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Management Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated 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.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

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 for further 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 standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

Credit risk management

The financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

Financial assets have not experienced a significant increase in credit risk since origination and impairment 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.

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.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

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;
- The borrower 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.

As at June 30, 2023, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

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 is 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;

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Definition of "default" and "credit-impaired assets" (Continued)

- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- overdue more than 90 days.

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 ("ECL")

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.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. 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 balance sheet 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 development rule of the 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.

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

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Measurement of expected credit losses ("ECL") (Continued)

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, Import amount, Fixed investments cumulative year-on-year, etc. The impact of these economic variables on the PD and LGD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables, PD and LGD. Forecasts of these economic indicators are provided quarterly by the Group and provide the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the Group.

As at June 30, 2023, the Group has taken into account different macroeconomic scenarios, combined with the impact of factors on economic development trends, and made forward-looking forecasts of macroeconomic indicators, including: quarter-on-quarter GDP growth, used to estimate ECL, ranges from 2.95% to 6.99% in the neutral scenario for the second half of 2023.

Assessing credit risk of financial assets after the amendment of contractual cash flows

In order to achieve maximum collection, the Group may modify the contractual terms of loans due to business negotiations or financial difficulties of the borrowers at times.

Such rescheduling activities include extended payment term arrangements, payment holidays and payment forgiveness. Rescheduling policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. The restructuring of loans is most common in the management of medium and long-term loans. The risk stage can only be adjusted lower if the rescheduled loans are reviewed for at least 6 consecutive months and the corresponding stage classification criteria is reached.

(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 reporting period.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) *Financial assets analyzed by credit quality are summarized as follows:*

	At June 30, 2023							
	Balance				Provision for impairment losses			
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total
Financial assets measured at amortised cost (not including accrued interest)								
Cash and deposits with the central bank	75,832,990	-	-	75,832,990	-	-	-	-
Deposits/Placements with banks and other financial institutions	39,210,736	-	19,027	39,229,763	(10,459)	-	(19,027)	(29,486)
Financial assets held under resale agreements	55,560,085	-	-	55,560,085	(4,463)	-	-	(4,463)
Loans and advances to customers	609,692,152	16,366,177	16,228,962	642,287,291	(9,042,959)	(3,848,552)	(10,919,824)	(23,811,335)
Financial investments	220,314,268	2,773,086	23,412,642	246,499,996	(328,557)	(183,867)	(7,465,582)	(7,978,006)
Lease receivables	65,898,489	2,163,142	1,586,504	69,648,135	(1,093,431)	(652,824)	(1,011,274)	(2,757,529)
Total	1,066,508,720	21,302,405	41,247,135	1,129,058,260	(10,479,869)	(4,685,243)	(19,415,707)	(34,580,819)
Financial assets at fair value through other comprehensive income (not including accrued interest)								
Loans and advances to customers	81,292,733	-	10,000	81,302,733	(65,265)	-	(10,000)	(75,265)
Financial investments	89,755,167	272,370	-	90,027,537	(15,417)	(52,500)	-	(67,917)
Total	171,047,900	272,370	10,000	171,330,270	(80,682)	(52,500)	(10,000)	(143,182)

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	At December 31, 2022							
	Balance				Provision for impairment losses			
	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total	Assessed for expected credit losses over the next 12 months	Not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired and assessed for lifetime expected credit loss	Total
Financial assets measured at amortised cost (not including accrued interest)								
Cash and deposits with the central bank	75,256,245	-	-	75,256,245	-	-	-	-
Deposits/Placements with banks and other financial institutions	51,284,780	-	19,027	51,303,807	(11,729)	-	(19,027)	(30,756)
Financial assets held under resale agreements	65,185,824	-	-	65,185,824	(4,870)	-	-	(4,870)
Loans and advances to customers	564,599,145	17,800,515	13,196,883	595,596,543	(8,433,119)	(3,794,333)	(8,443,263)	(20,670,715)
Financial investments	221,239,810	8,312,424	16,668,287	246,220,521	(357,000)	(729,492)	(5,490,939)	(6,577,431)
Lease receivables	59,994,360	2,141,372	757,661	62,893,393	(1,370,326)	(770,140)	(438,859)	(2,579,325)
Total	1,037,560,164	28,254,311	30,641,858	1,096,456,333	(10,177,044)	(5,293,965)	(14,392,088)	(29,863,097)
Financial assets at fair value through other comprehensive income (not including accrued interest)								
Loans and advances to customers	88,468,142	-	10,000	88,478,142	(53,164)	-	(10,000)	(63,164)
Financial investments	92,763,794	348,552	-	93,112,346	(15,107)	(82,185)	-	(97,292)
Total	181,231,936	348,552	10,000	181,590,488	(68,271)	(82,185)	(10,000)	(160,456)

