

CZBANK 浙商银行

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

A Share Stock Code : 601916

H Share Stock Code : 2016

2023
Interim Report



IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.
2. This interim report was approved at the sixth extraordinary meeting of the sixth session of the Board of the Company in 2023 on August 29, 2023. The Company has 14 Directors, among which 12 Directors attended the meeting in person, and Mr. Lu Jianqiang appointed Mr. Zhang Rongsen and Mr. Chen Haiqiang appointed Ms. Ma Hong as proxies to attend the meeting on their behalf, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 8 Supervisors of the Company attended the meeting.
3. The Company neither declares interim dividend for 2023 nor makes any transfer from reserves to share capital.
4. Unless otherwise illustrated in this report, the currency for any amount herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.
5. The interim financial report for 2023 of the Company is unaudited.
6. Lu Jianqiang (陸建強, Chairman of the Company), Zhang Rongsen (張榮森, President of the Bank), Jing Feng (景峰, Principal in charge of Finance) and Peng Zhiyuan (彭志遠, Director of the Financial Department) warrant that the financial report in the interim report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed “Management Discussion and Analysis – Risk Management” of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.

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In the first half of 2023, the Bank's assets with low sensitivity to economic cycle realized revenue of RMB**9.516** billion

29.58% of total revenue ^{Note}

↑ 1.05 percentage points compared to 2022

3.46% of total revenue

Asset balance RMB**177.7** billion

Assets in weakly cyclical industries

Loans to weakly cyclical industries 2.65%

Commercial paper for weakly cyclical industries 0.81%

16.57% of total revenue

Asset balance RMB**546.5** billion

Small diversified assets

Retail business 5.92%

Small loan business 9.71%

Supply chain finance 0.93%

Supply chain notes 0.01%

9.55% of total revenue

Business balance RMB**4,638.8** billion

Customer service aggregate (CSA)

Asset under management (AUM) 2.13%

Finance product aggregate (FPA) 1.42%

Fixed income, currencies & commodities (FICC) 0.34%

International business 4.19%

Full-range product sales 0.65%

Custodian business 0.82%

Main indicators in Zhejiang Province (excluding Zheyin Financial Leasing)

Unit: RMB100 million

Item	End of June 2023	End of 2022	Increase
 Deposit balance	4,941	4,628	↑ 6.76%
 Loan balance	5,435	4,997	↑ 8.77%
 Total financing services	8,812	8,398	↑ 4.93%
 Small and micro enterprise loans under inclusive finance	1,247	1,144	↑ 9.00%
 Green loan	808	700	↑ 15.43%
 Loans to manufacturing industries	1,111	1,006	↑ 10.44%
 Balance of agricultural-related loans	1,222	1,101	↑ 10.99%

Note: Excluding the subsidiaries in accordance with domestic standards

Rapid business growth in Zhejiang Province. As of the end of June 2023, balance of deposits and loans of various kinds amounted to RMB494.1 billion and RMB543.5 billion, representing an increase of RMB31.3 billion and RMB43.8 billion, or 6.76% and 8.77%, respectively, compared to the beginning of the year.

1

Stronger cooperation with government departments. The Bank signed a strategic cooperation agreement with Hangzhou Municipal Government, realizing the “full coverage” of 11 municipal governments in Zhejiang Province. Besides, it signed a climate investment and financing agreement with Lishui Municipal Government; a contract with Government Purchasing Cloud (政採雲) and a strategic cooperation agreement with the Association of Industry and Commerce of Zhejiang Province.

Connecting and providing services to the “Industrial Brain” (產業大腦) of the Economy and Information Technology Department of Zhejiang, “Brain of Animal Husbandry Industry” (畜牧產業大腦) of the Department of Agriculture and Rural Development Department of Zhejiang, “ZHELI HAOGUANJIA” (浙裡好管家) of Zhejiang Provincial Government Offices Administration, the electronic guarantee platform of Zhejiang Provincial Public Resources Trading Center, the intelligent natural resources trading platform of Zhejiang Province, etc.

2

3

Positive progress in serving significant projects. As the end of June 2023, 43 significant projects has been implemented in Zhejiang Province, with financing balance of over RMB7.5 billion.

Actively serving local governments. The Bank underwrote local government bonds of RMB17.7 billion in Zhejiang Province, accounting for 9.05% of total size of issuance and ranking fourth in the banking industry in Zhejiang Province.

4

5

Achieving breakthroughs in obtaining important business qualifications and special capital accounts. At the end of June, the Bank had 66 new qualifications and special accounts.

Deepened cooperation with various provincial enterprises, such as Zhejiang International Business Group, WZ Group, Zhejiang Xinghe, ZCIGC, CICO and Zhejiang Natural Resources Group.

7

6

8

The Bank has been awarded as an Outstanding Entity in Supporting Zhejiang Economic and Social Development (First Prize) by the provincial government for the eighth year running.



DEFINITIONS

“Company”, “Bank”, “our Bank”, China Zheshang Bank Co., Ltd.

**“China Zheshang Bank” or
“CZBank”:**

“Former CBIRC”: Former China Banking and Insurance Regulatory Commission

“CSRC”: China Securities Regulatory Commission

“Hong Kong Stock Exchange”: The Stock Exchange of Hong Kong Limited

“SFO”: Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Hong Kong Listing Rules”: The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Model Code”: The Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules

“Zheyin Financial Leasing”: Zhejiang Zheyin Financial Leasing Co., Ltd., a holding subsidiary of the Company, in which the Company holds 51% of the equity interest

“Group”: the Company and its subsidiary



COMPANY PROFILE

1. Company name in Chinese:	浙商银行股份有限公司(Abbreviation in Chinese: 浙商银行)
Company name in English:	CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)

2. Legal Representative:	Lu Jianqiang
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3. Registered address:	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC
Postcode:	311200
Principal office address:	No. 1, Minxin Road, Shangcheng District, Hangzhou, Zhejiang Province, the PRC
Postcode:	310020
E-mail:	ir@czbank.com
Website:	www.czbank.com
Customer service hotline:	95527
Tel for investor relations management:	86-571-88268966
Fax:	86-571-87659826

4. Principal place of business in Hong Kong:	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong, the PRC
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5. Authorized representatives:	Zhang Rongsen, Chan Yin Wah
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6. Secretary to the Board:	Luo Feng (acting as Secretary to the Board)
Company secretary:	Chan Yin Wah
Representative of securities affairs:	Chen Sheng

7. A Shares	
Stock exchange where the securities are listed:	Shanghai Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	601916
H Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	2016



COMPANY PROFILE

- 8. Share registrar:**
- A Shares:** China Securities Depository and Clearing Corporation
Limited Shanghai Branch
NO. 188 South Yanggao Road, Pudong New Area, Shanghai, the PRC
- H Shares:** Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East,
Wanchai, Hong Kong, the PRC
-
- 9. Legal advisers:**
- As to Mainland PRC Laws:** Zhejiang T&C Law Firm
- As to Hong Kong PRC Laws:** Freshfields Bruckhaus Deringer
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- 10. Accounting firms engaged by the Company:**
- Domestic auditor:** KPMG Huazhen LLP
Office address: 8/F, Tower E2, Oriental Plaza,
1 East Chang'an Avenue, Dongcheng District, Beijing, the PRC
Signing certificated accountants: Chen Sijie, Jin Rui
- International auditor:** KPMG
Office address: 8/F, Prince's Building, 10 Chater Road, Central,
Hong Kong, the PRC
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- 11. Newspapers and websites designated for information disclosure:**
- Mainland China:** China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website of the Shanghai Stock Exchange (www.sse.com.cn)
Website of the Company (www.czbank.com)
- Hong Kong:** Website of the Hong Kong Stock Exchange (www.hkex.com.hk)
Website of the Company (www.czbank.com)
- Place for inspection of the report:** Office of the Board of the Company
(No. 1, Minxin Road, Shangcheng District, Hangzhou, Zhejiang Province, the PRC)
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- 12. Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004
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CORPORATE OVERVIEW

As one of the twelve nationwide joint-stock commercial banks, CZBank officially commenced business on August 18, 2004, with its head office in Hangzhou, Zhejiang Province. CZBank is the 13th “A+H” listed bank in China. Since its opening, CZBank has always gained a toehold in Zhejiang and steadily developed its businesses nationwide, and has developed into a high-quality commercial bank with a solid foundation, strong profitability and prudent risk control.

Under the guidance of the vision of being “a first-class commercial bank”, CZBank is committed to building a five-word political ecosystem consisting of “integrity, simplicity, professionalism, cooperation and honesty”, strongly promotes the “Four Dos” spirit, adheres to its twelve-word operation approach, namely “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”, focuses on the main line of digital reform, takes “deepening the development in Zhejiang” as its first priority, promotes its five major business segments, namely great retail, great corporate, great investment banking, great asset management and great cross-border, to develop shoulder to shoulder in a comprehensive and coordinate manner, embarks on a new journey of wealth management, fights and wins the four battles of “reducing risk, expanding sales, stabilizing stock price and introducing strategic investment”, and lays assets with low sensitivity to economic cycle as a ballast stone, aiming to improve its ability to provide comprehensive financial services, establish risk control and supervision systems, and embark on a new journey of high-quality development.

In the first half of 2023, CZBank’s operating income was RMB33.248 billion, representing a period-on-period increase of 4.63%; net profit attributable to shareholders of the Bank was RMB7.743 billion, representing a period-on-period increase of 11.03%. As of the end of the reporting period, the total assets were RMB2.91 trillion, representing an increase of 11.07% compared with that at the end of last year, of which: total loans and advances to customers were RMB1.65 trillion, representing an increase of 8.40% compared with that at the end of last year; the total liabilities were RMB2.73 trillion, representing an increase of 11.27% compared with that at the end of last year, of which: balance of customer deposits were RMB1.82 trillion, representing an increase of 8.42% compared with that at the end of last year; the non-performing loan ratio was 1.45% and allowance to non-performing loans was 182.42%, maintaining a positive trend in asset quality; the capital adequacy ratio was 11.83%, the tier-one capital adequacy ratio was 9.57% and the core tier-one capital adequacy ratio was 8.18%, representing an improvement in capital adequacy ratio.

CZBank has established 323 branch outlets in 22 provinces, autonomous regions, municipalities directly under the Central Government and the Hong Kong Special Administrative Region, effectively covering the headquarters in Zhejiang, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Bohai Rim, the Western Taiwan Straits Economic Zone and certain areas in the Midwestern China. In the “Top 1000 World Banks 2022” ranking by The Banker Magazine of the U.K., we ranked 79th in terms of tier-one capital, up by 20 places from the previous year. China Chengxin International gave CZBank the highest AAA corporate credit rating among financial institutions.



DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

(I) OVERALL DEVELOPMENT PLAN

Embark on a new journey of high-quality development with the vision of becoming “a first-class commercial bank”.

Targets of “a first-class commercial bank”: first-class positive social influence, first-class professional and focused industry competitiveness and first-class corporate cohesion for common progress and prosperity.

(II) MANAGEMENT CONCEPTS

Culture: Promote shared values, namely “respect, gratitude, integrity and responsibility”.

Ecosystem: Establish a five-word political ecosystem, namely integrity, simplicity, professionalism, cooperation and honesty.

Practice: Adhere to the keynote of strictness and develop “Four Dos” spirit (do it, do good, do it well and do well in it).

(III) OPERATION APPROACH AND STRATEGY

Twelve-word operation approach: consolidate corporate foundation, adjust corporate structure, control corporate risks, increase corporate profitability.

Four strategic focuses: introduce systematic digital transformation, deepen comprehensive development in all aspects, seek synergetic development of all five segments and embark on a new journey of wealth management.

(IV) OPERATING STRATEGY

Take the assets with low sensitivity to economic cycle as ballast stone, and build a first-class management system with high quality development.

(V) CORE COMPETITIVENESS

Clear and specific strategic positioning. Guided by the spirit of General Secretary Xi’s important instructions and upholding high standard political positioning with the vision of being “a first-class commercial bank”, the Company adheres to its twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”; and to the main line of digital reform, take deepening development in Zhejiang as its first priority and promote the coordinated development of its five major business segments, achieve a new start in wealth management, develop assets with low sensitivity to economic cycle as a ballast stone and improve the ability of smart operation, so as to comprehensively embark on a new journey of high-quality development.



DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

Sound and organized corporate governance. The Company strengthens the establishment of modern corporate systems in all aspects and has improved the level of corporate governance continuously. The Company has initially formed a three-tier capital structure integrating “central state capital, local state capital and private capital”^{Note}, with a more diversified equity structure and better governance systems. The Board of Directors, the Board of Supervisors and General Meetings and its Senior Management with specified and definite duties and responsibilities have formed a corporate governance structure appropriate for the Company. Through standard information disclosure system processes, we have improved the quality of information disclosure continuously.

Unique regional advantage. The headquarters of the Company is located in Zhejiang Province which boasts strong economic foundation, high market-oriented system and mechanism, sound legal and regulatory environment, outstanding industrial cluster advantage, and complete urban system. The operating strategy of the Company is in line with the resource advantage and development plan of Zhejiang Province, so “deepening development in Zhejiang with services nationwide” naturally enjoys excellent regional advantage and external environment.

Improving business system. Along the development path of “diversified business, global layout, comprehensive services, high-quality development and integrated operation”, the Company focuses on the coordinated development of its five major business segments, namely great retail, great corporate, great investment banking, great asset management and great cross-border, and provides customers with comprehensive, three-dimensional and systematic financial services, and continuously improves the revenue contribution from assets with low sensitivity to economic cycle and the smart operations. In particular, its professional service ability in many fields such as supply chain finance, intelligent manufacturing services, science and innovation finance, and small and micro enterprise business has been highly recognized by the market and customers.

Prudent and steady risk management. Oriented with serving the real economy, the Company adheres to a prudent and healthy risk appetite and the principle of “small and diversified” in granting credit in an appropriate manner, builds an asset structure with weak sensitive assets of economic cycle as ballast stone, implements a distinctive risk control officer assignment system, and continuously improves the risk management system to maintain stable quality of assets.

Note : During the reporting period, Taiping Life Insurance Company Limited and Shandong International Trust Co., Ltd. acquired all the shares of the Company held by the former Traveller Automobile Group Co., Ltd. through joint bidding, as set out in the “Announcement of China Zheshang Bank Co., Ltd. on the Completion of Transfer of Shares by Shareholders at Judicial Auction” published by the Company on the Shanghai Stock Exchange (www.sse.com.cn) (No.: 2023-034).



DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

Financial technology with distinctive edges. The Company has systematically initiated the digital reform, built the “185N” reform system architecture, launched the “Weihai” digital brand, established the AIGC Center, taken the lead in exploring the deepened integration of the cutting-edge technologies with banking business, and collaborated with leading technology companies to develop scenario-based digital application technologies based on generalized large model, so as to build several major digital applications with CZBank identification and competitiveness in the industry.

Scientific and reasonable talent reserves. The Company attaches great importance to the construction of cadre team and talent echelon. Insisting on both internal development and external recruitment, the Company selects high-calibre people from all over the world, and complies with “promoting the capable, replacing the average and dismissing the incompetent” in a strict manner. With the guidance of the “five-word political ecosystem” and the inspiration of the “four-do spirit”, the management of the Company has broad strategic vision and extraordinary business management capability, as well as extensive experience in business operation, financial management, risk control and information technology; and the employees of the Company are young, energetic, highly-educated with strong professional competence. Our “Hive Community (蜂巢社區)” reaches directly to frontline employees and improves employee engagement in the development of the Company.

Refreshed corporate culture. The Company adheres to the entrepreneurial spirit of “seeing the action, seeing the heart, and seeing the future”, takes the “service, compliance, excellence and harmony” as basic cultural elements and the “CZBank Convention (浙銀公約)”, “CZBank Motto (浙銀行訓)” and “CZBank Song (浙銀行歌)” as a cultural consensus, and implements the four key projects, namely culture shaping, culture rooting, culture nourishing and culture promotion, so as to build the “four beams and eight pillars” of the Bank’s corporate culture system.

Innovation-led concept of public welfare. As a fulfilment of the mission of “national priorities” in finance, the Company focuses on the function and public welfare of finance, implements the concept of financial goodwill and pioneers the practicing of finance for good with the launch of CSGS, in a bid to reshape business logic at social value level. In addition, the Company proactively supports the “financial consulting system” initiated in Zhejiang Province, acts as the “financial army” of the government, the “financial family doctor” of enterprises and the “financial consultant” of residents, leads the new trend of positive financial practices and emphasizes the social value of finance.

FINANCIAL SUMMARY

(The financial data and indicators set forth in this report are prepared in accordance with IFRSs, are consolidated data of the Bank and its subsidiary and presented in RMB, unless otherwise specified.)

KEY FINANCIAL DATA AND INDICATORS

Operating results (RMB million)	January to June 2023	January to June 2022	Increase (decrease) (%)	January to June 2021
Operating income	33,248	31,778	4.63	25,948
Profit before taxation	9,378	8,489	10.47	8,151
Net profit attributable to shareholders of the Bank	7,743	6,974	11.03	6,851

Scale indicators (RMB million)	June 30, 2023	December 31, 2022	Increase (decrease) (%)	December 31, 2021
Total assets	2,912,260	2,621,930	11.07	2,286,723
Total loans and advances to customers	1,653,087	1,525,030	8.40	1,347,239
Total liabilities	2,732,795	2,456,000	11.27	2,119,840
Customer deposits	1,822,985	1,681,443	8.42	1,415,705
Equity attributable to shareholders of the Bank	176,355	162,933	8.24	164,169
Net assets per share at the end of the period attributable to shareholders of the Bank ⁽¹⁾ (RMB)	5.80	6.49	(10.63)	5.84

Per share (RMB)	January to June 2023	January to June 2022	Increase (decrease) (%)	January to June 2021
Basic earnings per share attributable to shareholders of the Bank ⁽²⁾	0.34	0.27	25.93	0.27
Diluted earnings per share attributable to shareholders of the Bank ⁽²⁾	0.34	0.27	25.93	0.27

Profitability indicators (%)	January to June 2023	January to June 2022	Increase/ decrease	January to June 2021
Return on average total assets ^{*(3)}	0.58	0.60	Decrease by 0.02 percentage point	0.67
Return on average equity ^{*(4)}	10.71	10.29	Increase by 0.42 percentage point	11.00
Net interest margin*	2.14	2.28	Decrease by 0.14 percentage point	2.27
Net interest spread*	1.95	2.08	Decrease by 0.13 percentage point	2.08
Net non-interest income to operating income	27.91	26.88	Increase by 1.03 percentage points	21.47
Cost-to-income ratio ⁽⁵⁾	27.96	24.09	Increase by 3.87 percentage points	25.20

FINANCIAL SUMMARY

Asset quality indicators (%)	June 30, 2023	December 31, 2022	Increase/ decrease	December 31, 2021
Non-performing loan ratio ⁽⁶⁾	1.45	1.47	Decrease by 0.02 percentage point	1.53
Allowance to non-performing loans ⁽⁷⁾	182.42	182.19	Increase by 0.23 percentage point	174.61
Allowance to total loans ⁽⁸⁾	2.64	2.67	Decrease by 0.03 percentage point	2.68

Capital adequacy indicators (%)	June 30, 2023	December 31, 2022	Increase/ decrease	December 31, 2021
Core tier-one capital adequacy ratio	8.18	8.05	Increase by 0.13 percentage point	8.13
Tier-one capital adequacy ratio	9.57	9.54	Increase by 0.03 percentage point	10.80
Capital adequacy ratio	11.83	11.60	Increase by 0.23 percentage point	12.89

Notes:

* Annualized return rate.