* Financial investments don't include financial investments at fair value through profit or loss and non-trading equity investments designated as financial investments at fair value through other comprehensive income.

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 RMB19,388.41 million (December 31, 2022: RMB29,537.27 million). The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB3,877.23 million (December 31, 2022: RMB3,948.86 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals was 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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(iii) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions. Neither overdue nor impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

	June 30, 2023	December 31, 2022
Neither overdue nor credit-impaired		
Ratings		
– A to AAA	60,938,069	64,866,423
– unrated	34,510,597	52,306,696
Total	95,448,666	117,173,119

(iv) Debt securities

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 analyzed by the rating agency designations at the end of the reporting period are as follows:

	June 30, 2023	December 31, 2022
Neither overdue nor credit-impaired		
Ratings		
– AAA	275,793,920	275,829,307
– AA – to AA+	4,430,219	5,834,027
– BB – to BB+	27,852	26,834
– B – to B+	207,288	298,202
– unrated	20,998,808	9,255,105
Overdue but not credit-impaired		
– unrated	–	837,984
Overdue and credit impaired		
– unrated	1,312,606	692,910
Total	302,770,693	292,774,369

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(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 board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions, as well as monitoring and managing the foreign exchange risk on a daily basis. The Asset and Liability Management Department is responsible for monitoring and managing the interest rate risk in bank account. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

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 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.

The Asset and Liability Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the financial markets 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.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

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

	At June 30, 2023					Total
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	
Assets						
Cash and deposits with the central bank	75,832,990	-	-	-	2,050,503	77,883,493
Deposits with banks and other financial institutions	22,078,995	2,270,314	-	-	374,551	24,723,860
Placement with banks and other financial institutions	7,115,551	7,735,417	-	-	303,456	15,154,424
Derivative financial assets	-	-	-	-	38,429	38,429
Financial assets held under resale agreements	55,555,622	-	-	-	14,760	55,570,382
Loans and advances to customers (Note (1))	322,231,654	231,179,690	115,354,979	31,012,366	3,933,167	703,711,856
Financial investments (Note (2))	29,531,887	46,891,579	136,499,466	115,626,595	58,029,356	386,578,883
Lease receivables (Note (3))	31,735,378	3,963,433	30,125,992	1,065,803	-	66,890,606
Others	-	-	-	-	31,944,092	31,944,092
Total assets	544,082,077	292,040,433	281,980,437	147,704,764	96,688,314	1,362,496,025
Liabilities						
Borrowing from the central bank	17,715,380	35,537,496	-	-	551,477	53,804,353
Deposits from banks and other financial institutions	10,155,823	3,786,000	-	-	66,684	14,008,507
Placement from banks and other financial institutions	26,347,360	38,588,649	670,744	-	505,207	66,111,960
Derivative financial liabilities	-	-	-	-	324,548	324,548
Financial assets sold under repurchase agreements	77,183,730	-	-	-	7,953	77,191,683
Deposits from customers	357,306,596	245,465,242	266,139,833	8,000,000	19,176,827	896,088,498
Debt securities issued	53,982,698	74,032,790	5,094,360	11,999,667	668,731	145,778,246
Others	93,379	223,199	431,133	20,127	12,447,826	13,215,664
Total liabilities	542,784,966	397,633,376	272,336,070	20,019,794	33,749,253	1,266,523,459
Asset-liability gap	1,297,111	(105,592,943)	9,644,367	127,684,970	62,939,061	95,972,566

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

(i) (Continued)