- (1) Net assets per share attributable to shareholders of the Bank = (Equity attributable to shareholders of the Bank minus other equity instruments) divided by the total number of ordinary shares at the end of the period.
- (2) Basic earnings per share attributable to shareholders of the Bank = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to other equity instruments of the Bank) divided by weighted average number of ordinary shares outstanding. As a result of the Right Issue, the earnings per share of previous years have been recalculated.
- (3) Return on average total assets = Net profit divided by the average balance of total assets at the beginning and at the end of the period.
- (4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to other equity instruments of the Bank) divided by average balance of equity attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).
- (5) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (6) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (7) Allowance to non-performing loans = Balance of the allowance for ECLs of loans divided by balance of nonperforming loans. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to non-performing loans shall not be less than 140%.
- (8) Allowance to total loans = Balance of the allowance for ECLs of loans divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to total loans shall not be less than 2.1%.

EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER DOMESTIC AND INTERNATIONAL ACCOUNTING POLICIES

The net profit attributable to shareholders of the Bank for the reporting period ended June 30, 2023 and the equity attributable to shareholders of the Bank as at the end of the reporting period presented in the financial statements prepared by the Group under the China Accounting Standards are the same with that presented in the financial statements prepared by the Group under the International Financial Reporting Standards.



MANAGEMENT DISCUSSION AND ANALYSIS

(I) ANALYSIS OF OVERALL OPERATION PERFORMANCE

Stable increase in business scale

As at the end of the reporting period, total assets of the Group amounted to RMB2,912.260 billion, representing an increase of RMB290.330 billion or 11.07% as compared to that at the end of last year, of which total loans and advances to customers amounted to RMB1,653.087 billion, representing an increase of RMB128.057 billion or 8.40% as compared to that at the end of last year. Total liabilities amounted to RMB2,732.795 billion, representing an increase of RMB276.795 billion or 11.27% as compared to that at the end of last year, of which customer deposits amounted to RMB1,822.985 billion, representing an increase of RMB141.542 billion or 8.42% as compared to that at the end of last year.

Steady improvement in operating quality and profitability

During the reporting period, operating income of the Group amounted to RMB33.248 billion, representing a period-on-period increase of RMB1.470 billion or 4.63%, of which net interest income amounted to RMB23.969 billion, representing a period-on-period increase of RMB732 million or 3.15%, and net non-interest income amounted to RMB9.279 billion, representing a period-on-period increase of RMB738 million or 8.64%. Net profit attributable to shareholders of the Bank amounted to RMB7.743 billion, representing a period-on-period increase of RMB769 million or 11.03%.

Positive trend in asset quality

As at the end of the reporting period, the non-performing loan ratio was 1.45%, representing a decrease of 0.02 percentage point as compared to that at the end of last year; allowance to non-performing loan ratio was 182.42%, representing an increase of 0.23 percentage point as compared to that at the end of last year; the allowance to total loans ratio was 2.64%, representing a decrease of 0.03 percentage point as compared to that at the end of last year.

Improved capital adequacy ratio

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 11.83%, representing an increase of 0.23 percentage point as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 9.57%, representing an increase of 0.03 percentage point as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 8.18%, representing an increase of 0.13 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of Consolidated Statement of Profit or Loss

During the reporting period, under the guidance of the vision of being “a first-class commercial bank”, the Group deepened the implementation of the four strategic focuses and the twelve-word operation approach, firmly followed the path of endogenous and intensive development with its own characteristics, steadily implemented smart operation, continuously improved the revenue contribution from assets with low sensitivity to economic cycle so as to embark on a new journey of high-quality development.

During the reporting period, the Group achieved a net profit attributable to shareholders of the Bank of RMB7.743 billion, representing an increase of 11.03% on a period-on-period basis; the return on average total assets was 0.58% and the return on average equity was 10.71%. Operating income was RMB33.248 billion, representing an increase of 4.63% on a period-on-period basis, including revenue from assets with low sensitivity to economic cycle of RMB9.516 billion, representing an increase of 26.71% on a period-on-period basis. Net interest income of RMB23.969 billion, representing an increase of 3.15% on a period-on-period basis; net non-interest income of RMB9.279 billion, representing an increase of 8.64% on a period-on-period basis. Operating expenses were RMB9.655 billion, representing an increase of 20.87% on a period-on-period basis; cost-to-income ratio was 27.96%, representing an increase of 3.87 percentage points on a period-on-period basis. Provision for expected credit losses was RMB14.215 billion, representing a decrease of 7.10% on a period-on-period basis. The income tax expense was RMB1.413 billion, representing an increase of 7.37% on a period-on-period basis.

Changes of the main items in the consolidated statement of profit or loss

In RMB million, except percentages

Item	January to June 2023	January to June 2022	Amount of increase (decrease)	Increase (decrease) (%)
Net interest income	23,969	23,237	732	3.15
Net non-interest income	9,279	8,541	738	8.64
Operating income	33,248	31,778	1,470	4.63
Less: operating expenses	9,655	7,988	1,667	20.87
Less: expected credit losses	14,215	15,301	(1,086)	(7.10)
Profit before taxation	9,378	8,489	889	10.47
Less: income tax expense	1,413	1,316	97	7.37
Net profit	7,965	7,173	792	11.04
Attributable to: Shareholders of the Bank	7,743	6,974	769	11.03
Non-controlling interests	222	199	23	11.56

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Net interest income

During the reporting period, net interest income was RMB23.969 billion, representing an increase of RMB732 million or 3.15% on a period-on-period basis, accounting for 72.09% of operating income; interest income was RMB54.117 billion, representing an increase of RMB4.365 billion or 8.77% on a period-on-period basis; interest expense was RMB30.148 billion, representing an increase of RMB3.633 billion or 13.70% on a period-on-period basis.

During the reporting period, net interest spread was 1.95%, representing a decrease of 13 basic points on a period-on-period basis; and net interest margin was 2.14%, representing a decrease of 14 basic points on a period-on-period basis. The main reasons for the period-on-period change in net interest margin were as follows: multiple regulatory measures were taken to reduce corporate financing costs, and the Group actively implemented the requirements of the policy to help the enterprises to alleviate their difficulties and stabilize the economy, and continued to provide favorable fee policy for the real economy, thus the yield on interest-earning assets decreased by 14 basis points on a period-on-period basis; meanwhile, the Group continued to optimize the debt structure, reduce the costs of deposits, and effectively realized balanced development of the volume and price of deposits, thus the cost of interest-bearing liabilities decreased by 1 basis point on a period-on-period basis.

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In RMB million, except percentages

Item	January to June 2023			January to June 2022		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	1,611,522	39,520	4.95	1,424,817	37,097	5.25
Investments ⁽¹⁾	647,347	12,141	3.78	550,701	10,542	3.86
Due from banks and other financial institutions ⁽²⁾	134,905	1,431	2.14	151,879	1,171	1.55
Balances with central bank ⁽³⁾	144,588	1,025	1.43	131,896	942	1.44
Total interest-earning assets	2,538,362	54,117	4.30	2,259,293	49,752	4.44
Item	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	1,721,112	19,100	2.24	1,489,652	16,826	2.28
Due to banks and other financial institutions ⁽⁴⁾	443,991	5,601	2.54	374,755	4,237	2.28
Due to central bank	62,173	747	2.42	54,361	734	2.72
Debt securities issued ⁽⁵⁾	355,110	4,624	2.63	344,629	4,649	2.72
Lease liabilities	3,309	76	4.63	2,952	69	4.71
Total Interest-bearing liabilities	2,585,695	30,148	2.35	2,266,349	26,515	2.36
Net interest income		23,969			23,237	
Net interest spread			1.95			2.08
Net interest margin ⁽⁶⁾			2.14			2.28

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) including financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and finance lease receivables.
- (2) including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets purchased under resale agreements.
- (3) including statutory deposit reserves, surplus deposit reserves and foreign exchange risk reserves.
- (4) including deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements.
- (5) including issued inter-bank certificates of deposits, financial bonds and subordinated bonds, etc.
- (6) Net interest margin: the income generated from the business of financial assets measured at fair value through profit or loss was not classified as interest income categorized by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

Analysis of changes in interest income and interest expense

In RMB million

Item	Comparison between January to June 2023 and January to June 2022		
	Factors for increase (decrease) Volume ⁽¹⁾	Interest rate ⁽²⁾	Net increase (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	4,861	(2,438)	2,423
Investments	1,850	(251)	1,599
Due from banks and other financial institutions	(131)	391	260
Balances with central bank	91	(8)	83
Changes in interest income	6,671	(2,306)	4,365
Interest-bearing liabilities			
Customer deposits	2,614	(340)	2,274
Due to banks and other financial institutions	783	581	1,364
Due to central bank	105	(92)	13
Debt securities issued	141	(166)	(25)
Lease liabilities	8	(1)	7
Changes in interest expense	3,651	(18)	3,633
Changes in net interest income	3,020	(2,288)	732

Notes:

- (1) Change in volume represents the average balance for the reporting period minus the average balance for the same period of last year, multiplied by the average yield or average interest-bearing rate for the same period of last year.
- (2) Change in interest rate represents the average yield or average interest-bearing rate for the reporting period minus the average yield or average interest-bearing rate for the same period of last year, multiplied by the average balance for the reporting period.
- (3) Net increase or decrease represents interest income (expense) for the reporting period minus interest income (expense) for the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB39.520 billion, representing an increase of RMB2.423 billion or 6.53% on a period-on-period basis, mainly due to the increase in the size of loans. The Group adhered to the origin of financial services for the real economy, increased credit investment in retail, small loan and supply chain finance, and intensified its development in our stronghold in Zhejiang Province. In the first half of 2023, the average daily balance of loans and advances to customers was RMB1.61 trillion, representing an increase of 13.10% on a period-on-period basis.

In RMB million, except percentages

	January to June 2023			January to June 2022		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances	1,062,537	24,900	4.73	956,391	23,420	4.94
Personal loans and advances	429,212	13,212	6.21	372,468	12,364	6.69
Discounted bills	119,773	1,408	2.37	95,958	1,313	2.76
Total loans and advances to customers	1,611,522	39,520	4.95	1,424,817	37,097	5.25

Interest income from investments

Interest income from investments was RMB12.141 billion, representing an increase of RMB1.599 billion or 15.17% on a period-on-period basis, mainly due to the increase in the average daily balance of investments of 17.55% on a period-on-period basis.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB19.100 billion, representing an increase of RMB2.274 billion or 13.51% on a period-on-period basis, primarily due to the increase in size of deposits. The Group continued to improve its customer-oriented comprehensive service capabilities, expanded customer base through digitalization and channelization, enhanced customer stickiness, and managed to stabilize and increase deposits. In the first half of 2023, the average daily balance of customer deposits was RMB1.72 trillion, representing an increase of 15.54% on a period-on-period basis. Meanwhile, it continued to reduce high-interest deposits and increase the proportion of low-cost stable deposits, and the average costs of customer deposits in the first half of 2023 was 2.24%, representing a decrease of 4 basis points on a period-on-period basis.

In RMB million, except percentages

	January to June 2023			January to June 2022		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	908,339	11,683	2.59	802,038	10,667	2.68
Demand	585,822	4,666	1.61	510,154	3,846	1.52
Subtotal	1,494,161	16,349	2.21	1,312,192	14,513	2.23
Personal deposits						
Time	172,731	2,654	3.10	117,938	2,071	3.54
Demand	54,220	97	0.36	59,522	242	0.82
Subtotal	226,951	2,751	2.44	177,460	2,313	2.63
Total	1,721,112	19,100	2.24	1,489,652	16,826	2.28

Note:

(1) Other deposits include remittance payables, temporary deposits and outward remittance, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB5.601 billion, representing an increase of RMB1.364 billion or 32.19% on a period-on-period basis, primarily due to the increase in amount due to banks and other financial institutions, and the increase in cost due to the impact of market interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) Net non-interest income

During the reporting period, the Group laid the assets with low sensitivity to economic cycle as a ballast stone, further promoted the development of green intermediate income business, and optimized the income structure. Net non-interest income amounted to RMB9.279 billion, representing an increase of RMB738 million or 8.64% on a period-on-period basis, and accounting for 27.91% of operating income, representing an increase of 1.03 percentage points on a period-on-period basis. Among which, the net fee and commission income was RMB2.952 billion, representing an increase of RMB320 million on a period-on-period basis; while other net non-interest income was RMB6.327 billion, representing an increase of RMB418 million on a period-on-period basis.

Net fee and commission income

In RMB million, except percentages

Item	January to June 2023	January to June 2022	Amount of increase (decrease)	Increase (decrease) (%)
Agency and entrustment service	949	874	75	8.58
Commitment and guarantee service	848	823	25	3.04
Underwriting and consultation service	671	547	124	22.67
Settlement and clearing service	371	285	86	30.18
Custodian and fiduciary service	301	256	45	17.58
Fee from bank cards	105	115	(10)	(8.70)
Others	158	75	83	110.67
Total fee and commission income	3,403	2,975	428	14.39
Less: fee and commission expense	451	343	108	31.49
Net fee and commission income	2,952	2,632	320	12.16

Net fee and commission income was RMB2.952 billion, representing an increase of RMB320 million or 12.16% on a period-on-period basis. Among which, fee income from underwriting and consultation service was RMB671 million, representing an increase of RMB124 million on a period-on-period basis, primarily due to the increased scale of the bond underwriting business; fee income from settlement and clearing service was RMB371 million, representing an increase of RMB86 million on a period-on-period basis, primarily due to the increased scale of the letters of credit business; fee income from agency and entrustment service was RMB949 million, representing an increase of RMB75 million on a period-on-period basis, primarily due to the increased scale of the syndicate agency business.

MANAGEMENT DISCUSSION AND ANALYSIS

Other net non-interest income

In RMB million, except percentages

Item	January to June 2023	January to June 2022	Amount of increase (decrease)	Increase (decrease) (%)
Net trading gains	4,901	4,361	540	12.38
Net gains on financial investments	778	1,309	(531)	(40.57)
Other operating income	648	239	409	171.13
Total	6,327	5,909	418	7.07

Other net non-interest income was RMB6.327 billion, representing an increase of RMB418 million or 7.07% on a period-on-period basis, primarily due to the increase in the income of financial assets measured at fair value through profit or loss on a period-on-period basis as the Group optimized its position structure and grasped the trading opportunities upon study of the interest rate trend of the overall bond market.

(5) Operating expenses

In RMB million, except percentages

Item	January to June 2023	January to June 2022	Amount of increase (decrease)	Increase (decrease) (%)
Staff costs	6,069	5,048	1,021	20.23
General and administrative expenses	2,148	1,658	490	29.55
Depreciation and amortization	949	851	98	11.52
Tax and surcharges	358	334	24	7.19
Others	131	97	34	35.05
Total	9,655	7,988	1,667	20.87

Operating expenses amounted to RMB9.655 billion, representing an increase of RMB1.667 billion or 20.87% on a period-on-period basis, primarily due to that the Group deepened the implementation of the four strategic focuses and increased the expenses in key areas such as digital transformation, in-depth development and wealth management. Meanwhile, the Group strengthened the refined management of expenses, intensified the concept of cost sharing, and cultivated the awareness of cost saving.

MANAGEMENT DISCUSSION AND ANALYSIS

(6) Expected credit losses

In RMB million

Item	January to	January to
	June 2023	June 2022
Deposits with banks and other financial institutions	4	–
Placements with banks and other financial institutions	(176)	33
Financial assets purchased under resale agreements	8	6
Loans and advances to customers	9,592	8,849
Financial investments	3,901	5,916
Finance lease receivables	260	253
Off-balance sheet items	409	139
Other assets	217	105
Total	14,215	15,301

Expected credit losses amounted to RMB14.215 billion, representing a decrease of RMB1.086 billion or 7.10% on a period-on-period basis, please see “Note III to Financial Statements – 7 Expected credit losses; 23 Allowance for ECLs”.

(7) Income tax expenses

Income tax expenses were RMB1.413 billion, representing an increase of RMB97 million or 7.37% on a period-on-period basis, and the effective tax rate was 15.07%. For the reconciliation statement of the income tax expense calculated at statutory tax rate and the actual income tax expense, please see “Note III to Financial Statements – 8 Income Tax Expense”.

(8) Segment information

Segment operating results by business line

In RMB million, except percentages

Item	January to June 2023		January to June 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	17,023	51.20	15,955	50.21
Retail banking	6,978	20.99	6,794	21.38
Treasury operations	8,070	24.27	8,014	25.22
Others	1,177	3.54	1,015	3.19
Total operating income	33,248	100.00	31,778	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

Segment operating results by geographic region

In RMB million, except percentages

Item	January to June 2023		January to June 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Yangtze River Delta Region	18,664	56.14	18,360	57.78
Bohai Rim Region	5,806	17.46	5,258	16.54
Pearl River Delta and Economic Zone on the Western Coast of the Taiwan Straits	3,142	9.45	2,796	8.80
Midwestern China Region	5,636	16.95	5,364	16.88
Total operating income	33,248	100.00	31,778	100.00

For details of business segment and regional division, please see “Note V to Financial Statements – Segment Reporting”.