	At December 31, 2022					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	75,256,245	–	–	–	2,331,704	77,587,949
Deposits with banks and other financial institutions	10,717,228	10,312,148	–	–	157,603	21,186,979
Placement with banks and other financial institutions	11,676,699	18,566,976	–	–	524,853	30,768,528
Derivative financial assets	–	–	–	–	93,255	93,255
Financial assets held under resale agreements	65,180,954	–	–	–	36,658	65,217,612
Loans and advances to customers (Note (1))	317,733,635	201,162,950	111,630,609	32,876,776	3,488,455	666,892,425
Financial investments (Note (2))	47,987,633	42,302,003	143,835,890	98,629,910	40,682,093	373,437,529
Lease receivables (Note (3))	31,679,709	2,261,356	25,847,756	525,247	–	60,314,068
Others	–	–	–	–	31,238,137	31,238,137
Total assets	560,232,103	274,605,433	281,314,255	132,031,933	78,552,758	1,326,736,482
Liabilities						
Borrowing from the central bank	8,112,027	34,284,450	–	–	264,519	42,660,996
Deposits from banks and other financial institutions	29,992,498	–	–	–	123,538	30,116,036
Placement from banks and other financial institutions	23,069,609	27,002,021	1,342,140	–	392,661	51,806,431
Derivative financial liabilities	–	–	–	–	562,679	562,679
Financial assets sold under repurchase agreements	101,671,209	–	–	–	34,874	101,706,083
Deposits from customers	374,428,493	194,905,167	257,986,283	–	17,937,211	845,257,154
Debt securities issued	63,212,509	60,547,298	8,994,121	11,999,640	405,164	145,158,732
Others	71,484	229,300	471,019	167,497	14,894,527	15,833,827
Total liabilities	600,557,829	316,968,236	268,793,563	12,167,137	34,615,173	1,233,101,938
Asset-liability gap	(40,325,726)	(42,362,803)	12,520,692	119,864,796	43,937,585	93,634,544

Notes:

- (1) 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 RMB12,616.12 million (December 31, 2022: RMB13,881.89 million).
- (2) As at June 30, 2023, for financial investments, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB16,670.35 million (December 31, 2022: RMB16,174.39 million).
- (3) As at June 30, 2023, for lease receivables, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB959.69 million (December 31, 2022: RMB835.17 million).

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

Trading interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

	30 June 2023 (decrease)/ Increase	31 December 2022 (decrease)/ Increase
Changes in net interest income		
Up 100 bps parallel shift in yield curves	(584,232)	(540,734)
Down 100 bps parallel shift in yield curves	584,232	540,734
	30 June 2023 (decrease)/ Increase	31 December 2022 (decrease)/ Increase
Changes in equity		
Up 100 bps parallel shift in yield curves	(3,671,124)	(3,734,641)
Down 100 bps parallel shift in yield curves	3,925,702	4,091,216

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 annualized 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 effect of equity is the effect of the assumed changes in interest rates on the Group's net interest income and other comprehensive income, calculated by revaluing financial investments at fair value through other comprehensive income and loans and advances to customers measured at fair value through other comprehensive income held at year end. 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 financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	At June 30, 2023				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	77,694,776	187,272	480	965	77,883,493
Deposits with banks and other financial institutions	12,206,371	11,147,666	1,295,462	74,361	24,723,860
Placement with banks and other financial institutions	14,939,113	215,311	–	–	15,154,424
Financial assets held under resale agreements	55,570,382	–	–	–	55,570,382
Loans and advances to customers	699,583,253	4,128,603	–	–	703,711,856
Financial investments	378,344,835	7,815,183	418,865	–	386,578,883
Lease receivables	66,890,606	–	–	–	66,890,606
Derivative financial assets	38,429	–	–	–	38,429
Others	31,317,522	251,909	374,661	–	31,944,092
Total assets	1,336,585,287	23,745,944	2,089,468	75,326	1,362,496,025
Liabilities					
Borrowing from the central bank	53,804,353	–	–	–	53,804,353
Deposits from banks and other financial institutions	14,008,506	1	–	–	14,008,507
Placement from banks and other financial institutions	60,515,437	5,596,523	–	–	66,111,960
Financial assets sold under repurchase agreements	77,191,683	–	–	–	77,191,683
Deposits from customers	891,918,401	4,114,913	1,016	54,168	896,088,498
Debt securities issued	145,778,246	–	–	–	145,778,246
Derivative financial liabilities	324,548	–	–	–	324,548
Others	13,183,828	6,273	25,351	212	13,215,664
Total liabilities	1,256,725,002	9,717,710	26,367	54,380	1,266,523,459
Asset-liability gap	79,860,285	14,028,234	2,063,101	20,946	95,972,566

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	At December 31, 2022				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	77,516,384	70,062	557	946	77,587,949
Deposits with banks and other financial institutions	8,229,865	11,295,389	1,606,066	55,659	21,186,979
Placement with banks and other financial institutions	27,462,607	3,305,921	–	–	30,768,528
Financial assets held under resale agreements	65,217,612	–	–	–	65,217,612
Loans and advances to customers	665,556,902	1,335,523	–	–	666,892,425
Financial investments	364,649,836	8,119,539	668,154	–	373,437,529
Lease receivables	60,314,068	–	–	–	60,314,068
Derivative financial assets	93,255	–	–	–	93,255
Others	30,749,835	398,427	89,875	–	31,238,137
Total assets	1,299,790,364	24,524,861	2,364,652	56,605	1,326,736,482
Liabilities					
Borrowing from the central bank	42,660,996	–	–	–	42,660,996
Deposits from banks and other financial institutions	30,116,035	1	–	–	30,116,036
Placement from banks and other financial institutions	48,108,422	3,698,009	–	–	51,806,431
Financial assets sold under repurchase agreements	101,706,083	–	–	–	101,706,083
Deposits from customers	844,162,607	1,061,237	982	32,328	845,257,154
Debt securities issued	145,158,732	–	–	–	145,158,732
Derivative financial liabilities	562,679	–	–	–	562,679
Others	15,625,124	156,558	51,750	395	15,833,827
Total liabilities	1,228,100,678	4,915,805	52,732	32,723	1,233,101,938
Asset-liability gap	71,689,686	19,609,056	2,311,920	23,882	93,634,544

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	June 30, 2023	December 31, 2022
	Increase/ (decrease)	Increase/ (decrease)
Changes in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	118,303	164,587
Down 100 bps change of foreign exchange rate	(118,303)	(164,587)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after maturity; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(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. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Asset and Liability Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	Six months ended June 30, 2023							Total
	Indefinite Note (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	
Assets								
Cash and deposits with the central bank	44,009,883	33,845,675	27,935	-	-	-	-	77,883,493
Deposits with banks and other financial institutions	-	10,660,023	4,038,819	7,733,934	2,291,084	-	-	24,723,860
Placements with banks and other financial institutions	-	-	3,479,866	3,846,990	7,827,568	-	-	15,154,424
Derivative financial assets	-	-	10,291	-	2,410	-	25,728	38,429
Financial assets held under resale agreements	-	-	55,570,382	-	-	-	-	55,570,382
Loans and advances to customers	7,813,580	5,264,370	36,356,618	61,022,967	247,014,694	170,277,897	175,961,730	703,711,856
Financial investments	16,979,644	32,145,094	6,653,091	16,332,562	53,062,545	139,383,884	122,022,063	386,578,883
Lease receivables	731,105	305,939	176,216	523,133	6,182,524	52,509,383	6,462,306	66,890,606
Others	19,143,610	-	29,792	477,887	447,018	10,531,765	1,314,020	31,944,092
Total assets	88,677,822	82,221,101	106,343,010	89,937,473	316,827,843	372,702,929	305,785,847	1,362,496,025
Liabilities								
Borrowing from the central bank	-	-	5,749,837	12,205,752	35,848,764	-	-	53,804,353
Deposits from banks and other financial institutions	-	2,713,202	5,044,698	2,436,472	3,814,135	-	-	14,008,507
Placements from banks and other financial institutions	-	-	11,183,724	15,404,980	38,845,982	677,274	-	66,111,960
Derivative financial liabilities	-	-	18	-	297,233	-	27,297	324,548
Financial assets sold under repurchase agreements	-	-	77,191,683	-	-	-	-	77,191,683
Deposits from customers	-	271,124,767	37,072,974	49,302,612	248,448,170	282,139,975	8,000,000	896,088,498
Debt securities issued	-	-	14,342,281	40,218,355	74,123,583	5,094,360	11,999,667	145,778,246
Others	-	2,151,676	2,693,214	711,159	1,977,713	4,267,552	1,414,350	13,215,664
Total liabilities	-	275,989,645	153,278,429	120,279,330	403,355,580	292,179,161	21,441,314	1,266,523,459
Long/(short) position	88,677,822	(193,768,544)	(46,935,419)	(30,341,857)	(86,527,737)	80,523,768	284,344,533	95,972,566