2. Analysis on Consolidated Statement of Financial Position

During the reporting period, the Group continued to focus on its main responsibilities and principal businesses and further promoted the business strategy of “developing assets with low sensitivity to economic cycle as a ballast stone”, accordingly seeing higher revenue contribution from assets with low sensitivity to economic cycle, an increase in the scale of each business, optimized business structure and improved quality and profitability.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB2,912.260 billion, representing an increase of RMB290.330 billion or 11.07% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB1,611.322 billion, representing an increase of RMB125.031 billion or 8.41% as compared to that at the end of last year. Financial investments amounted to RMB910.313 billion, representing an increase of RMB158.464 billion or 21.08% as compared to that at the end of last year. In terms of the structure, net loans and advances to customers accounted for 55.33% of total assets, decreased by 1.36 percentage points as compared to that at the end of last year, and the financial investments accounted for 31.26% of total assets, increased by 2.59 percentage points as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Assets utilization

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	1,653,087		1,525,030	
Less: allowance for ECLs of loans ⁽¹⁾	41,765		38,739	
Net loans and advances to customers	1,611,322	55.33	1,486,291	56.69
Financial investments ⁽²⁾	910,313	31.26	751,849	28.67
Cash and balances with central bank	151,235	5.19	185,625	7.08
Precious metals	8,804	0.30	13,860	0.53
Due from banks and other financial institutions ⁽³⁾	94,061	3.23	68,928	2.63
Other assets	136,525	4.69	115,377	4.40
Total assets	2,912,260	100.00	2,621,930	100.00

Notes:

- (1) Allowance for ECL of loans represents allowance made for the loss of loans and advances to customers measured at amortized cost.
- (2) The financial investments include financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.
- (3) Due from banks and other financial institutions include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements.

Loans and advances to customers

The Group actively implemented the plans of the CCP Central Committee, the State Council and the regulatory authorities in relation to serving the real economy, continued to focus on the origin of credit services for the real economy, strengthened credit investment, prioritized the promotion of business growth in line with policy orientation and the Bank's development strategy, and improved the quality and profitability of services for the real economy. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB1,653.087 billion, representing an increase of RMB128.057 billion or 8.40% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and advances to customers structure by business type

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans and advances	1,076,076	65.09	987,079	64.73
Personal loans and advances	452,732	27.39	417,881	27.40
Discounted bills	116,572	7.05	112,374	7.37
Changes in fair value through other comprehensive income	1,500	0.09	2,605	0.17
Interest accrued	6,207	0.38	5,091	0.33
Total	1,653,087	100.00	1,525,030	100.00

Corporate loans and advances

By focusing on key areas such as supply chain finance, energy finance, science and innovation finance and intelligent manufacturing, the Group continued to improve the customer acquisition capabilities and service capabilities of the Company's businesses, promoted the building of characteristic advantages, and continued to strengthen the grant of loans in less cyclical industries and optimize the structure of corporate assets. As at the end of the reporting period, total corporate loans and advances amounted to RMB1,076.076 billion, representing an increase of 9.02% as compared to that at the end of last year.

Personal loans and advances

The Group enhanced the operating capability of personnel customers by upholding the service-oriented philosophy, continued to develop its personal consumer credit business, strengthened cross-line collaboration, continued to optimise the structure of personal loans and promoted the growth of the personal loan business. As at the end of the reporting period, total personal loans and advances amounted to RMB452.732 billion, representing an increase of 8.34% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments

The Group improved the efficiency of fund utilisation and optimized investment portfolio and structure on the basis of ensuring liquidity and risk control. As at the end of the reporting period, balance of financial investments amounted to RMB910.313 billion, representing an increase of 21.08% as compared to that at the end of last year.

Financial investment composition

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Fund investments	122,309	13.44	126,128	16.78
Bond investments	695,911	76.45	546,824	72.73
Trust schemes and asset management plans	101,237	11.12	84,114	11.19
Other financial investments	6,830	0.75	6,624	0.88
Interest accrued	9,595	1.05	9,207	1.22
Allowance for ECLs	(25,569)	(2.81)	(21,048)	(2.80)
Total	910,313	100.00	751,849	100.00

Note: Other financial investments include equity investments, other debt instruments, other equity instrument investments and wealth management products.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB2,732.795 billion, representing an increase of RMB276.795 billion or 11.27% as compared to that at the end of last year.

Liabilities Composition

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Due to central bank	72,916	2.67	97,170	3.96
Customer deposits	1,822,985	66.71	1,681,443	68.46
Due to banks and other financial institutions	437,455	16.01	312,035	12.71
Debt securities issued	332,891	12.18	323,033	13.15
Others	66,548	2.43	42,319	1.72
Total liabilities	2,732,795	100.00	2,456,000	100.00

Note: Due to banks and other financial institutions include deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements.

Customer deposits

The Group continuously enhanced the management of debt quality and strengthened the customer base, and continued to optimize the deposit structure and keep its costs well under control. As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB1,822.985 billion, representing an increase of RMB141.542 billion or 8.42% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by RMB111.467 billion or 7.72%; and personal deposits increased by RMB29.702 billion or 13.91%. With respect to term structures, time deposits decreased by RMB2.090 billion or 0.21%; and demand deposits increased by RMB143.259 billion or 21.16%.

MANAGEMENT DISCUSSION AND ANALYSIS

Structure of our customer deposits by business type

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	762,882	41.85	614,537	36.55
Time	793,186	43.51	830,064	49.37
Subtotal	1,556,068	85.36	1,444,601	85.92
Personal deposits				
Demand	57,489	3.15	62,575	3.72
Time	185,704	10.19	150,916	8.97
Subtotal	243,193	13.34	213,491	12.69
Other deposits	579	0.03	1,297	0.08
Interest accrued	23,145	1.27	22,054	1.31
Total	1,822,985	100.00	1,681,443	100.00

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB176.355 billion in total, representing an increase of RMB13.422 billion or 8.24% as compared to that at the end of last year. Please see "Financial Statements – Condensed Consolidated Statement of Changes in Shareholders' Equity".

MANAGEMENT DISCUSSION AND ANALYSIS

(III) ANALYSIS OF THE LOAN QUALITY

1. Loans distribution by risk classification

In RMB million, except percentages

Item	June 30, 2023		December 31, 2022	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	1,587,067	96.00	1,458,410	95.63
Special mention	34,420	2.08	36,571	2.40
Non-performing	23,893	1.45	22,353	1.47
Substandard	15,772	0.96	11,399	0.75
Doubtful	4,950	0.30	8,334	0.55
Loss	3,171	0.19	2,620	0.17
Changes in fair value through other comprehensive income	1,500	0.09	2,605	0.17
Interest accrued	6,207	0.38	5,091	0.33
Total loans and advances to customers	1,653,087	100.00	1,525,030	100.00

The loan quality of our Group was kept at a stable level. As at the end of the reporting period, according to the risk classification of the supervision system, the pass loans amounted to RMB1,587.067 billion, representing an increase of RMB128.657 billion as compared with that at the end of last year, accounting for 96.00% of total loans and advances to customers. Loans classified as special mention were RMB34.420 billion, representing a decrease of RMB2.151 billion as compared with that at the end of last year, accounting for 2.08% of total loans and advances to customers. The non-performing loans were RMB23.893 billion, representing an increase of RMB1.540 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.45%, representing a decrease of 0.02 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Distribution of loans and non-performing loans by business type

In RMB million, except percentages

Item	June 30, 2023				December 31, 2022			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	1,076,076	65.09	17,123	1.59	987,079	64.73	16,105	1.63
Personal loans and advances	452,732	27.39	6,770	1.50	417,881	27.40	6,248	1.50
Discounted bills	116,572	7.05	-	-	112,374	7.37	-	-
Changes in fair value through other comprehensive income	1,500	0.09	N/A	N/A	2,605	0.17	N/A	N/A
Interest accrued	6,207	0.38	N/A	N/A	5,091	0.33	N/A	N/A
Total loans and advances to customers	1,653,087	100.00	23,893	1.45	1,525,030	100.00	22,353	1.47

As at the end of the reporting period, our corporate non-performing loans amounted to RMB17.123 billion, representing an increase of RMB1.018 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.59%, representing a decrease of 0.04 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB6.770 billion, representing an increase of RMB522 million as compared with that at the end of last year, with a non-performing loan ratio of 1.50%, remaining unchanged with the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Distribution of loans and non-performing loans by industry

In RMB million, except percentages

Item	June 30, 2023				December 31, 2022			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	1,076,076	65.09	17,123	1.59	987,079	64.73	16,105	1.63
Leasing and commercial services	236,188	14.28	5,812	2.46	209,367	13.73	5,149	2.46
Manufacturing	231,159	13.98	2,731	1.18	216,921	14.22	5,612	2.59
Wholesale and retail trade	182,814	11.06	2,156	1.18	167,816	11.00	1,478	0.88
Real estate	173,076	10.47	4,004	2.31	166,827	10.94	2,770	1.66
Administration of water conservancy, environment and public facilities	66,060	4.00	12	0.02	63,103	4.14	12	0.02
Construction	58,614	3.55	987	1.68	50,662	3.32	572	1.13
Financing	18,519	1.12	28	0.15	18,259	1.20	28	0.15
Transportation, storage and postal service	15,366	0.93	1,047	6.81	13,232	0.87	40	0.30
Electricity, heat, gas and water production and supply	14,427	0.87	37	0.26	14,294	0.94	37	0.26
Accommodation and Catering	13,329	0.81	24	0.18	12,074	0.79	93	0.77
Mining	13,051	0.79	29	0.22	8,483	0.56	91	1.07
Others ⁽¹⁾	53,473	3.23	256	0.48	46,041	3.02	223	0.48
Personal loans and advances	452,732	27.39	6,770	1.50	417,881	27.40	6,248	1.50
Discounted bills	116,572	7.05	-	-	112,374	7.37	-	-
Changes in fair value through other comprehensive income	1,500	0.09	N/A	N/A	2,605	0.17	N/A	N/A
Interest accrued	6,207	0.38	N/A	N/A	5,091	0.33	N/A	N/A
Total loans and advances to customers	1,653,087	100.00	23,893	1.45	1,525,030	100.00	22,353	1.47

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education; health, social security and social welfare.

In the first half of 2023, our Group actively supported the development of the real economy and followed the national economic restructuring, with persistence in the finance for good and a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as real estate with a view to optimizing the allocation of credit resources continually.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Distribution of loans and non-performing loans by geographic region

In RMB million, except percentages

Item	June 30, 2023				December 31, 2022			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta Region	886,809	53.64	11,382	1.28	843,069	55.29	11,058	1.31
Midwestern China Region	314,398	19.02	5,110	1.63	281,109	18.43	5,341	1.90
Bohai Rim Region	252,424	15.27	5,284	2.09	222,300	14.58	4,566	2.05
Pearl River Delta and Economic Zone on the Western Coast of the Taiwan Straits	191,749	11.60	2,117	1.10	170,856	11.20	1,388	0.81
Changes in fair value through other comprehensive income	1,500	0.09	N/A	N/A	2,605	0.17	N/A	N/A
Interest accrued	6,207	0.38	N/A	N/A	5,091	0.33	N/A	N/A
Total loans and advances to customers	1,653,087	100.00	23,893	1.45	1,525,030	100.00	22,353	1.47

As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta Region. Taking into account economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Distribution of loans and non-performing loans by security type

In RMB million, except percentages

Item	June 30, 2023				December 31, 2022			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Mortgage loans	723,682	43.78	13,287	1.84	675,821	44.32	10,750	1.59
Pledged loans	62,041	3.75	811	1.31	72,303	4.74	931	1.29
Guaranteed loans	323,207	19.55	5,691	1.76	289,524	18.98	6,498	2.24
Unsecured loans	419,878	25.40	4,104	0.98	367,312	24.09	4,174	1.14
Discounted bills	116,572	7.05	-	-	112,374	7.37	-	-
Changes in fair value through other comprehensive income	1,500	0.09	N/A	N/A	2,605	0.17	N/A	N/A
Interest accrued	6,207	0.38	N/A	N/A	5,091	0.33	N/A	N/A
Total loans and advances to customers	1,653,087	100.00	23,893	1.45	1,525,030	100.00	22,353	1.47

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the mortgage loans accounted for 43.78% of the total loans and advances to customers, which was a relatively high percentage; the mortgage loans balance was RMB723.682 billion, representing an increase of RMB47.861 billion compared with that at the end of last year; the balance of non-performing loans among mortgage loans was RMB13.287 billion, with the non-performing loan ratio of 1.84%, representing an increase of 0.25 percentage point compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Top ten borrowers

In RMB million, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Real estate	6,399	0.39
B	Real estate	4,000	0.24
C	Leasing and commercial services	3,900	0.24
D	Mining	3,615	0.22
E	Real estate	3,250	0.20
F	Leasing and commercial services	3,038	0.18
G	Manufacturing	2,726	0.16
H	Real estate	2,500	0.15
I	Manufacturing	2,350	0.14
J	Leasing and commercial services	2,290	0.14
Total		34,068	2.06

As at the end of the reporting period, the balance of loans to the single largest borrower of the Group was RMB6.399 billion, representing 2.98% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB34.068 billion, representing 15.86% of the net capital and 2.06% of the total loans and advances to customers of the Group.

7. Overdue loans

In RMB million, except percentages

Overdue period	June 30, 2023		December 31, 2022	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 day to 90 days	11,350	0.69	12,305	0.81
Overdue by 90 days to one year	12,367	0.75	10,075	0.66
Overdue by one year to three years	4,990	0.30	7,196	0.47
Overdue by more than three years	514	0.03	366	0.02
Total	29,221	1.77	29,942	1.96

As at the end of the reporting period, the balance of overdue loans amounted to RMB29.221 billion, representing a decrease of RMB721 million as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB17.871 billion, representing an increase of RMB234 million as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Renegotiated loans

The Group conducted strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB440 million, representing a decrease of RMB12 million as compared with that at the end of last year. Among them, total renegotiated loans and advances that were overdue by more than 3 months amounted to RMB237 million, representing an increase of RMB136 million as compared with that at the end of last year.

9. Repossessed assets and provision for impairment

As at the end of the reporting period, the balance of repossessed assets (non-financial instruments) of the Group was RMB1.388 billion, and the net book value was RMB1.066 billion after deducting the provision for impairment of RMB322 million.

10. Movements in the expected credit loss (“ECL”) allowance on loans

In RMB million

Item	Amount
Balance at the beginning of the period ⁽¹⁾	40,725
Charge for the period	9,592
Unwinding of discount on allowance for ECLs	(40)
Write-offs	(5,452)
Transfer out	(2,038)
Recoveries of loans and advances previously written off	782
Impact of exchange rate fluctuations	17
Balance at the end of the period⁽¹⁾	43,586

Note:

- (1) Includes provision made for the loss of loans and advances to customers measured at amortized cost and measured at fair value through other comprehensive income.

(IV) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Group’s capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2023, capital adequacy ratio of the Group was 11.83%, tier-one capital adequacy ratio was 9.57%, core tier-one capital adequacy ratio was 8.18%, and leverage ratio was 5.10%, all of which met regulatory requirements.

Capital adequacy ratio (the Group)

In RMB million, except percentages

Item	June 30, 2023	December 31, 2022
Net core tier-one capital	148,534	135,925
Other tier-one capital	25,287	25,253
Net tier-one capital	173,821	161,178
Tier-two capital	41,026	34,693
Net capital base	214,847	195,871
Risk-weighted assets	1,816,330	1,689,148
Among which: credit risk-weighted assets	1,688,184	1,564,210
market risk-weighted assets	27,057	23,850
operational risk-weighted assets	101,089	101,089
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	–	–
Core tier-one capital adequacy ratio (%)	8.18	8.05
Tier-one capital adequacy ratio (%)	9.57	9.54
Capital adequacy ratio (%)	11.83	11.60

Leverage ratio (the Group)

In RMB million, except percentages

Item	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Net tier-one capital	173,821	166,559	161,178	158,018
Adjusted asset balance inside and outside the balance sheet	3,407,575	3,271,402	3,146,094	3,097,920
Leverage ratio (%)	5.10	5.09	5.12	5.10

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2023, capital adequacy ratio of the Company was 11.82%, tier-one capital adequacy ratio was 9.57%, core tier-one capital adequacy ratio was 8.15%, and leverage ratio was 5.02%, all of which met regulatory requirements.

Capital adequacy ratio (the Company)

In RMB million, except percentages

Item	June 30, 2023	December 31, 2022
Net core tier-one capital	143,093	130,881
Other tier-one capital	24,995	24,995
Net tier-one capital	168,088	155,876
Tier-two capital	39,536	33,224
Net capital base	207,624	189,100
Risk-weighted assets	1,756,452	1,635,987
Among which: credit risk-weighted assets	1,631,269	1,514,012
market risk-weighted assets	27,057	23,850
operational risk-weighted assets	98,126	98,126
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	–	–
Core tier-one capital adequacy ratio (%)	8.15	8.00
Tier-one capital adequacy ratio (%)	9.57	9.53
Capital adequacy ratio (%)	11.82	11.56

Leverage ratio (the Company)

In RMB million, except percentages

Item	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Net tier-one capital	168,088	160,908	155,876	152,887
Adjusted asset balance inside and outside the balance sheet	3,350,669	3,216,330	3,094,666	3,050,005
Leverage ratio (%)	5.02	5.00	5.04	5.01



MANAGEMENT DISCUSSION AND ANALYSIS

(V) RISK MANAGEMENT

1. Comprehensive risk management system

Adopting a “prudent and solid” risk appetite and adhering to the principle of “small and diversified” credit granting, the Company is committed to serving the real economy, persists in the finance for good, improves investment and research capabilities, strengthens the guidance of credit-granting, optimizes asset allocation, enhances customer bases and lays the asset with low sensitivity to economic cycle as a ballast stone. The Group also strictly controls the risk of new business and accelerates the addressing of existing risks to maintain stable asset quality, deepens the application of financial technology to improve the digitally intelligent risk control system, strengthens the risk management of the whole process and risk control in key areas to enhance the management of credit bases and continually improve the risk management in an active, precise and leading manner to provide strong support for embarking on a new journey of high-quality development in a comprehensive manner, with the vision of becoming “a first-class commercial bank”.

The Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the Senior Management is responsible for implementing comprehensive risk management. The Company establishes the position of chief risk officer. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit business review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the coordination department for comprehensive risk management and the leading executive department for management of the credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general executive office at our head office is the leading executive department for reputational risk management. The development and planning department at our head office is the leading executive department for strategic risk management.

The Company assigns risk monitoring officers to certain departments at our head office. Risk monitoring officers are responsible for helping leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to our head office. They make business judgment and report on risk issues independently. The Company assigns to its branches risk monitoring officers, who help presidents of such branches organize comprehensive risk management with a focus on credit risk management, strengthen the supervision and evaluation of risk management of branches and are independent of such branches and directly report to our head office. They make business judgment and report on risk issues independently.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to defaults of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in on- and off-balance sheet business, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit, letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, the Senior Management, the risk management and internal control committee, the credit business review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business operation and management departments, financial technology department, audit department, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of relevant systems and policies relating to credit risk management.

The Company formulates credit policies based on changes in external operating environment, internal operating and risk conditions. Such policies expressly set out guidance on certain aspects of our credit business, such as customer structure, industry structure, product structure, regional structure and key strategic areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans 《貸款風險分類指引》 of the Former CBIRC, comprehensively taking into account such factors as a borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of a credit project and status of a guarantee. The Company has the classification and identification procedures where the credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by authorized people.



MANAGEMENT DISCUSSION AND ANALYSIS

(1) Credit risk management for corporate customers

The Company conducts a unified credit management of corporate customers, and determines maximum comprehensive credit lines and business credit lines for customers based on comprehensive evaluation of customers and according to certain standards and procedures.

The Company strictly complies with relevant regulatory requirements of the Former CBIRC and puts loans (including trade financing), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factoring, guarantees, loan commitments and other businesses where credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company continues to improve the credit risk limit indicator system, and reasonably determines limit indicators of single corporate customers and group customers.

The Company continuously enhances the construction of our credit system, formulates a unified credit quota management system for our corporate customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improves the concentration risk management, formulates the concentration risk management related systems, clarifies the responsibilities allocation and main methods of concentration risk management, and continues to promote the construction of concentration risk management.

The Company continuously enhances the management of loan risks related to financing platforms of local governments (defined in the Company's policy as state-owned enterprises in urban construction and public services categories; similarly hereinafter), strictly complies with various loan policies and regulatory requirements of the Former CBIRC on financing platforms of local governments, makes dynamic adjustments to credit strategies, and further optimizes the loan structure of financing platforms to prevent credit risks that may arise from local governments' financing platforms; sets credit limits for loans to local governments' financing platforms and enhances our monitoring and management on the loan risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate related credit business prudently, and adjusts our credit extension orientation for the real estate industry in a duly manner according to national policy and industrial operation situation. The Company sets credit limits for loans we grant to the customers in the real estate industry and adopts the name list system management in a dynamic manner, and continuously adjusts and optimizes the asset structure, as well as strengthens the monitoring and management of risks relating to existing loans.



MANAGEMENT DISCUSSION AND ANALYSIS

(2) Credit risk management for small and micro enterprises

The Company conducts unified credit extension management for small and micro enterprise customers, and integrates all types of credit business of small and micro enterprise customers into our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out and standardizes the procedures and requirements for credit extension to gradually cultivate a featured and standard credit extension model of the Company.

The Company continuously strengthens the management of credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by measures, such as tracking overdue loans and on-site and off-site monitoring.

(3) Credit risk management for retail customers

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company formulates the entry barriers for different groups of customers, adopts controls over the limits for each business, strengthens our integrated management of personal credit business as well as improves and optimizes the management mechanism of credit risks associated with personal loans. The Company continuously enhances selection and management of guarantees and improves its ability to mitigate credit risks. The Company continues to strengthen subsequent management of personal loans such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre-business risk prevention, on-going risk monitoring during the process and post-business risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of procedures for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

(4) Credit risk management for financial institution customers

The Company includes financial institution customers in unified credit management. The Company has formulated unified management measures and relevant operating procedures for the unified line of credit of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension to financial institution customers.

The Company's business with financial institution customers involving customer credit risk is covered in our unified credit extension management. When conducting business, the Company will draw up the customers' credit lines in accordance with relevant policies.



MANAGEMENT DISCUSSION AND ANALYSIS

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. Market risk can be divided into interest rate risk, exchange rate risk, stock risk and commodity risk. The term “market risk” in this section refers specifically to market risk other than interest rate risk of banking book (for the interest rate risk of banking book, please refer to the relevant content of “7. Interest rate risk management of banking book” below).

The objectives of our market risk management are to control our market risks within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, capital operation center, audit department, other departments, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Company can effectively identify, measure, monitor and control a series of market risks borne by various businesses.

The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Company to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of the Former CBIRC. The Company has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

The Company regularly updates and improves its market risk appetite and limit management system, continues to improve the market risk management systems and market risk measurement systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management platform. The Company values positions of our trading book on a daily basis, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.

4. Liquidity risk management

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), capital operation center, audit department, other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management, etc..

The Company managed the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Company can effectively identify, measure, monitor, control and report its liquidity risk, continuously strengthen liquidity risk management, and continue to improve the foresight and initiative of liquidity management. Specific measures for liquidity risk management include: paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels construction and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the management of high quality liquid assets to ensure that the size of high quality liquid assets matches the potential financing needs of the whole bank, and enhance its ability to mitigate liquidity risk; strengthening the early-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a quarterly basis, identifying weak links in the Company's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As at the end of the reporting period, the Company's total liquidity ratio of the local currencies and foreign currencies was 53.49%. The Company's liquidity coverage ratio was 150.15%, among which, high quality liquid assets amounted to RMB344.713 billion, and the net cash outflows over the next 30 days was RMB229.572 billion. The Company's net stable fund ratio was 104.96%, among which, stable fund available was RMB1,564.809 billion and stable fund required was RMB1,490.881 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, the Group's total liquidity ratio of the local currencies and foreign currencies was 53.52%. The Group's liquidity coverage ratio was 147.21%, among which, the high quality liquid assets amounted to RMB344.713 billion, and the net cash outflows over the next 30 days was RMB234.161 billion. The relevant information on the net stable fund ratio of the Group in the last two quarters was set out below:

Currency: total of local currencies and foreign currencies

Date	Net stable fund ratio (%)	Stable fund available (in 100 million of RMB)	Stable fund required (in 100 million of RMB)
As at June 30, 2023	103.54	15,856.97	15,315.40
As at March 31, 2023	106.27	15,202.37	14,305.33

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to imperfect or problematic internal procedures, personnel and information technology systems, as well as external events. Types of incidents of losses due to operational risks that the Company may expose to mainly include seven categories, i.e. internal fraud, external fraud, employment systems and safety incidents at working places, incidents related to clients, products and business activities, damage to real property, incidents related to information technology system and incidents related to execution, closing and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, internal control and compliance and legal department, financial technology department, audit department, other departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing its operational risk management as well as formulation and implementation of basic systems and policies of the Bank for operational risk management.

The objectives of our operational risk management are to "control our operational risks within a reasonable range acceptable to us and maximize comprehensive benefits of the Bank after risk adjustment". The Company has established an operational risk management system which was matched with our business nature, scale and complexity. The Company exercises a wholeprocess management of operational risks, and effectively identifies, evaluates, monitors and controls/mitigates the operational risks by enhancing our internal control as an effective means to operational risk management.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company followed the management principles of “full coverage, clearly defined duties, honest reporting and quick response”, adjusted its management strategies and priorities in due time according to changes in internal and external financial situations, continued to formulate and improve its operational risk management systems appropriate to our business nature, size and complexity to effectively identify, evaluate, monitor and control (mitigate) operational risks. The Company improved its operational risk management systems by sorting out and optimizing system and process; steadily promoted the systematic construction in key areas, and strengthened operation and maintenance management of information systems to improve the rigid control and service capabilities of these systems; started the capital management projects according to the new standard method of operational risk, and conducted the quantitative calculation of operational risk indicators and the trial filing of the new capital supervision report to sort out and optimize the key risk indicators and actively implement the relevant requirements of the new capital regulations; strengthened legal risk prevention and control, and carried out legal publicity and education and research on legal practices; improved safety and security management by carrying out safety inspections to eliminate risks and hazards in a timely manner; and strengthened safety and security for every important point to fully ensure the safe operation of the Bank during the Asian Games. During the reporting period, the operational risk management systems of the Company operated stably and the operational risk was generally under control.

6. Country risk management

Country risk refers to the risk incurred due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, capital operation center, retail credit department and other business operation and management departments of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the Former CBIRC. The Company has formulated basic country risk management systems, quota management measures and schemes, clarified the organizational structure and division of responsibilities, limit framework, management mechanism, etc., with respect to country risk limit management, and set the index and threshold of country risk limits. We regularly assess and monitor the country risks and make provision for country risks.



MANAGEMENT DISCUSSION AND ANALYSIS

7. Interest rate risk management of banking book

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gain of the banking book arising from adverse changes in interest rate levels and term structure etc., mainly including gap risk, benchmark risk and option risk.

The objectives of our interest rate risk management of banking book are to control our interest rate risk of banking book within a reasonable range acceptable to us and reduce fluctuations in net interest income and economic value of banking book to maximize the comprehensive income across the Bank.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), capital operation center, audit department and other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Company measures and evaluates our interest rate risk of banking book mainly through gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc., and develops the strategy for interest rate risk management of banking book by comprehensively considering factors such as the Bank's risk appetite, risk profile, macro economy and market changes. During the reporting period, the Company dynamically and flexibly adjusted the term structure of the scale of assets and liabilities and optimized the term management solutions of assets and liabilities in accordance with the repricing term structure of internal interest rate on assets and liabilities and the changes in external interest rate. As at the end of the reporting period, the Company's interest rate risk in the banking book was controlled within its risk management and control objectives and the interest rate risk in the banking book was generally under control.

8. Reputational risk management

Reputation risk refers to the risk of negative evaluation of the Company by stakeholders, the public and the media as a result of the Company's behavior, the conduct of its employees or external events, thereby damaging the Company's brand value, adversely affecting the Company's normal operation and even affecting market stability and social stability.

Reputation risk management refers to the establishment of processes for a reputation risk management system, covering prior assessment, risk monitoring, classification and evaluation, response and disposal, information reporting, assessment and accountability, and evaluation and conclusion, in order to achieve the objectives of reputation risk management and build up a good social image of the Company, thereby forming a complete loop of reputation risk management, and improving the daily management of reputation risk in terms of risk identification and inspection, emergency drills, joint mechanism, social supervision, accumulation of reputation capital, internal audit and interbank collaboration.



MANAGEMENT DISCUSSION AND ANALYSIS

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Company, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, general executive office, the Board executive office, risk management department, financial technology department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for managing and organizing the reputational risk management across the Bank as well as the formulation and improvement of relevant systems and policies for reputational risk management of the Company.

During the reporting period, the Company undertook its responsibility in fulfilment of financial mission and commitment with the integration of the political and people-oriented nature of the financial work into the whole process of reputational risk management, in order to continually optimize reputational risk management systems, improve the emergency mechanism of negative public opinions and systematically strengthen the management of network commentator team. The full-process management of reputational risk has been achieved by actively carrying out potential hazards investigation, dynamically updating response plans and strengthening monitoring response. The Company properly addresses different types of hidden dangers of public opinion, which greatly enhanced the timeliness, foresight and effectiveness of reputational risk prevention and control. Meanwhile, the Company continues to improve the height, depth and frequency of positive publicity and strengthens staff training on positive publicity and public opinion response. The Company conveyed its positive development trend and positive image to all parties through positive publicity guidance and negative public opinion management.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, development and planning department, audit department, FinTech department, other relevant departments of the head office, as well as domestic and foreign branches, sub-branches and subsidiaries.



MANAGEMENT DISCUSSION AND ANALYSIS

Adhering to the principle of “clear responsibilities, proactive prevention, overall evaluation and timely adjustment”, the Company constantly improves and refines the strategic risk management system suitable for the scale and features of its business, and has realized effective management of strategic risks. Main management measures include: guided by General Secretary Xi’s important instructions to CZBank, our Bank has clarified its development vision and target positioning as “a first-class commercial bank”; built a digital reform structure system and systematically launched digital reform; launched a three-year action of “deepening Zhejiang development” and fully implemented the primary strategy of deepening Zhejiang development; comprehensively strengthened the leadership of the Party, promoted the improvement of corporate governance, and implemented a systematic remodeling project with the reconstruction of the three systems of authorization, control and supervision. Meanwhile, our Bank has conscientiously implemented the decision and deployment of Central Committee of CPC and State Council and the Zhejiang Provincial Committee and the Provincial Government, and actively strived to be the main force and leader of the three “No. 1 project” under the strategy of financial precision support, so as to make contribution to the creation of a “key window” in the new era for Zhejiang Province.

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, rules and standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant manner.

The Company’s compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, the risk management and internal control committee, the risk management department, internal control, compliance and legal affair department, the audit department, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management as well as the formulation and implementation of each basic system and policy for compliance risk management.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company has paid close attention to the changes in the economic and financial situation, conscientiously pursued various national policies, timely delivered and strictly implemented regulatory requirements, solidly promoted the implementation of various internal control and compliance management initiatives to continuously improve its compliance risk management quality and effectiveness; carried out in-depth double-improvement special campaign of “compliance awareness and compliance implementation”, implemented the internal control and compliance and case prevention commitment system, held compliance presentations and weekly compliance question activities throughout the Bank, fostered compliance culture and rooted compliance awareness in the hearts of all staff to provide staff with knowledge of rules and regulations and the unity of knowledge and action thereof; kept a close watch on the red line and bottom line, enhanced problem rectification measures on violations and strengthened the supervision and evaluation of rectification to improve the effectiveness of rectification; continuously promoted the establishment, amendment and abolishment of regulations, promoted the implementation of rules and regulations, strengthened system post-evaluation and improved the rules and regulations management system; explored “implantable” compliance management mechanisms by solidifying compliance management requirements into various business management systems to enhance the rigid control; insisted on technology empowerment, continuously optimized the systems of internal control, compliance and operational risk, system management to increase the quality and effectiveness of internal control and compliance management; innovated education and publicity methods with the philosophy of “people-oriented”, created a new brand of “Wealth Management N Course (财富管理 N 课)”, and strived to protect consumer rights.

11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising from natural factors, human factors, technical bugs and management defects in connection with the application of information technologies by the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company’s information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, digital reform promotion committee, data governance committee, information technology management committee, business continuity management committee, the risk management department, the financial technology department, audit department, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as organizing the formulation and implementation of relevant systems and policies for information technology risk management.

The Company has established a relatively well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO20000, ISO22301 and ISO27001 management system and regulatory requirements; established relatively well-organized systems for business continuity management, information technology outsourcing risk management, network security management, data security management, information technology services management etc. and a relatively well-standardized information technology risk monitoring and assessment mechanism.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company has continued to implement the strategy of “technology-driven bank development”, by enhancing technology-based capability and strengthening digital infrastructure and technological innovation to promote the in-depth digitalization reform; it continuously improved network security governance, data security management and customer financial information protection, by relying on the “CZBank Network Security Innovation Workshop”, strengthening network security innovation and talent cultivation, and enhancing digital network security operation and multi-level data security protection; it continuously carried out monitoring, assessment, measurement, control and reporting of operational risks of important information systems to implement digital and lean construction of production, operation and maintenance and build first-class technology operation capabilities; it continued to improve the disaster preparedness system of “three centres in two cities”, expand dual-active coverage of the disaster preparedness in the same city, and advance the guarantee capability for critical system and business continuity and the operational resilience; it also continued to promote emergency management, improve the disaster preparedness management platform and conduct dual-center rotation operation of information system in long-term and full-state conditions and complete batch cycle drills, so as to further enhance the real and fast disaster tolerance switchover capabilities. During the reporting period, the system has operated stably without any substantial information technology risk occurring.

12. Anti-money laundering management

The Company has improved the anti-money laundering operation mechanism under the comprehensive risk management framework in accordance with the anti-money laundering laws and regulations, including the Anti-money Laundering Law of the People’s Republic of China 《中華人民共和國反洗錢法》, the Administrative Measures for Anti-money Laundering and Counter-terrorist Financing of Financial Institutions in the Banking Sector 《銀行業金融機構反洗錢和反恐怖融資管理辦法》 and the Guidelines for the Management of Money Laundering and Terrorist Financing Risks for Corporate Financial Institutions (for Trial Implementation) 《法人金融機構洗錢和恐怖融資風險管理指引(試行)》, so as to further solidify the foundation of anti-money laundering works and continuously improve the quality and effectiveness of anti-money laundering management.

During the reporting period, the Company has strictly complied with the laws and regulations on anti-money laundering, seriously fulfilled its legal obligations and social responsibilities in anti-money laundering; optimized the anti-money laundering management structure and operational mechanism and improved the anti-money laundering system and business process; strengthened customer identification management to enhance the effectiveness of customer identification; submitted the monitoring and reporting of large-amount transactions and suspicious transactions, implemented follow-up control measures with respect to suspicious transaction reporting; adopted risk-based approach to strengthen the monitoring and control of high-risk businesses and high-risk customers; continuously promoted the digital transformation of anti-money laundering, advanced anti-money laundering data governance and the construction of the new generation anti-money laundering system; provided business risk warnings to relevant departments, strengthened anti-money laundering supervision and inspection and risk investigation, and enhanced monitoring, management and control over high-risk businesses and high-risk customers; and organized anti-money laundering publicity and training, and actively cooperated with anti-money laundering investigations and co-inspections to comply with all regulatory requirements in respect of anti-money laundering.