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	Year ended December 31, 2022							Total
	Indefinite Note (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	
Assets								
Cash and deposits with the central bank	43,656,142	33,902,018	29,789	-	-	-	-	77,587,949
Deposits with banks and other financial institutions	-	10,303,550	167,977	254,959	10,460,493	-	-	21,186,979
Placements with banks and other financial institutions	-	-	3,140,161	8,767,825	18,860,542	-	-	30,768,528
Derivative financial assets	-	-	45,221	27,480	2,114	18,440	-	93,255
Financial assets held under resale agreements	-	-	65,217,612	-	-	-	-	65,217,612
Loans and advances to customers	9,090,576	5,570,759	44,404,556	71,464,053	216,909,223	155,915,245	163,538,013	666,892,425
Financial investments	13,142,311	29,547,006	5,750,955	27,675,402	44,580,456	149,260,218	103,481,181	373,437,529
Lease receivables	808,928	219,802	351,836	306,377	4,356,657	50,118,518	4,151,950	60,314,068
Others	18,483,954	-	90,230	620,446	920,956	9,795,222	1,327,329	31,238,137
Total assets	85,181,911	79,543,135	119,198,337	109,116,542	296,090,441	365,107,643	272,498,473	1,326,736,482
Liabilities								
Borrowing from the central bank	-	544,691	4,146,118	3,427,348	34,542,839	-	-	42,660,996
Deposits from banks and other financial institutions	-	4,087,964	1,617,723	18,791,036	5,619,313	-	-	30,116,036
Placements from banks and other financial institutions	-	-	8,709,658	14,527,869	27,201,922	1,366,982	-	51,806,431
Derivative financial liabilities	-	-	542,882	1,489	-	18,308	-	562,679
Financial assets sold under repurchase agreements	-	-	101,706,083	-	-	-	-	101,706,083
Deposits from customers	-	262,253,340	49,776,245	70,516,932	199,130,927	263,579,710	-	845,257,154
Debt securities issued	-	-	9,017,965	54,254,312	60,892,694	8,994,121	11,999,640	145,158,732
Others	-	3,154,126	812,896	303,409	5,428,953	4,593,296	1,541,147	15,833,827
Total liabilities	-	270,040,121	176,329,570	161,822,395	332,816,648	278,552,417	13,540,787	1,233,101,938
Long/(short) position	85,181,911	(190,496,986)	(57,131,233)	(52,705,853)	(36,726,207)	86,555,226	258,957,686	93,634,544

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 and lease receivables includes all the credit-impaired loans and lease receivables, as well as those overdue more than one month. Loans and advances to customers and lease receivables with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents credit-impaired investments or those overdue more than one month. Financial investments with no impairment but overdue within one month are classified into the category of repayable on demand. Equity investments is listed in the category of indefinite.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments at the end of the reporting period:

	At June 30, 2023							
	Carrying amount	Contractual undiscounted cash flow	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
Non-derivative financial liabilities								
Borrowing from the central bank	53,804,353	54,352,056	-	5,754,842	12,254,407	36,342,807	-	-
Deposits from banks and other financial institutions	14,008,507	14,075,353	2,714,372	5,047,936	2,447,166	3,865,879	-	-
Placements from banks and other financial institutions	66,111,960	67,717,944	-	11,347,159	15,670,742	39,976,118	723,925	-
Financial assets sold under repurchase agreements	77,191,683	77,218,573	-	77,218,573	-	-	-	-
Deposits from customers	896,088,498	923,291,351	271,162,483	37,094,376	49,503,377	252,556,265	304,274,050	8,700,800
Debt securities issued	145,778,246	150,650,027	-	14,361,043	40,542,370	75,252,048	7,130,566	13,364,000
Lease liabilities	792,991	848,400	-	31,794	62,607	233,115	492,546	28,338
Total non-derivative financial liabilities	1,253,776,238	1,288,153,704	273,876,855	150,855,723	120,480,669	408,226,232	312,621,087	22,093,138
Loan commitments	-	14,159,060	-	14,159,060	-	-	-	-

	At December 31, 2022							
	Carrying amount	Contractual undiscounted cash flow	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
Non-derivative financial liabilities								
Borrowing from the central bank	42,660,996	43,290,388	544,908	4,150,172	3,437,259	35,158,049	-	-
Deposits from banks and other financial institutions	30,116,036	30,162,205	4,088,163	1,618,560	18,816,756	5,638,726	-	-
Placements from banks and other financial institutions	51,806,431	52,640,123	-	8,734,940	14,674,894	27,785,607	1,444,682	-
Financial assets sold under repurchase agreements	101,706,083	101,735,923	-	101,735,923	-	-	-	-
Deposits from customers	845,257,154	864,915,676	262,294,254	49,807,022	70,804,622	201,767,326	280,242,452	-
Debt securities issued	145,158,732	150,411,646	-	9,070,476	54,537,127	62,121,443	11,946,600	12,736,000
Lease liabilities	956,256	998,621	-	26,618	51,677	237,917	499,778	182,631
Total non-derivative financial liabilities	1,217,661,688	1,244,154,582	266,927,325	175,143,711	162,322,335	332,709,068	294,133,512	12,918,631
Loan commitments	-	12,552,210	-	12,552,210	-	-	-	-

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period:

At June 30, 2023								
	Carrying amount	Contractual undiscounted cash flow	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
Derivatives settled on net basis								
Foreign exchange forwards	(291,111)	(299,800)	-	-	-	(299,800)	-	-
Interest rate swaps	(1,569)	(1,700)	-	-	-	-	(1,700)	-
Derivatives settled on gross basis								
Currency swaps								
- cash outflow	5,087,121	5,157,213	-	1,401,511	-	3,755,702	-	-
- cash inflow	(5,075,009)	(5,145,342)	-	(1,391,183)	-	(3,754,159)	-	-
Precious metal derivatives								
- cash outflow	884,662	898,134	-	-	-	898,134	-	-
- cash inflow	(890,213)	(904,175)	-	-	-	(904,175)	-	-
Total	(286,119)	(295,670)	-	10,328	-	(304,298)	(1,700)	-

At December 31, 2022								
	Carrying amount	Contractual undiscounted cash flow	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
Derivatives settled on net basis								
Foreign exchange forwards	(471,187)	(469,217)	-	(497,787)	28,570	-	-	-
Interest rate swaps	811	856	-	406	-	277	173	-
Derivatives settled on gross basis								
Currency swaps								
- cash outflow	(2,596,810)	(2,604,357)	-	(1,392,320)	(510,049)	(701,988)	-	-
- cash inflow	2,597,762	2,607,827	-	1,392,920	510,960	703,947	-	-
Total	(469,424)	(464,891)	-	(496,781)	29,481	2,236	173	-

The Group's derivatives include foreign exchange forwards and currency swaps which will be settled on a net basis, and interest rate swaps which will be settled on a gross basis.

This analysis of the derivative financial instruments by contractual undiscounted cash flow might diverge from actual results.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(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 establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

44 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 each reporting period.

(ii) Investments 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. The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(a) Methods and assumptions for measurement of fair value (Continued)

(iv) *Derivative financial liabilities*

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, lease receivables and investments.

Deposits with the central bank and receivables 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 and lease receivables are mostly priced at floating rates close to the Loan Prime Rate (LPR). Accordingly, the carrying amounts approximate the fair values. The fair values of Loans and advances to customers measured at fair value through other comprehensive income, are based on valuation techniques.

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximations of its fair values because, for example, it is short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debt securities issued.