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) BUSINESS SUMMARY

During the reporting period, centering on the twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability” and under the cohesive and common efforts of all the staff, the Bank has continued to focus on its main responsibilities and principal businesses, while making further achievements in financial technology innovation. Meanwhile, by rendering wholehearted services for the real economy and promoting inclusive finance, the Bank has further created and developed the new development pattern for the simultaneous and synergistic development of the five major business segments, namely “great retail, great corporate, great investment banking, great asset management, and great cross border”.

1. Great Retail Segment

(1) Retail Business

The Company actively creates the new development pattern for the synergistic development of the five major business segments, with the great retail segment in the forefront. During the reporting period, the Company focused on the strategic deployment of the development of the great retail segment, consolidated its customer base, enhanced its products and services, and actively expanded the scenario-based financial business. In the context of the “Battle of the Customer Base”, the Company also worked hard on the establishment of two retail customer bases, namely “Ju Xin” (聚新) and “Yue Sheng” (躍升). Besides, the Company strove to build a hierarchy of retail financial customers’ rights and benefits under the theme of “Zhe Li You Xiang” (浙裡優享) for basic customers, wealth customers and private banking customers.

As at the end of the reporting period, the Company had 9,196.60 thousand individual customers (including debit and credit card customers), representing an increase of 5.30% from the beginning of the year.

① Individual deposits and loans business

During the reporting period, the Company made great efforts to expand the base of individual customers, actively broadened the sources of low-cost funds, further optimized the structure of individual deposits and reduced the interest payment cost of individual deposits. As at the end of the reporting period, the Company’s individual deposits balance was RMB243.193 billion, representing an increase of 13.91% from the beginning of the year and the average cost of individual deposits was 2.44%, decreasing by 10 BPS from last year, reflecting the cost structure of individual deposits was significantly improved.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group proactively promoted the innovation of products and business model to strengthen its credit support to individual financial consumers, and developed a full range of “cloud series” (雲系列) online products (i.e., cloud mortgage (雲按揭), cloud housing loan (雲宅貸) and cloud credit loan (雲信貸)) in respect of individual mortgage loans, secured loans and credit loans respectively, continuously improved platform-based customer acquisition, online operation and intelligent risk control. During the reporting period, on a resilient and prudent basis, the Company maintained moderate growth in individual housing loans, continuously improved the availability and accessibility of new financial services for citizens, and continued to strengthen its self-operation and self-control capabilities in retail Internet loans, resulting in a better performance in the individual credit business. As at the end of the reporting period, the balance of individual credit (including individual housing loans and individual consumer loans) amounted to RMB262.460 billion, representing an increase of 14.35% from the beginning of the year.

② *Wealth management*

During the reporting period, the Company increased its strategic investment in human resources, technological resources and management resources to improve its market position, lay a solid foundation, continue to optimize the top-level design, and gradually formed a strong wealth management middle office. The Company has established a diversified high-quality product system and insisted on expanding retail customer base with high-quality products and professional services, aiming to build up a wealth management brand with first-class influence.

The Company vigorously promotes the transformation of its wealth management products from fixed income-based products to a diversified portfolio, increases the supply of equity, fixed income plus products, insurance and other products, and provides investment allocation guidelines to users. It has now initially established a diversified product system inclusive of bank wealth management products, brokerage asset management products, standard product trusts, non-standard product trusts, structured products, public funds, private funds, insurance, precious metals and other products. During the reporting period, the scale of insurance agency, trust and structured products increased steadily. In particular, the insurance agency business recorded new premiums of RMB1.002 billion for the year, representing a period-on-period increase of 104.08%; trust products increased by RMB15.178 billion or 48.00% from the beginning of the year; and structured products increased by RMB1.924 billion or 567.55% from the beginning of the year.

The Company's wealth management agency business increased at a moderate rate over the same period last year. As at the end of the reporting period, the Company's retained wealth management agency products increased by RMB11.592 billion or 9.05% to RMB139.647 billion.



MANAGEMENT DISCUSSION AND ANALYSIS

③ *Private banking*

During the reporting period, by adhering to the philosophy of “passing of wealth and wisdom for sustainable development”, the Company’s private banking business provided three-dimensional financial services and featured value-added services for individuals and their family of private banking customers as well as their career development. The Company continuously optimized the staffing of private banking, improve various systems and policies, formulated development framework, and built private banking system and digital intelligent system. With the vision of building a first-class commercial bank, the Company has established a set of advanced private banking operation mode and built a leading digital intelligent private banking mode.

The Company develops the core competitiveness of private banking business by constantly improving its three major serving capabilities, namely investment consultation, asset allocation and wealth inheritance, as well as continuously enriching its three main serving systems, namely featured products, value-added service and professional team. While expanding the exclusive portfolio of investment products for private banking customers, the Company intensifies the expansion of customer base, enhances customer assets allocation and strongly promotes family trusts, insurance trust and charitable trust businesses to cater for the needs of private banking customers in wealth inheritance. Additionally, the Company is committed to developing five major non-financial service segments, namely healthcare, education inheritance, shared platform, high quality life and worry-free travel, aiming at providing featured value-added services for private banking customers.

As at the end of the reporting period, the Company had 11,228 private banking customers, representing an increase of 9.41% as compared to the same period of last year; the balance of financial assets of the private banking customers amounted to RMB166.312 billion, representing an increase of 5.40% as compared to the same period of the year; and the Company had 40 family trust business orders with a size of approximately RMB660 million.

MANAGEMENT DISCUSSION AND ANALYSIS

④ *Credit card (consumer finance) business*

In respect of credit card (consumer finance) business, the Company continues to promote business transformation and actively expands the scenario-based finance business with a focus on “vehicle purchase, parking space, home decoration, home furnishing and comprehensive consumption” and other scenarios. The Company comprehensively promotes vehicle installment sales, and strongly promotes home decoration and furnishing installment business. In continuously upgrading products and services, the Company has launched a series of card products for different groups of customers, such as the Benefit Card (紅利卡), Ton-Ton Card (噸噸卡), Car Owner Card (車主卡), and Green Low-Carbon Card (綠色低碳卡), allowing cardholders to enjoy exclusive rights and benefits such as cash rebates, free drinks, and green travel incentives, etc. to satisfy the daily needs of cardholders. With the launch of “Red Monday (紅動星期一)” series of marketing campaign, the Company organized Purcotton and CDF Sunrise internal sales promotion and other special offers, aiming to revitalize consumption and unleash the potential of consumption. Besides, the Company collaborated with Tencent, Ant, Jingdong, Douyin and other leading Internet companies and launched various promotion campaigns, such as credit card adding gift, consumption incentives, installment incentives, etc., to precisely reach customers’ needs through online consumption scenarios, strengthen customer management, and promote the high-quality development of the credit card business.

As at the end of the reporting period, the Company had issued a total of 4,053.70 thousand credit cards, representing an increase of 119.9 thousand credit cards from the beginning of the year; balance of credit card (consumer finance) loans amounted to RMB27.461 billion, representing an increase of RMB6.086 billion from the beginning of the year. During the reporting period, the Company achieved income from the credit card (consumer finance) business of RMB769 million, representing a period-on-period increase of 26.90%.

(2) *Small Enterprises Business*

During the reporting period, the Company conscientiously practiced the requirements of “being political, people-oriented and professional” in financial work, continued to cultivate and consolidate the small and micro customer base, deeply focused on the key areas of the small and micro real economy, deepened the differentiated and specialized financial service for small and micro enterprises for the high-quality development of small and micro enterprise business.

As at the end of the reporting period, the Company had 211 specialized institutions for small enterprises, with balance of small and micro enterprise loans under inclusive finance ^(Note) of RMB303.190 billion, representing an increase of RMB25.904 billion or 9.34% from the beginning of the year, 0.88 percentage point higher than that of total loans. The proportion of small and micro enterprise loans accounted for 20.04% of total loans, rising 0.16 percentage point from the beginning of the year. The number of customers of the small and micro enterprise loans under inclusive finance increased by 11.50 thousand from the beginning of the year to 130.80 thousand, successfully reaching the regulatory target of “two increases”. Asset quality remained excellent with a non-performing ratio of small and micro enterprise loans under inclusive finance of 1.07%.

Note: According to information on small and micro enterprise loans under inclusive finance from the Former CBIRC, the “small and micro enterprise loans under inclusive finance” and “loans” exclude the discounted and inter-bank discounted bills business.



MANAGEMENT DISCUSSION AND ANALYSIS

Consolidate customer base and continue to expand the micro and small enterprise business. Focusing on the “inclusive small and micro” customer positioning, the Company explores new industries, new customer groups and new modes by the combined application of its advantageous products, resulting in continuous growth in the number of inclusive small and micro loan customers and first-time borrowers. As at the end of the reporting period, the finishing rate of key regulatory indicators, such as newly expanded first borrowers, credit loans, non-principal repayment renewals and inclusive agriculture-related loans, were all ahead of schedule.

Focus on key areas and comprehensively improve financial services for private enterprises. In line with the regional economic development, industrial migration and the development stage of small and micro enterprises, the Company actively explores the comprehensive life-cycle financial consulting services for small and micro industrial parks. As at the end of the reporting period, the Company has developed 1,608 park projects, with balance of loans to small and micro parks increasing by RMB7.644 billion from the beginning of the year to RMB49.197 billion. The Company also deepens cooperation with governmental financial guarantee institutions and actively promotes the government-guaranteed loans to improve the accessibility of financing for small and micro enterprises. As at the end of the reporting period, the Company had government-guaranteed loans of RMB21.284 billion, increasing by RMB5.146 billion from the beginning of the year.

Support rural revitalization and steadily promote the financial model of common wealth. In practicing “financial services for good”, the Company focuses on the poor areas and disadvantaged groups in Zhejiang Province to, based on the characteristic industries of the 26 counties in mountainous areas, dig into the financial needs, innovate the small and micro finance service mode of the local pillar industries and create a financial model of common wealth through the product “CZBank’s Common Prosperity Loan” (浙銀共富貸). Meanwhile, it conducts various investigations, makes active researches, identifies targeted benchmarks and implements targeted policies. Relying on the financial consulting system, it actively participated in the construction of Linping Comprehensive Financial Service Demonstration Zone, and, following the trend of digital transformation, optimized and promoted “Inclusive Digital Intelligence Loan” (普惠數智貸) and “Business Operator Code Loan” (經營戶碼上貸) to expand the scale of online small credit scenario loans. As at the end of the reporting period, the balance of “CZBank’s Common Prosperity Loan” (浙銀共富貸) amounted to RMB10.196 billion, with an increase of RMB1.781 billion from the beginning of the year.

With technology empowerment, deepen the digital transformation of small and micro business processes. The Company reestablishes the basic operating procedures for small businesses upon research, consolidates and simplifies the credit-granting business process for small businesses, and creates a “fast lane” of investigation and approval. It further improves its non-face-to-face service capabilities, promotes the iterative upgrading of customer service channels, including mobile banking, WeChat Business, and mini-programs, and refines various types of process service tools to continuously improve user experience. Moreover, it has enriched online business processing functions, expanded the digital and intelligent application scenarios, including but not limited to the online interview and business investigation for small enterprises, and has launched the intelligent generation tool for remote assurance reports and the remote online form signing tool.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Great Corporate Segment

(1) Corporate business

The Company strictly implements the decisions and deployments of the CPC Central Committee and the State Council, focuses on the “three first-class” target positioning and four strategic focuses, coordinates the relationship of “customer, talent, system, and investment research”, increases support to the real economy, fully pushes forward the expansion of basic customer base, strives for high-quality development, and plays a key role of the great company segment in revenue growth and profit generation.

Continuously growing scale and improving structure. As at the end of the reporting period, the Company had RMB-dominated corporate assets on the balance sheet of RMB898.8 billion, increasing by RMB66.0 billion from the beginning of the year. Meanwhile, the Company continued to develop assets with low sensitivity to economic cycle as a ballast stone and increased loans to industries with low sensitivity to economic cycle. It served 4,827 customers in such industries, granting loans amounting to RMB160.4 billion.

Continuously improve supply chain finance digitalization and intelligentization. The Company actively carries out supply chain financing business. Focusing on the real financing needs of the upstream and downstream small and medium-sized enterprises of the industrial supply chain, the Company innovatively applies cutting-edge technologies such as blockchain, Internet of Things (IoT), big data, etc., and established an “industrialized + embedded” supply chain financial service model through four innovative means, namely process reconstruction, credit innovation, technology empowerment, and service leap, to provide various on and off-balance sheet financing services for supply chain customers. Currently, it has formed specialized and differentiated supply chain financial solutions in 28 key industries and sectors, including electric power and energy, building construction, steel, automobile, communications, and government procurement. As at the end of the reporting period, the Company served over 2,000 digital supply chain projects, with financing balance of over RMB150.0 billion, serving over 28,000 upstream and downstream customers, of which 75% were small and micro enterprises under inclusive finance.

Continuously promote “Spark Plan” (星火計劃) technological innovation financial service. Targeting at technological innovation enterprises in line with national strategies and mastering key technologies, the Company actively explores new ideas and methods for financial services for technological innovation enterprises, and has launched a comprehensive financial service solution for technological innovation enterprises in their entire life cycle, aiming to provide technological innovation enterprises with “full-cycle, all-around, all-chain” consulting-type financial services, and solve the “growth problems” of enterprises at different stages of development from start-up to maturity. As at the end of the reporting period, it visited more than 10,000 technological innovation enterprises, served 7,533 technological innovation enterprises, and provided financing of RMB180.6 billion. At the same time, the Company promoted “Talent Bank” (人才銀行), a financial service brand for high-caliber talents. Equipped with a professional service team, exclusive products and special credit authorization policies, it provides individuals and their enterprises with all-around, life-cycle and comprehensive financial services. As at the end of the reporting period, it served 2,635 high-caliber talents and 1,906 talent enterprises.



MANAGEMENT DISCUSSION AND ANALYSIS

Actively develop professional operation of energy finance. Focusing on the strategic direction of “carbon peak and carbon neutral”, the Company continues to cultivate the specialized service scenarios of the electric power and energy industry chain. As at the end of the reporting period, it served more than 2,400 customers in the fields of electricity equipment manufacturing, electricity production, electricity transmission and distribution, and end-use applications, with financing balance of more than RMB100 billion. The Company’s customer base and financing scale have maintained steady growth with highly-optimized structure. And the Company’s customers include centralized power and energy enterprises (State Grid, China Southern Power Grid, SPIC, etc.), provincial state-owned energy enterprises (Zhejiang Energy Group, Shandong Energy Group, etc.) and leading private enterprises (CHINT Group, Jinko Solar, etc.).

(2) International business

Adhering to the tenet of “serving customers and giving back to the society” and the concept of “technologies empower digital intelligent innovation, and sticking closely to the physical scenarios service”, the Company continues to enhance foreign exchange business and cross-border financial diversified products innovation from the perspective of customers and provides enterprises with a full ecological chain of services covering settlement, financing and transactions, fully supporting the development of the real economy of foreign-funded or foreign trade industries and helping the construction of a common prosperity demonstration zone. During the reporting period, the Company maintained a rapid growth trend in the scale of international business services, continued to improve its social influence and industrial competitiveness, and provided a total of US\$192.8 billion in international settlement service on an accumulative basis.

The Company actively advocates the concept of “risk neutrality”, provides enterprises with efficient and convenient exchange rate hedging services, continues to enrich “Zheshang Huiliying” (浙商匯利盈), a product providing agency services for foreign exchange transactions, continuously optimizes “Zheshang Trading Treasure” (浙商交易寶), a multi-functional comprehensive foreign exchange trading platform, and provides support to export-oriented enterprises, allowing them to handle foreign exchange transactions conveniently and fast and respond to exchange rate fluctuation risks in an effective manner. Leveraging two platforms, i.e., the Free Trade Accounting Unit and its Hong Kong branch, the Company helps “going out” enterprises with effective exchange rate risk management. During the reporting period, the amount of foreign exchange transaction services provided by the Company to its customers reached US\$65.8 billion, including the transaction amount of “Zheshang Trading Treasure” (浙商交易寶) of US\$27.0 billion and cross-border transaction amount of US\$9.8 billion.



MANAGEMENT DISCUSSION AND ANALYSIS

By fully utilizing various new technologies such as big data, platform direct link, blockchain, artificial intelligence, etc., the Company has launched “Export Data Loans” (出口數據貸) based on the export collection data of the Administration of Foreign Exchange and “Export Bank Tax Loans” (出口銀稅貸) based on the export tax refund data of the Administration of Taxation to solve the financing problem of the micro, small and medium-sized foreign trade enterprises. It also continuously extends the “pooling” (池化) and “chaining” (鏈式) scenario applications and has launched the FT customer asset pool to continuously improve the “cross-border asset pool” function, created the direct links to the export credit insurance financing application scenario of the cross-border financial services platform of the Administration of Foreign Exchange, and launched the bank-enterprise financing scenario, aiming to continuously improve the international business liquidity service supports that integrate local and foreign currencies, domestic and foreign trades and domestic and foreign businesses. As at the end of the reporting period, the balance of international business liquidity services was RMB52.315 billion.

The Company conducts in-depth research on the needs and application scenarios of the new foreign-funded or foreign trade industries, and creates a personalized service model with one-point access and comprehensive services by applying the direct connection method between banks and enterprises around such sub-sectors as foreign comprehensive platform, centralized operation of cross-border funds, cross-border e-commerce, market procurement and freight forwarding.

3. Great Investment Banking Segment

(1) Investment banking business

The Company’s investment banking business offers a wide range of investment banking products for both the direct and indirect financing markets to meet the multi-level financing needs of different types of customers. By participating in interbank and stock exchange bond underwriting, we provide market-oriented direct financing services to our customers, helping them to reduce financing costs and optimize their debt structure. We provide customized and differentiated innovative services to customers through asset securitization, bond loading credit risk mitigation instruments or portfolio models, thereby enabling customers to tackle the problem of being difficult and costly to finance. We provide customers with integrated financing solutions and services through M&A loans and syndicated loans to help their industry consolidation and transformation and upgrading. By creating various products in the equity capital market, we provide customers with key financing. By integrating financial resources, building an ecosystem and carrying out customer-oriented facilitation business, we also provide comprehensive financial services.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company used its investment banking products to serve 777 clients, including central state-owned enterprises and private enterprises, representing an increase of 38% over the same period last year. The investment banking realized FPA of RMB295.1 billion, representing an increase of 17% over the same period last year, including bond underwriting of RMB101.6 billion, a 48% growth amid the decline in the overall market size of issuance and ranked 18th by NAFMII; contribution from the credit enhancement business of RMB7.5 billion, maintaining the first place in the market; credit assets turnover of RMB7.371 billion, ranking third among banking institutions; and, in terms of asset building, major assets placement of RMB30.3 billion.