Financial liabilities designated at fair value through profit or loss is presented with fair value. The book value and fair value of debt securities issued is presented in Note 32. The carrying amounts of other financial liabilities approximate their fair value.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy

The following table presents the fair value of the Bank's 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, and credit spreads. 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.

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	234,499	52,796,373	64,047	53,094,919
Derivative financial assets	–	38,429	–	38,429
Financial investments at fair value through other comprehensive income	–	91,147,796	155,054	91,302,850
Loans and advances to customers measured at fair value through other comprehensive income	–	81,302,733	–	81,302,733
Total	234,499	225,285,331	219,101	225,738,931
Liabilities				
Derivative financial liabilities	–	324,548	–	324,548
Total	–	324,548	–	324,548

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	318,558	35,373,532	60,222	35,752,312
Derivative financial assets	–	93,255	–	93,255
Financial investments at fair value through other comprehensive income	–	94,302,872	124,879	94,427,751
Loans and advances to customers measured at fair value through other comprehensive income	–	88,478,142	–	88,478,142
Total	318,558	218,247,801	185,101	218,751,460
Liabilities				
Derivative financial liabilities	–	562,679	–	562,679
Total	–	562,679	–	562,679

During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

Movement of Level 3 fair value measurements of financial assets is as follows:

	2023	
	Financial assets at fair value through profit or loss	Financial investments at fair value through other comprehensive income
As at January 1, 2023	60,222	124,879
Total losses recognized in – Profit or loss	(7,972)	–
Additions	26,237	30,175
Disposals	(14,440)	–
As at June 30, 2023	64,047	155,054

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	2022	
	Financial assets at fair value through profit or loss	Financial investments at fair value through other comprehensive income
As at January 1, 2022	45,973	23,896
Total losses recognized in – Profit or loss	(10,219)	–
Arising from merger by absorption	1,008	7,971
Addition	23,460	93,012
As at December 31, 2022	60,222	124,879

45 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 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 recognized in the statement of financial position. Surplus funding is accounted for as deposits from customers.

	June 30, 2023	December 31, 2022
Entrusted loans	28,765,340	29,168,758
Entrusted funds	28,765,340	29,168,758

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. 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
Bank acceptances	87,759,373	106,432,704
Letters of credit	42,147,169	30,175,851
Loan commitments	14,159,060	12,552,210
Letters of guarantees	4,664,824	4,412,017
Total	148,730,426	153,572,782

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

	June 30, 2023	December 31, 2022
Credit risk-weighted amount	29,807,900	52,389,406

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC.

Notes to the unaudited interim financial statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Commitments and contingent liabilities (Continued)

(c) Capital commitments

As at June 30, 2023 and December 31, 2022, the Group's authorized capital commitments are as follows:

	June 30, 2023	December 31, 2022
Contracted but not paid for	1,091,977	907,518
Approved but not contracted for	196,434	31,392
Total	1,288,411	938,910

(d) Outstanding litigations and disputes

As at June 30, 2023, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB1,649.82 million (December 31, 2022: RMB1,300.32 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

47 Subsequent events

On August 15, 2023, the Bank issued the 2023 undated capital bonds of Zhongyuan Bank Co., Ltd. (the first tranche) (the "Bonds") in China National Inter-Bank Bond Market. The size of the Bonds issuance is RMB10 billion. The coupon rate is 4.6% during the first five years, and will be reset every 5 years. The Bank shall have a conditional redemption right on every dividend payment date from the fifth year onwards. The proceeds from the Bonds will be used to replenish the Bank's other tier-one capital in accordance with applicable laws and approvals by the regulatory authorities.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial report, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	June 30 2023	Average for the period ended June 30, 2023
Qualified high-quality liquid assets	190,692,267	
Net cash outflow	32,366,500	
Liquidity coverage ratio (RMB and foreign currency)	589.17%	556.01%

	December 31 2022	Average for the year ended 2022
Qualified high-quality liquid assets	15,749,282.86	
Net cash outflow	2,569,350.35	
Liquidity coverage ratio (RMB and foreign currency)	612.97%	343.45%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	June 30, 2023	December 31, 2022
Leverage ratio	6.69%	6.03%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the former CBRC and was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 Net stable funding ratio