(2) Financial market business

During the reporting period, the volatility of global bond, foreign exchange and gold assets intensified, and gray rhino events occurred frequently. Against the backdrop, the Company continued to consolidate its basic investment and research capabilities, grasped business opportunities in the market, and brought business risks under control, therefore, it maintained steady growth in all businesses.

In the fixed income market, the Company performed its duties as a primary dealer in the open market, and won the honor of being an active dealer in local currency market repo every month in the first half of the year. It also ranked top in the whole market in foreign currency lending and repo business. By continuously providing market-making quotations for various bonds and interest rate derivatives to the market, it maintained a high level of transaction activity and increased its market influence.

In the foreign currency market, with the approval of the State Administration of Foreign Exchange, effective from March 13, 2023, the Company became one of the 25 market makers in the interbank foreign exchange market. It is an important foreign exchange qualification acquired by the Bank following the qualification of “Trial Market Maker in the Interbank Foreign Exchange Market” (銀行間外匯市場嘗試做市商) in 2022 and also a high recognition of the Bank’s foreign exchange trading capability.

In the area of precious metals trading, the Company ranked top in the bidding market of the Shanghai Gold Exchange, with its market share rising to 4.5% from 3% last year; and also maintained its top position in gold futures market making, silver futures market making and silver trading agency in the Shanghai Futures Exchange. In 2022, it won the “Diamond Award for Market Making Business” (做市業務鑽石獎) and “Special Contribution Award for Market Making Business Industry” (做市業務行業特別貢獻獎) granted by the Shanghai Futures Exchange. In particular, the Company is the only organization in the market winning the “Diamond Award for Market Making Business”, the highest award in the market making field of Shanghai Futures Exchange, for three consecutive years.



MANAGEMENT DISCUSSION AND ANALYSIS

(3) *Financial institution business*

Strengthen customer base. The Bank deepens the establishment of a “customer-oriented” comprehensive service system, actively builds a mutually beneficial and win-win financial cooperation ecosystem, implements good-oriented finance and smart operation, and forms the endogenous momentum of multi-cross synergies.

Optimize interbank assets and liabilities. The Bank enhances its investment research capabilities in respect of standardized asset investment, strengthens market research and judgment, and effectively serves its high-quality real enterprise customers; optimizes and upgrades the interbank comprehensive service platform to provide one-stop comprehensive services for financial institution customers. As at the end of the reporting period, the Bank had 527 existing customers with cumulative transaction volume of more than RMB500 billion on the platform; and the number of interbank liability customers grew continuously, which decreased the concentration and improved the stability of liabilities.

Improve asset with low sensitivity to economic cycle. The Bank continues to promote the interactivity of “investment, custodian, sales and collection” (投、託、銷、撮), with all-product sales service increasing significantly during the reporting period.

Promote bond issuance of the Bank. During the reporting period, the Bank successfully issued small and micro finance bonds of RMB10 billion and Tier 2 capital bonds of RMB20 billion, and actively utilized low-cost and long-term funds to better serve the real economy.

(4) *Bill business*

During the reporting period, in respect of its bill business and by implementing the “five-word” eco-construction requirements, adhering to the spirit of “Four Dos” and practicing the concept of “finance for good”, the Company deepened the whole life cycle operation and management under the prolonged pressure in the internal and external environments, continued to promote digital transformation, accelerated the layout of assets with low sensitivity to economic cycle, and continuously enhanced the ability of the bill business to serve the real economy, micro, small and medium-sized enterprises, as well as private enterprises.



MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, following market movements, the Company vigorously promoted digital transformation, completed the establishment of a new-generation bill system, and launched special products such as through-train ticketing, self-service discounting and supply chain bills in a bid to support diversified bill business needs of enterprises. Additionally, the Company accelerated the expansion of the scenario-based application of commercial bills, relying on the credit of high-quality customers in the bill flow chain, and utilized the advantageous functions of cross-bank discounting and self-service discounting to achieve “1+N” customer acquisition, and help the micro, small and medium-sized enterprises in the chain solve the financing problems of being difficult and costly.

During the reporting period, the Company’s commercial paper discounting volume amounted to RMB78.606 billion, the second largest among the joint-stock banks with a market share of 11.18%. The number of corporate customers served by the Company in respect of bill business exceeded 12,000, of which nearly 3,000 were direct-discount customers, representing a period-on-period growth of 5.50%. The Company processed a total of 652 bill discounting transactions for the small and micro enterprises in Zhejiang through “Zhe Fu Tie” (浙富貼), providing financing of RMB231 million.

During the reporting period, the Company actively implemented the rediscounting policy of the People’s Bank of China to support corporate financing and serve the real economy through rediscounting. During the reporting period, the Company’s rediscounting business volume amounted to RMB27.061 billion, representing a period-on-period increase of 19.20%.

In 2022, according to the evaluation results of the Commercial Paper Exchange, the Company was awarded the “Outstanding Integrated Business Organization” (優秀綜合業務機構), “Outstanding Specialized Business Organization – Discounting” (優秀專項業務機構 – 貼現業務類), “Outstanding Specialized Business Organization – Trading” (優秀專項業務機構 – 交易業務類), “Outstanding Supply Chain Bill Participating Organization” (優秀供應鏈票據參與機構), and “Outstanding Partner for Business Password Application” (優秀商用密碼應用合作機構), and four employees were awarded individual awards, such as “Outstanding Bill Business Operator” (優秀票據業務人員).



MANAGEMENT DISCUSSION AND ANALYSIS

(5) Asset custodian business

During the reporting period, in respect of its asset custodian business line, the Company adhered to the vision of being “a first-class commercial bank” as the overarching principle, focused on customers, pushed forward digital transformation, ensured safe and efficient operation, and accelerated the promotion of the asset custodian business to a new level with high quality. As at the end of the reporting period, balance of assets under custody of the Company passed the RMB2 trillion mark to RMB2.18 trillion, representing an increase of 11.97% over the beginning of the year. During the reporting period, the Company realized asset custodian income of RMB301 million, representing a period-on-period increase of 17.58%.

Since the beginning of this year, the Company’s asset custodian business has focused on strengthening the marketing of key products such as funds, securities, insurance and trust, continuously strengthened the efficient coordination of the five business segments, and always adhered to the comprehensive and coordinated development of efficiency, quality and scale. As at the end of the reporting period, the number of public funds under the custody of the Company exceeded 247, converging various types of public fund products, representing an increase of 6.47% from the beginning of the year. Size of custody amounted to RMB396.9 billion, representing an increase of 19.90% from the beginning of the year. In the first half of 2023, there were 22 new public funds under custody, with a total initial offering size of over RMB52 billion, the largest among all custodian banks.

In the meantime, the Company was committed to serving the real economy, following up the transformation of asset management industry, exploring business innovation mode, constantly enriching and improving the custodian product line, iterating all types of custodian business systems by means of financial technology, continuously sorting out and optimizing the custodian operation process, significantly improving the per capita efficiency and the overall business capacity, and providing customers with highly efficient and high-quality custodian services.



MANAGEMENT DISCUSSION AND ANALYSIS

4. Great Asset Management Segment

The Company continuously enhances its investment research capabilities in the asset management business to enrich product systems, optimize product structure, strengthen risk prevention and control in the whole process, enhance digital empowerment and improves customer companion system, aiming to build an asset management brand featuring “professional management, customer-first approach, differentiated competition and giving priority to efficiency”. During the reporting period, the Company’s asset management brand was widely recognized by the society, and the Bank’s wealth management product “Yongyi Zengli Zunxiang No. 1” (湧益增利尊享 1 號) was awarded the “Golden Honor Award – Outstanding Hybrid Bank Wealth Management Product” (金譽獎 – 優秀混合類銀行理財產品) by PYSTANDARD in 2023.

The Company keeps diversifying and improving the net-value wealth management product system with the continuous launch of “Shengxin Win” (升鑫贏), “Juxin Win” (聚鑫贏), “Yongxin” (湧薪), “Yongying” (湧盈), “Yongyi” (湧益) “Xinze” (昕澤), “Mingquan” (鳴泉) and other net-value wealth management products and further expands investment strategies and major assets allocation, covering cash management, fixed income, “Fixed Income Plus”, hybrid products and other types. As at the end of the reporting period, balance of the Company’s wealth management products amounted to RMB176.437 billion, of which 91.45% and 8.55% were attributable to individual and institutional customers respectively; balance of net-value wealth management products amounted to RMB152.090 billion, accounting for 86.20% of total wealth management products. During the reporting period, the Company issued total wealth management products of RMB239.008 billion and realized income from asset management service fee of RMB217 million.

5. Great Cross-border Segment

The Company actively responded to the “Belt and Road Initiative” and actively integrated into the new pattern of domestic and international double-cycle development. Relying on the two platforms, namely the sub-accounting unit in free trade zone and Hong Kong branch, utilizing both the domestic and overseas markets and integrating the employment of cross-border guaranteed financing, overseas bond investment, international syndicated loan, cross-border financial advisory and other financial services, the Company was to provide all-around, one-stop and comprehensive service for domestic and overseas enterprises to conduct investing and financing, M&A, listing and other businesses. As at the end of the reporting period, the Company had cross-border business assets of RMB79.8 billion, and service scale of RMB89.9 billion, showing an increase in both of the cross-border comprehensive service capability and market reputation.

MANAGEMENT DISCUSSION AND ANALYSIS

(VII) FINANCIAL TECHNOLOGY

During the reporting period, the Company adhered to taking digital transformation as the main line of high-quality innovation and development, promoted the strategy of “propelling the Bank with technology” and firmly stuck to the principle of “promoting the construction of system fundamentals” by consolidating technology foundation, making innovation and a breakthrough in business scenario, deeply empowering operation and management and reinforcing the safety bottom line. Strengthening innovation-oriented development based on digitalization, the Company was committed to empowering business development and serving the real economy, in a bid to continuously setting CZBank as an example for financial digital transformation, while enhancing the brand reputation of “Digital Intelligence CZBank (數智浙銀)”.

1. Promoting the implementation of strategies firmly while speeding up digital transformation again comprehensively

We adopted the problem-orientated and target-orientated strategy to comprehensively push forward the process of laying a solid foundation for, empowerment, reform and key breakthroughs of digital transformation. We strengthened top-level design and strategic planning, improved and enriched “185N” system, publicized the first batch of landmark accomplishments newly achieved in digital transformation, as well as iterating and creating more than 50 significant digital applications under the “one account book (一本賬)” system by accurately carrying out our plans and promoting overall planning. We constantly intensified the basic function of “CZBank Digital and Intelligent Brain (浙銀數智大腦)”, strengthened capability enhancement of three major functions, namely business foundation, data foundation and technology base, and improved the basic service capability of science and technology. In addition, we extensively reached out to cooperative ecosystem, facilitated scene innovation in digital and intelligent finance, broadened and deepened platform-based government and enterprise cooperation, realized data and information integration and sharing, and effectively empowered quality enhancement, expanding and efficiency improvement of business. Moreover, we iterated and upgraded the IT Business Partnership (ITBP) (數字化團隊派駐機制) and improved the both-way exchange mechanism between technology department and business department, in order to upgrade the integrated and synergetic cooperation between the two departments to mutual integration.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Empowering operation and management with technology to further boost high-quality development

We boosted high-quality development of business by focusing on business priority, intensifying scene innovation, promoting the coordinated development of our five major business segments empowered by technology, as well as improving the quality and efficiency of mid-office and back-office segments. Specifically, we proactively explored further business scenario via financial technology, worked out the integrated solution of “Four Connects (四通)” digital supply chain finance under the Supply Chain Comprehensive Financial Services 2.0 Version (供應鏈金融綜合服務 2.0 版本) through technology empowerment, process reconstruction, credit innovation and service leap, and insisted on enhancing comprehensive service in full chain, all scenarios and full-range products, contributing to the stabilization, consolidation and reinforcement of the supply chain. With the grass-root service provided by financial consultants, the Jinfubao (金服寶), a small and micro platform, has been able to continuously provide government, small and micro enterprise as well as financial institutes with its three major professional abilities, namely “integrating intelligence, finance and service (融智、融資、融服務)”. By building such a replicable and extensible digital platform, we targeted to boost the regional ecology of comprehensive financial service. We also constantly consolidated the enhancement of our digital investment and research ability by implementing the scenarios of “cross-bank flow verification (跨行流水驗真)” and “post-loan fund supervision (貸後資金監管)”, national pilot projects for innovative application of blockchain. Besides, we boosted all-rounded digital management and control on human resources, financial affairs, performance, etc. by iterating and improving digital application of digital and intelligent management such as management cockpit, so as to improve management quality and efficiency. Deeply rooted in Zhejiang Province, we actively provided service for the “No. 1 Development Project (一號發展工程)”, a digital economy innovation and quality improvement project in Zhejiang Province, consistently advanced cooperation among and co-building of platforms such as the comprehensive financial services platform of Zhejiang Province and strengthened technology output and resources integration, aiming to promote the level of modernization in serving the real economy.



MANAGEMENT DISCUSSION AND ANALYSIS

3. Upgrading the level of system construction to enhance our capability of providing science and technology service

Deeply promoting the construction of system fundamentals, we made up our weakness while enhancing our strength. Driven by “CZBank Digital and Intelligent Brain (浙銀數智大腦)”, we comprehensively strengthened capability enhancement of business foundation, data foundation and technology base, in order to intensify the support function of digitization on high-quality development of the entire industry. Firstly, we comprehensively consolidated the system fundamentals while strengthening the construction of data middle platform. More precisely, we constantly advanced data integration of themed markets including retail sales, small enterprise, interbank, supervision, etc., and also continuously carried out specialized data governance and actively promoted the conversion to the 1104 statement under the “One Statement Connect (一表通)” project. Secondly, we continuously promoted the transformation of technological achievements. More precisely, we intensified innovative application of blockchain, Internet of Things and other technologies, facilitated the implementation of blockchain application scenarios at industry level, as well as completing scenario applications such as financial risk control over cross-institution blockchain and credit line increase for small and micro enterprises. Thirdly, we steadily enhance our capability of business foundation by focusing on front-line business demand, and ceaselessly advancing the construction of business centers such as performance, customer, product, news and marketing. By now, Complete Product List (產品大全), Product Zhiduoxing (產品智多星) and personal and corporate client portrait have been launched throughout the Bank, which has practically contributed to precise marketing at the frontline.

4. Consolidating technology foundation to ensure safe and stable operation of production

We continuously reinforced the digital foundation of financial service by focusing on “consolidating technology foundation to ensure safe operation”, so as to steadily ensure high-quality development throughout the Bank. Firstly, we persistently promoted the construction of integrated operation and maintenance platform. To this end, we ceaselessly strengthened problem identification and early warning, system self-healing, emergency disposal, and other capabilities relying on technologies including automation, data driving, artificial intelligence, which has significantly boosted operation and maintenance effectiveness and reliability. Secondly, we steadily pushed forward the construction of co-location dual-active operation. In this regard, we have built a switchover digital platform for disaster preparedness purpose, achieved 24-hour operation of important business systems citywide on a rotation basis and equipped with the capability of normalized and independent operation of co-location disaster recovery, thus constantly enhancing our capability of ensuring business continuity. Further, we orderly pushed forward IT application innovation initiative and continuously deepened the research and application of independent and controllable technologies, thereby consolidating the digital foundation. Thirdly, we focused on advancing the construction of safe digital operation system and continuously perfected safety management of data covering full life cycle. Specifically, we omnidirectionally enhanced our financial service and safety guarantee capabilities during the Asian Games and proactively participated in activities including network security protection at national level, cyber attack and defense simulation exercise at provincial and municipal level, enabling us to receive numerous awards and letters of thanks, and list among the application and development laboratories for financing open source technology, the first batch of innovation workshop alliance of model workers, etc., thus boosting the level of cyber security.



MANAGEMENT DISCUSSION AND ANALYSIS

5. Optimized technology management system and mechanism to comprehensively improve service efficiency

Guided by the spirit of the 20th Party Congress, we implemented “strict, realistic and excellent (嚴實優)” requirements to innovate and shape a transformational organization, iterate and improve the technology management mechanism, and continue to extend the coverage of technology services. Firstly, we constantly consolidated digital talent base by continuously introducing professionals through multiple channels and stepping up our efforts in cultivating compound talents who know technology, data and business well. Secondly, we ceaselessly promoted the building of “technical research workshop (技術研究工作室)” and approved various topics such as cyber security, distributed architecture as well as production, operation and maintenance, in order to continuously reinforce key technology research and the transformation of technological achievements. Thirdly, we kept promoting the optimization and upgrading of ITBP service mechanism by increasing our efforts in providing on-site service from our scientific and technical personnel to key branches and the business department at our head office, enriching and perfecting model service case database at branches or sub-branches, as well as realizing whole-process online tracking management of the “three list (三張清單)” from problem, pilot to promotion.

(VIII) E-FINANCE SERVICES

During the reporting period, the Company has formed a complete E-finance service system consisting of online banking, mobile banking, remote banking, WeChat banking and online settlement business. The replacement rate of transactions via electronic channels reached 99.78%, taking a leading position in the industry. During the reporting period, the Company vigorously promoted the construction of E-finance channels, strengthened the building of customer experience and improved risk control measures, resulting in steady growth of channel customers, continuous improvement in the quality and efficiency of business scale and sustained enhancement of channel service capability.

Online banking

During the reporting period, being customer-oriented, the Company continuously optimized personal online banking experience, simplified the operations of frequently used functions, enriched channel service scenarios and extended customer channel services. As of the end of the reporting period, the Company had 1,685,000 customers with personal online banking certificates, representing a period-on-period increase of 5.05%, including 35,700 monthly active customers. During the reporting period, the Company conducted 47,224,800 transactions totaling RMB261.256 billion via personal online banking.

During the reporting period, based on the genuine need of enterprises, the Company launched the English version of corporate online banking; optimized the core transactions of corporate online banking; added functions such as public payment for water, electricity, and coal by customers, deduction of handling fees for inter-bank payroll agency services and full printing of account details; and continued to simplify the operation of frequently used functions to further reduce customer operations and enhance customer experience. As of the end of the reporting period, the Company had 231,600 customers with corporate online banking certificates, representing a period-on-period increase of 17.73%, including 145,700 monthly active customers, representing a period-on-period increase of 22.25%. During the reporting period, the Company conducted 49,400,000 transactions totaling RMB9,331.683 billion via corporate online banking.



MANAGEMENT DISCUSSION AND ANALYSIS

Mobile banking

During the reporting period, the Company has established a mobile banking working group responsible for coordinating and promoting the development of mobile banking functions and a “customer-employee-expert” experiencing team, aiming to continuously strengthen the optimization of mobile banking experience. A new facial recognition system has been launched to further improve the recognition accuracy level, thus increasing the empirical application transaction scenarios and further improving the signature verification strategy. Besides, the Company optimized functions such as registration and login, transfer and remittance, account details, and homepage dropdown to continuously enhance customer experience. As of the end of the reporting period, the Company had 5,617,100 personal mobile banking customers, representing a period-on-period increase of 15.94%, including 1,495,000 monthly active customers, representing a period-on-period increase of 15.01%. During the reporting period, the Company conducted 56,746,300 transactions totaling RMB521.406 billion via mobile banking.

Remote banking

The Company upheld the service philosophy of “customer-oriented, beyond expectation”. By applying multi-channel service platform, big data and intelligent technology, and leveraging on intelligent voice devices, intelligent online robot, telephone operator service, online manpower service, WeChat, email and other means, the Company provided customers with rapid, comprehensive and professional high-quality services. Focusing on the three core functions, namely “24-hour intelligent customer service”, “digital-intelligent customer marketing and maintenance” and “intelligent operation management”, the Company is committed to establishing a comprehensive, digital and value oriented remoted banking center integrating “intelligent service, digital-intelligent operation, and smart operation” as a 7*24 comprehensive one-stop service platform.

During the reporting period, the Bank received a total of 1,561,300 customer inquiries, with an overall connection rate of 94.81%. In particular, it received 1,171,900 calls, 639,900 were passed to operators, with manned telephone connection rate of 91.68% and customer satisfaction rate of 99.83%; served online customers for 389,400 times, with online connection rate of 99.95%. It recorded a complaint resolution rate of 100% as a better assurance of customer service experience. Besides, the Bank has been exploring the establishment of a layered customer management system featuring a combination of “manual+intelligent” and “online+offline” through diversified remote business channels such as SMS, intelligent outbound calls, and manual outbound calls customers. During the reporting period, the Bank reached 1,162,800 customers, which continuously empowered our business and supported the business expansion of the whole bank.



MANAGEMENT DISCUSSION AND ANALYSIS

Bank-enterprise direct connection and inter-bank cash management

During the reporting period, the Company continued to optimize the functions of bank-enterprise direct connection and inter-bank cash management, and added the functions of customer cloud direct connection mode, electronic tax payment voucher, certificate/service fee expiration reminder, to continuously improve the user experience. As of the end of the reporting period, the Company had 1,298 core customers of bank-enterprise direct connection, representing a period-on-period increase of 53.97%. During the reporting period, the customers of the Company handled 190,300 transfers via bank-enterprise direct connection, and the transfer amount was RMB1,645.063 billion.

WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform for the introduction of new financial services and brand marketing. Its WeChat banking consists of CZBank's Cloud Branch WeChat official account and CZBank's Cloud Branch WeChat official mini program. CZBank's Cloud Branch WeChat official account offers functions including credit cards and personal, small and micro enterprises and corporate, and recruitment and other services. CZBank's Cloud Branch WeChat official mini program' functions include outlet appointment, personal loans, and featured activities.

Online settlement business

During the reporting period, the Company proactively explored business innovation, and guided by the demands of government authorities and real enterprises and public institutions, strengthened the support and application promotion of online settlement services, and realized innovative application expansion of multiple scenarios such as deposit payment, supply chain finance, e-government and school bill payment. As of the end of the reporting period, the Company had more than 5,400 service items for its network settlement business.



MANAGEMENT DISCUSSION AND ANALYSIS

(IX) BUSINESS OF OVERSEAS BRANCH

The Company's Hong Kong Branch was established in 2018 and is the first branch established overseas. The development of the Hong Kong Branch starts with cross-border linkage business, and provides efficient and convenient cross-border financial services to customers of the domestic branches through product portfolios such as cross-border asset pool, domestically guaranteed business and trade finances, giving full play to the strategic synergy. On this basis, it focuses on central enterprises, state-owned enterprises, high-quality listed companies, Hong Kong-funded blue chips and leading enterprises in Zhejiang Province, expands its customer base in Hong Kong, extends credit customer groups, and takes bond underwriting, syndicated leading, structured financing and RMB foreign exchange trading as its principal products, striving to improve the total volume of customer services as well as the service and supporting capacities to domestic branches.

Looking forward, the Hong Kong Branch will make full use of the advantage of Hong Kong as an international financial center, closely follow the strategy of the head office, seize the development opportunities of the Guangdong-Hong Kong-Macao Greater Bay Area, actively serve the domestic and international double-cycle development, further improve its comprehensive financial service capability covering both domestic and overseas, multi-currency and commercial investment banking, and make due contribution to the high-quality development of the whole bank.

As of the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK\$49.199 billion, of which other financial assets at fair value through other comprehensive income amounted to HK\$18.969 billion, accounting for 38.56%; and net loans and advances to customers amounted to HK\$18.491 billion, accounting for 37.58%. During the reporting period, the net profit was HK\$454 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(X) MAJOR SUBSIDIARY AND EQUITY PARTICIPATION COMPANIES

1. Major Subsidiary

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) is a 51%-owned subsidiary of the Company, with paid-in capital of RMB4 billion, and is a national non-bank financial institution approved for establishment by and under the supervision of the Former CBIRC. Established on January 18, 2017, the principal business scope of Zheyin Financial Leasing covers leasing, transfer and grant of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of 3 months (inclusive) or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leasehold, economic consulting as well as other businesses approved by the Former CBIRC. Since its establishment, Zheyin Financial Leasing has upheld its mission of serving entity and the philosophy of prudent operation, with an aim to build itself into a first-class professional platform-based digital financial leasing company, and has comprehensively implemented professional transformation strategy by energetically embracing financial technology and continuously innovating financial services. It has formed a “5+2” professional customer service system focusing on the “five specialized industries” of smart manufacturing, modern agriculture and husbandry, marine economy, environment protection and energy industries, and the “two specialized models” of manufacturer supply chain and financial leasing-commercial leasing cooperation (租租合作). As the corporate governance structure and management system got better, the innovation capability and research and development strength gradually improved as well as the profitability and development quality enhanced year by year, Zheyin Financial Leasing has currently built itself a team comprising talents with high comprehensive quality and strong professional ability, and blazed a trail of development featuring professional services and distinctive operations, thus gradually developing itself into a new force in financial leasing industry in China. It has won honors such as “Zhejiang Advanced Entity in Supporting Economic and Social Development” (浙江省支持經濟社會發展先進單位) and “Zhoushan Social Contribution Award for Supporting Local Economic Development” (舟山市支持地方經濟發展社會貢獻獎) for consecutive years, and was the only one financial institution in the province being awarded 2023 “Zhejiang May 1st Labour Certificate” during the year, highly recognized by all sectors of the society. As of the end of the reporting period, Zheyin Financial Leasing had 207 employees, with total assets of RMB60.529 billion and net assets of RMB6.346 billion. It realized a net profit of RMB453 million during the reporting period.

2. Equity Participation Companies

Equity Participation Companies	Place of Incorporation	Date of Incorporation	Number of Shares	Investment Amount
China UnionPay Co., Ltd.	Shanghai	2002-3-26	10 million	RMB25 million
National Financing Guarantee Fund Co., Ltd.	Beijing	2018-7-26	1 billion	RMB1 billion



MANAGEMENT DISCUSSION AND ANALYSIS

(XI) OUTLOOK

In the second half of 2023, the banking industry will continue to be faced with a complex internal environment, with insufficient domestic demand and more hidden risks in key areas. Meanwhile, the slowdown of the global economy, the escalated geopolitical conflicts and the severe external environment are increasingly making operation risks a problem cannot be ignored. However, opportunities and challenges always coexist. The fundamentals of China's long-term economic growth have not changed, and compared to other countries, the economic growth momentum in China remains strong. With the implementation and taking effect of the macroeconomic control policies, China's economy will gradually enter a new stage of high-quality development.

The Company will adhere to the guidance of President Xi Jinping's thought on pursuing the path of socialism with Chinese characteristics in the new era, implement the decision and deployment of the CPC Central Committee, the State Council and the Zhejiang Provincial Party Committee and Provincial Government, insist on the general principle of prioritizing stability while pursuing progress and firmly implements the requirements of the new development philosophy. Led by the vision of becoming "a first-class commercial bank", the Company will adopt the twelve-word operation approach of "consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability", focus on the four strategic priorities, promote the concept of "finance for good", and practice the three-character primer of "goodness, intelligence and diligence" by doing good, doing intelligently and doing diligently, allowing "finance for good" to become an inherent gene and external symbol of CZBank's culture and intelligent operation to empower all-around high-quality development, and laying a solid foundation for its further improvement with diligence and courage. On the basis of the above, the Company will deepen the development of the four bases, facilitate the simultaneous and coordinate development of the five business segments, develop assets with low sensitivity to economic cycle as a ballast stone, fully unleash the productivity of smart operation, make continuous efforts and walk steadfastly on the path of high-quality development.

I. OVERVIEW OF CORPORATE GOVERNANCE

Improving corporate governance is the first and foremost task of the Company to achieve high-quality development. The Company always makes unremitting efforts to pursue standardized business operation and extraordinary corporate governance, and endeavors to establish a corporate governance organization and operation mechanism featuring “leadership by the Party Committee, strategic decision-making by the Board of Directors, execution and implementation by the senior management, and monitoring by the Board of Supervisors”, whereby the each main body of corporate governance operates independently with effective checks and balances, while collaborating with each other in a coordinated manner.

The Board of Directors of the Company takes corporate governance legality and compliance as the bottom line, draws on the best practices of outstanding companies as the direction, improves the system of corporate governance mechanism as the basis and gives full play to the decision-making role of the Board of Directors as the core, so as to strives to build a corporate governance mechanism with clear boundaries of responsibilities, orderly checks and balances and collaboration, democratic and scientific decision-making, and standardized and efficient operation.

Aligned with the “Standards for the Corporate Governance of Banking and Insurance Institutions”, in the first half of 2023, the Company amended its corporate governance systems, including the Articles of Association, Rules Governing the Procedures for General Meetings, Rules Governing the Procedures for Meetings of the Board of Directors, and Rules Governing the Procedures for Meetings of the Board of Supervisors, in order to promote a more comprehensive mechanism for the operation of corporate governance. It also comprehensively promoted the organic integration of Party leadership and corporate governance, strengthened the communication between the Party Committee and the Board of Directors and the Supervisory Committee, and effectively played the role of the Party Committee in overseeing the overall situation and coordinating all parties. Besides, it comprehensively examined the compliance and effectiveness of the operation of various mechanisms of corporate governance, dynamically optimized the authorization system of corporate governance in accordance with the actual operation condition, and set up a mechanism to hold a special meeting of independent directors to be presented by independent directors only, so as to continuously enhance the level of corporate governance practice.

II. GENERAL MEETINGS

Pursuant to the Articles of Association, the shareholders’ general meeting is the top governing body of the Company, which manages and supervises the Company through the Board of Directors and the Board of Supervisors. The Company raised an independent resolution for each actually independent matter at the general meeting, and voted by ballot to ensure that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

During the reporting period, the Company held the 2022 Annual General Meeting on May 4, 2023. For details of relevant proposals and relevant announcements on resolutions adopted at the meeting, please refer to the circular on the general meeting and the poll results announcement of the general meeting published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the above-mentioned meetings are in compliance with the relevant provisions of the Company Law, the listing rules of both the domestic and overseas listing venues of the Company and the Articles of Association. The Chairman of the meetings has explained the detailed procedures for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, the Board of the Company organized and convened 6 Board meetings, at which 56 resolutions were considered and approved and reports on related matters were heard.

During the reporting period, the special committees of the Board of the Company organized and convened a total of 15 meetings, including one meeting by the Strategic Committee, three meetings by the Audit Committee, three meetings by the Risk and Related Party Transaction Control Committee, six meetings by the Nomination and Remuneration Committee, one meeting by the Consumer Rights Protection Committee and one meeting by the Inclusive Finance Development Committee, at which 54 resolutions were considered and approved and reports on related matters were heard.

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

During the reporting period, the Company held six meetings of the Board of Supervisors, at which 27 resolutions were considered and 16 resolutions were heard and reviewed; the Nomination Committee of the Board of Supervisors held three meetings and 6 resolutions were considered thereat; and the Supervision Committee of the Board of Supervisors convened two meetings and 9 resolutions were considered and 1 resolution was heard thereat.

V. BOARD DIVERSITY POLICY

The Company considers the diversity of the members of the Board of Directors as an important impetus to support the Company in enhancing the corporate governance level and achieving sustainable development. The Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or service period, thus ensuring the Board of Directors have diversified viewpoints and angles in performing their duties, and forming into a composition model of the Board matched with the Company's development model.

The Board Diversity Policy of the Company comprises of chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversity of the Board to strengthen the execution of the Board, and affirming the importance of diversity of the Board to achieve strategic objectives. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. As at the end of the reporting period, the Company had 14 Directors, 2 of them are female, and 12 are with post graduate diploma or master's degree or above, including 5 with doctoral diploma. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board is able to effectively make independent judgments and scientific decision when studying and considering material issues.

VI. IMPLEMENTATION OF INFORMATION DISCLOSURE

During the reporting period, the Company faithfully performed the obligation of information disclosure, constantly improved regular reporting disclosures, and disclosed temporary announcements in a more active and timely manner. With continuous improvement of the effectiveness and transparency of information disclosure, the Company has received the highest rating of Class A in respect of annual information disclosure from the Shanghai Stock Exchange for two consecutive years since the listing of its A shares.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and provisions of Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

The Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations. During the reporting period, the Company disclosed a total of 76 various announcements for A Shares on the newspapers designated by the CSRC, including China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, the websites of the Shanghai Stock Exchange and the Company, and disclosed a total of 93 various announcements for H Shares on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company.

VII. INVESTOR RELATIONS MANAGEMENT

The Company consistently improves investor relations management, innovates and diversifies the ways of communication with investors and increases the frequency of communication with investors “introduced in” and “going out”, aiming to improve investors’ recognition of the Company in a well-rounded manner and from multiple perspectives and build mutual trustworthy relationships with the investors through sufficient information disclosure and sincere and proactive communication, in order to protect the legitimate rights and interests of investors, maximize the interests of the investors and promote the unification between the market value and the intrinsic value.

During the reporting period, the Company organized and held the annual online results presentation by inviting the media to attend the conference and live webcasting to answering investors’ concerns in a timely manner. A record of the on-site exchanges at the meeting was recorded for public inspection, and the number of online audiences of the annual results presentation doubled compared with that of last year. At the annual results presentation, each of the party secretary, president and the senior management made detailed explanations on the Company’s primary strategy of “deepening development in Zhejiang (深耕浙江)”, business strategies on “taking assets with low sensitivity to economic cycle as ballast stone (以經濟週期弱敏感資產為壓艙石)”, supply chain finance, asset quality and other aspects, and made a response to the market concerns about refinancing and the priority of dividend payment, showing their determination to adhere to the policy of sustained and stable dividend payment. Meanwhile, along with the rights issue process, the Company organized and held an online investor conference on A Share Rights Issue to give comprehensive answers to investor concerns on rights issue.



CORPORATE GOVERNANCE

During the reporting period, the Company strengthened communication with the market and gained more market attention. It received more than 20 batches of security analysts and investors doing online and offline surveys. The number of research reports and performance reviews issued by brokerage firms in respect of the Company far exceeded that of last year, and a number of brokerage firms have included the Company in their first-priority portfolios.

During the reporting period, the Company continuously diversified the content on its official Tongshun Hao (同順號) account “CZBank” by posting a variety of videos and articles, including the interpretation on the classification of assets with low sensitivity to economic cycle, the new powers of supply chain financial services, the annual report interpretation, and the rights issue scheme interpretation, etc. In cooperation with internet financial platforms, the Company organized an activity encouraging medium and small-sized investors to leave their message, which received positive and enthusiastic feedbacks.

During the reporting period, the Company continued to kept communication with the front line in the market for feedback on the hot topics concerned by various investors in a timely manner, regularly responded to investors’ concerns on the “Shanghai Stock Exchange e-Interactive (上證 e 互動)”, handled the IR emails, answered the investor hotline, and conducted good collection and feedback of investor information. The Company timely updated the investor relations related contents on the official website of the Company according to the publication schedule of the annual reports, quarterly reports, the latest strategy, business priority and financial data of the Company.

VIII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct for securities transactions by Directors and supervisors, which is not less rigorous than the Model Code set out in Appendix 10 of the Hong Kong Listing Rules. The Company has confirmed with all Directors and supervisors and hereby acknowledged that they had complied with the aforesaid code during the period from January 1, 2023 to June 30, 2023.