	June 30, 2023	March 31, 2023	December 31, 2022
Available stable funding	872,684,503	834,720,728	778,502,226
Required stable funding	659,957,712	612,931,995	584,570,290
Net stable funding ratio	132.23%	136.18%	133.18%

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Currency concentrations

	June 30, 2022			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	23,745,944	2,089,468	75,326	25,910,738
Spot liabilities	(9,717,710)	(26,367)	(54,380)	(9,798,457)
Net position	14,028,234	2,063,101	20,946	16,112,281

	December 31, 2022			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	24,524,861	2,364,652	56,605	26,946,118
Spot liabilities	(4,915,805)	(52,732)	(32,723)	(5,001,260)
Net position	19,609,056	2,311,920	23,882	21,944,858

The Group has no structural position at the end of reporting period.

4 International claims

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include amounts due from banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	June 30, 2023			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	13,127,208	–	11,792,163	24,919,371
North America	127,012	–	–	127,012
Others	17,269	–	–	17,269
	13,271,489	–	11,792,163	25,063,652

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 International claims (Continued)

	December 31, 2022			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	13,654,594	–	8,771,532	22,426,126
North America	88,427	–	–	88,427
Others	436,188	–	–	436,188
	14,179,209	–	8,771,532	22,950,741

5 Gross amount of overdue loans and advances

	June 30, 2023	December 31, 2022
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	2,249,826	2,534,810
– between 6 months and 1 year (inclusive)	5,110,167	3,776,265
– over 1 year	7,250,447	5,067,726
Total	14,610,440	11,378,801
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.31%	0.37%
– between 6 months and 1 year (inclusive)	0.71%	0.55%
– over 1 year	1.00%	0.74%
Total	2.02%	1.66%

X. Definitions

“AB Leasing”	AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability and a subsidiary of the Bank
“Articles of Association”	articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank of Luoyang”	Bank of Luoyang Co., Ltd., a company principally engaged in banking business
“Bank of Pingdingshan”	Bank of Pingdingshan Co., Ltd., a company principally engaged in banking business
“Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches and all subsidiaries
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of the Bank
“BOL Financial Leasing”	BOL Financial Leasing Co., Ltd. (洛銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability and a subsidiary of the Bank
“CBIRC”	the China Banking and Insurance Regulatory Commission, a former name of the National Administration of Financial Regulation
“CBRC”	the China Banking Regulatory Commission, a former name of the National Administration of Financial Regulation
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim report only, excluding Hong Kong, Macau Special Administrative Region and Taiwan of the PRC
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a joint venture of our Bank
“Corporate Governance Code”	the Corporate Governance Code under Appendix 14 to the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi
“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange
“HK\$”	the lawful currency of Hong Kong
“Hong Kong 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
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

X. Definitions

“Jiaozuo Bank of China Travel Service” or “Bank of JZCTS”	Jiaozuo Bank of China Travel Service Co., Ltd., a company principally engaged in banking business
“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commenced on the Main Board of Hong Kong Stock Exchange
“Lushi Zhongyuan County Bank”	Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of the Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC” or “Central Bank”	The People’s Bank of China (中國人民銀行)
“Preference Shares” or “Offshore Preference Shares”	69,750,000 shares of non-cumulative perpetual offshore preference shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“Reporting Period”	the 6 months ended June 30, 2023
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	ordinary shares in the share capital with a nominal value of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank
“14 County Banks”	Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), Xiangcheng Zhongyuan County Bank Co., Ltd. (襄城中原村鎮銀行股份有限公司), Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Xiping Zhongyuan County Bank Co., Ltd. (西平中原村鎮銀行股份有限公司), Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), Shenzhen Nanshan Baosheng County Bank Co., Ltd. (深圳南山寶生村鎮銀行股份有限公司), Henan Luanchuan Minfeng County Bank Co., Ltd. (河南樂川民豐村鎮銀行股份有限公司), Mengjin Minfeng County Bank Co., Ltd. (孟津民豐村鎮銀行股份有限公司), Jiaxian Guangtian County Bank Co., Ltd. (郊縣廣天村鎮銀行股份有限公司), Luohe Yancheng Zhongyuan County Bank Co., Ltd. (漯河鄆城中原村鎮銀行有限責任公司)