IX. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN THE HONG KONG LISTING RULES

The Company agrees to the principles as set out in Corporate Governance Code (Appendix 14 to the Hong Kong Listing Rules). From January 1, 2023 to June 30, 2023, the Company has been in full compliance with the code provisions under such Code, except for the following:



CORPORATE GOVERNANCE

According to the Code C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Due to work arrangement, on January 14, 2022, the Board elected Mr. Zhang Rongsen, an executive Director and the President of the Bank, as the acting chairman of the Board, until the date of election and appointment of a new chairman of the Board whose qualification has been approved by the relevant regulatory authority. On August 9, 2023, the Company received the “Approval of the National Administration of Financial Regulation on the Qualification of Lu Jianqiang of CZBank” (Jin Fu [2023] No. 183). In accordance with the relevant regulations, the National Administration of Financial Regulation approved the qualification of Mr. Lu Jianqiang for the appointment as a director and chairman of the Board. Mr. Zhang Rongsen, an executive Director and the President of the Bank ceased to act as the chairman of the Board and legal representative of the Bank with effect from August 9, 2023. Upon the qualification of Mr. Lu Jianqiang as a director and the chairman of the Board becoming effect from August 9, 2023, the Bank has re-complied with Code C.2.1 of the Corporate Governance Code.

As disclosed in the announcement of the Bank dated April 28, 2023, Mr. Liu Long resigned from his positions as a vice president of the Bank, the secretary to the Board, the company secretary of the Bank (the “Company Secretary”) and an authorised representative of the Bank (the “Authorized Representative”) under Rule 3.05 of the Hong Kong Listing Rules due to his personal career planning, which took effect upon the delivery of the resignation report to the Board (i.e. April 28, 2023). Following Mr. Liu Long’s resignation as the Company Secretary and the authorised representative of the Bank, the Bank had no company secretary and had only one authorised representative, which fail to meet the requirements under Rule 3.28 that an issuer shall have a company secretary, and the requirement under Rule 3.05 that an issuer should appoint two authorised representatives of the Hong Kong Listing Rules. On June 25, 2023, the Bank convened the ninth meeting of the sixth session of the Board and considered and approved to appoint Ms. Chan Yin Wah as the Company Secretary and the Authorized Representative of the Bank with effect from June 25, 2023. Upon the appointment of Ms. Chan as the Company Secretary and an Authorized Representative becoming effective on June 25, 2023, the Bank has re-complied with the requirement under Rule 3.28 of the Hong Kong Listing Rules that an issuer shall have a company secretary, and the requirement under Rule 3.05 of the Hong Kong Listing Rules that an issuer should appoint two authorized representatives. For details, please refer to the announcement of the Bank disclosed on the website of Hong Kong Stock Exchange and dated April 28, 2023 and June 25, 2023, respectively.

In addition, according to provision of C.1.6 of the Corporate Governance Code, independent non-executive directors and other non-executive directors should attend general meetings. During the reporting period, one of the independent non-executive Directors of the Bank was unable to attend the 2022 Annual General Meeting held on May 4, 2023 due to other business arrangements.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

(I) Table of Changes in Ordinary Shares

Unit: Share, %

	December 31, 2022		Changes during the Reporting Period (Share)	June 30, 2023	
	Number	Proportion (%)		Number	Proportion (%)
I. Shares Subject to Selling Restrictions	-	-	-	-	-
II. Listed Shares without Selling Restrictions	21,268,696,778	100.00	+4,829,739,185	26,098,435,963	100.00
1. RMB Ordinary Shares	16,714,696,778	78.59	+4,829,739,185	21,544,435,963	82.55
2. Domestic Listed Foreign Shares	-	-	-	-	-
3. Overseas-listed Foreign Shares	4,554,000,000	21.41	-	4,554,000,000	17.45
4. Other	-	-	-	-	-
III. Total Ordinary Shares	21,268,696,778	100.00	-	26,098,435,963	100.00

As of the end of the reporting period, the issued shares of the Company were 26,098,435,963 ordinary shares, including 21,544,435,963 A Shares and 4,554,000,000 H Shares.

(II) Description on Change in Ordinary Shares

During the reporting period, changes in ordinary shares was due to the completion of the A Share Rights Issue of the Company. 4,829,739,185 ordinary shares placed under the A Share Rights Issue have been listed and traded on the Shanghai Stock Exchange since July 6, 2023.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

II. INFORMATION ON SHAREHOLDERS OF ORDINARY SHARES

Number of Shareholders of Ordinary Shares and Their Shareholdings

As of the end of the reporting period, the Company had 254,615 shareholders of ordinary shares in total, including 254,496 shareholders of A Shares and 119 shareholders of H Shares.

As of the end of the reporting period, the table of shareholdings of the top ten shareholders and top ten shareholders of circulating shares (or shareholders without selling restrictions) was as follows:

Unit: Share

Name of Shareholder (full name)	Increase/ Decrease during the reporting period	Number of shares held at the end of period	Proportion (%)	Class of shares	Pledge and freezing Status of Shares		Nature of shareholders
						Number	
HKSCC Nominees Limited	+5,980	4,553,749,780	17.45	H Share without selling restrictions	Unknown	-	-
Zhejiang Provincial Financial Holdings Co., Ltd.	+796,633,132	3,452,076,906	13.23	A Share without selling restrictions	-	-	State-owned Legal Person
Hengdian Group Holdings Limited	+372,817,474	1,615,542,387	6.19	A Share without selling restrictions	-	-	Domestic Non-State-owned Legal Person
Zhejiang Provincial Energy Group Co., Ltd.	+252,353,326	1,093,531,078	4.19	A Share without selling restrictions	-	-	State-owned Legal Person
Taiping Life Insurance Company Limited	+921,538,465	921,538,465	3.53	A Share without selling restrictions	-	-	State-owned Legal Person
Shandong International Trust Co., Ltd.	+843,519,174	843,519,174	3.23	A Share without selling restrictions	-	-	State-owned Legal Person
Minsheng Life Insurance Company Ltd. — self-owned capital	-34,632,189	768,593,847	2.94	A Share without selling restrictions	-	-	Domestic Non-State-owned Legal Person
Zhejiang Yongli Industry Group Co., Ltd.	+164,536,011	712,989,382	2.73	A Share without selling restrictions	Pledge	548,453,371	Domestic Non-State-owned Legal Person
Zhejiang Hengyi High-tech Material Co., Ltd.	+152,420,785	660,490,068	2.53	A Share without selling restrictions	Pledge	508,069,283	Domestic Non-State-owned Legal Person
Zhejiang Hengyi Group Co., Ltd.	+148,396,689	643,052,319	2.46	A Share without selling restrictions	Pledge	494,655,630	Domestic Non-State-owned Legal Person



CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Notes:

1. The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system.
2. As of the end of the reporting period, among the top ten shareholders mentioned above, Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. have a related relationship. Apart from that, the Bank is not aware of other related relationship between the above shareholders or whether they are parties acting in concert.
3. To the best knowledge of the Company, as of the end of the reporting period, the above shareholders were not involved in any margin financing and securities lending and refinancing business.

III. PLEDGE AND FREEZING OF ORDINARY SHARES

As at the end of the reporting period, to the knowledge of the Company, 2,561,374,733 shares of the Company (representing 9.81% of the total ordinary shares in issue) were pledged, of which, 227,801,951 shares were subject to judicial freezing.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

IV. INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of June 30, 2023, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	A Shares	Long position	3,452,076,906	13.23	16.02
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	1,615,542,387	6.19	7.50
Qiu Jianlin (邱建林)	Interest of controlled corporation	A Shares	Long position	1,615,542,387	6.19	7.50
Hengdian Group Holdings Limited	Beneficial owner	A Shares	Long position	1,615,542,387	6.19	7.50
Hengdian Association For Economics Corporation	Interest of controlled corporation	A Shares	Long position	1,615,542,387	6.19	7.50
Zhejiang Provincial Energy Group Co., Ltd.	Beneficial owner	A Shares	Long position	1,093,531,078	4.19	5.08
Zhejiang Provincial Energy Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	2.47	14.18
Zhejiang Energy Capital Holdings Co., Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	2.47	14.18
Zheneng Capital Investment (Hong Kong) Limited	Beneficial owner	H Shares	Long position	365,633,000	1.4	8.03
Zhejiang Energy International Co., Ltd.	Beneficial owner	H Shares	Long position	280,075,000	1.07	6.15
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,061,000,000	4.07	23.3
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	925,700,000	3.55	20.33
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	925,700,000	3.55	20.33
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	3.58	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	3.58	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	3.58	20.51
FTLIFE INSURANCE COMPANY LIMITED	Beneficial owner	H Shares	Long position	247,331,000	0.95	5.43

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of shares (%)
EARNING STAR LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
SUCCESS IDEA GLOBAL LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
NWS SERVICE MANAGEMENT LIMITED ^(Note 1)	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
NWS SERVICE MANAGEMENT LIMITED ^(Note 1)	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
NWS HOLDINGS LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
NEW WORLD DEVELOPMENT COMPANY LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
CHOW TAI FOOK ENTERPRISES LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
CHOW TAI FOOK (HOLDING) LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
CHOW TAI FOOK CAPITAL LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
CHENG YU TUNG FAMILY (HOLDINGS) LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
CHENG YU TUNG FAMILY (HOLDINGS II) LIMITED	Interest of controlled corporation	H Shares	Long position	247,331,000	0.95	5.43
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	0.96	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	0.96	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	0.96	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	0.96	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	0.96	5.49
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership)	Interest of controlled corporation	H Shares	Long position	250,000,000	0.96	5.49
Aeon Life Insurance Co. Ltd.	Beneficial owner	H Shares	Long position	228,651,000	0.88	5.02

Note:

- (1) These two companies that have the same name have different addresses of registration. For the details, please refer to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on June 30, 2023.

V. INFORMATION ON THE CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As of the end of the reporting period, the Company had no controlling shareholders and de facto controllers.

VI. INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 13.23% of the shares of the Company and was the Company's largest shareholder.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with the uniform social credit code of 913300000542040763 and its legal representative was Yang Qiangmin (楊強民). With a registered capital of RMB12.0 billion, the company is a financial investment management platform of Zhejiang Provincial Government. Zhejiang Provincial Financial Holdings Co., Ltd. is a state-owned enterprise directly subordinated to the provincial government and is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial equity investment, government equity investment fund management, asset management and other business. The controlling shareholders and de facto controllers of Zhejiang Provincial Financial Holdings Co., Ltd. is Zhejiang Provincial Department of Finance, which holds 100% equity interest of Zhejiang Provincial Financial Holdings Co., Ltd.



CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

VII. INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

As at June 30, 2023

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
1	Zhejiang Provincial Financial Holdings Co., Ltd.	3,452,076,906	13.23	13.23	Holding 5% or more of our Bank's shares and dispatch Directors to our Bank	-	Zhejiang Provincial Department of Finance	Zhejiang Provincial Department of Finance	Nil	Zhejiang Provincial Financial Holdings Co., Ltd.
2	Zhejiang Provincial Energy Group Co., Ltd.	1,093,531,078	4.19	6.66	Holding 5% or more of our Bank's shares in total with the related parties and jointly dispatch Directors to our Bank	-	State-owned Assets Supervision And Administration Commission of the People's Government of Zhejiang Province	State-owned Assets Supervision And Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Energy Group Co., Ltd.
3	Zheneng Capital Investment (Hong Kong) Limited (H share)	365,633,000	1.40			-	Zhejiang Energy Capital Holdings Co., Ltd.	the People's Government of Zhejiang Province	Nil	Zhejiang Energy Capital Holdings Co., Ltd.
4	Zhejiang Energy International Co., Ltd. (H share)	280,075,000	1.07			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy International Co., Ltd.
6	Zhejiang Hengyi High-tech Material Co., Ltd.	660,490,068	2.53	6.19	Holding 5% or more of our Bank's shares in total with the related parties and jointly dispatch Directors to our Bank	508,069,283	Zhejiang Hengyi Petrochemical Co., Ltd.	Qiu Jianlin (邱建林)	Nil	Zhejiang Hengyi High-tech Material Co., Ltd.
7	Zhejiang Hengyi Group Co., Ltd.	643,052,319	2.46			494,655,630	Hangzhou Wan Yong Industry Investment Co., Ltd.		Nil	Zhejiang Hengyi Group Co., Ltd.
8	Zhejiang Hengyi Petrochemical Co., Ltd.	312,000,000	1.20			240,000,000	Hengyi Petrochemical Co., Ltd.		Nil	Zhejiang Hengyi Petrochemical Co., Ltd.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
9	Hengdian Group Holdings Limited	1,615,542,387	6.19	6.19	Holding 5% or more of our Bank's shares and dispatch Directors to our Bank	-	Dongyang Hengdian Association For Economics Corporation	Dongyang Hengdian Association For Economics Corporation	Nil	Hengdian Group Holdings Limited
10	Zhejiang Seaport (Hong Kong) Co., Limited (H share)	925,700,000	3.55	4.07	Jointly dispatch Directors to our Bank	-	Zhejiang Seaport Asset Management Co., Limited	State-owned Assets Supervision	Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.
11	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. (H share)	135,300,000	0.52			-	State-owned Assets Supervision And Administration Commission of the People's Government of Ningbo Municipality	And Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.



CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

VIII. ISSUANCE AND LISTING OF SECURITIES

To better meet the capital supervision requirements, enhance the capability of risk resilience, support the steady business development of the Bank and better serve the real economy, the Company initiated the A Share Rights Issue and the H Share Rights Issue, which were completed on June 27 and July 27, 2023, respectively.

The A Share Rights Issue was approved by the Reply on Approval for Rights Issue by China Zheshang Bank Co., Ltd. (Zheng Jian Xu Ke [2023] No. 339) (《關於核准浙商銀行股份有限公司配股的批覆》(證監許可[2023] 339號)) of the CSRC. The Company placed shares to all A shareholders on the basis of 3 A Shares for every 10 existing A Shares at a price of RMB2.02 per share. The net amount of funds raised was RMB2.01 per A Rights Share. The closing price of A Shares of the Company on June 9, 2023 was RMB2.88 per A Share as quoted on the Shanghai Stock Exchange. The actual number of A Shares issued under A Share Rights Issue was 4,829,739,185 A Shares with an aggregate nominal value of RMB4,829,739,185, which were listed and traded on the Shanghai Stock Exchange on July 6, 2023.

The H Share Rights Issue was approved by the Reply on Approval for Issuance of Overseas Listed Foreign Shares by China Zheshang Bank Co., Ltd. (Zheng Jian Xu Ke [2023] No. 717) (《關於核准浙商銀行股份有限公司發行境外上市外資股的批覆》(證監許可[2023] 717號)) of the CSRC. The Company placed shares to all H shareholders on the basis of 3 H Shares for every 10 existing H Shares at a price of HK\$2.23 per share. The net amount of funds raised was HK\$2.20 per H Rights Share. The closing price of H Shares of the Company on June 9, 2023 was HK\$2.63 as quoted on the Hong Kong Stock Exchange. The actual number of H Shares issued under H Share Rights Issue was 1,366,200,000 H Shares with an aggregate nominal value of RMB1,366,200,000, which were listed and traded on the main board of the Hong Kong Stock Exchange on July 28, 2023.

IX. INFORMATION ABOUT PREFERENCE SHARES

As of the end of the reporting period, the Company had no existing preference shares.

X. INFORMATION ABOUT UNDATED CAPITAL BOND

As considered and approved at the sixth extraordinary meeting of the fifth session of the Board of the Company in 2020 and the Company's 2021 first extraordinary general meeting and with the approval from the Former CBIRC and the People's Bank of China, the Company successfully issued undated capital bonds with a total issue amount of RMB25.0 billion on November 25, 2021 in China's national inter-bank bond market. The coupon rate is 3.85% during the first five years and will be adjusted every five years. The Company shall be entitled to redeem the bonds, in total or in partial, on every distribution payment date since the fifth distribution payment date (inclusive). All the proceeds will be used to replenish the Company's additional tier 1 capital.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

I. BASIC INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the end of the reporting period, the Board of the Company comprised 14 Directors, including 3 executive Director, namely Mr. Zhang Rongsen, Ms. Ma Hong and Mr. Chen Haiqiang; 5 non-executive Directors, namely Mr. Hou Xingchuan, Mr. Ren Zhixiang, Ms. Gao Qinrong, Mr. Hu Tiangao and Mr. Zhu Weiming; and 6 independent non-executive Directors, namely Mr. Zheng Jindu, Mr. Zhou Zhifang, Mr. Wang Guocai, Mr. Wang Wei, Mr. Xu Yongbin and Mr. Fu Tingmei.

As of the end of the reporting period, the Board of Supervisors of the Company comprised 8 Supervisors, including 4 employee representative Supervisors, namely Mr. Guo Dingfang, Mr. Wu Fanghua, Mr. Peng Zhiyuan and Mr. Chen Zhongwei, and 4 external Supervisors, namely Mr. Gao Qiang, Mr. Zhang Fanquan, Mr. Song Qinghua and Mr. Chen Sanlian.

As of the end of the reporting period, the Senior Management of the Company comprised 5 members, namely Mr. Zhang Rongsen, Mr. Chen Haiqiang, Mr. Jing Feng, Mr. Luo Feng and Mr. Jiang Rong.

II. INFORMATION ON THE APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

On February 6, 2023, Mr. Zhuang Yuemin resigned as a non-executive director of the Company as he would like to devote more time to his other personal engagements. As of the effective date of his resignation, the qualification of Mr. Zhuang Yuemin as a Director had not been approved by the regulatory authorities.

On May 4, 2023, Mr. Fu Tingmei's qualification as an independent non-executive director of the Company was approved by the Former CBIRC (now the National Administration of Financial Regulation), and he officially assumed his position.

On May 4, 2023, the Company held the 2022 annual general meeting of the Company to elect Mr. Lou Weizhong as an independent non-executive Director of the sixth session of the Board of Directors, whose qualification as a Director is subject to the ratification by the National Administration of Financial Regulation.

On July 5, 2023, Mr. Zheng Jindu resigned from his positions as an independent non-executive Director of the Company, a member of the risk and related party transaction control committee under the Board and a member of the consumer rights protection committee under the Board due to the expiration of six-year tenure of office as an independent non-executive Director of the Company, which took effect upon the delivery of the resignation report to the Board of the Company.

On August 9, 2023, the Company received the "Approval of Qualification of Lu Jianqiang of China Zheshang Bank Co., Ltd." (Jin Fu [2023] No. 183) issued by the National Administration of Financial Regulation. According to relevant regulations, the National Administration of Financial Regulation has approved the qualification of Mr. Lu Jianqiang as a Director and the chairman.

On August 21, 2023, Mr. Guan Pinfang resigned as an independent non-executive director of the Company due to personal health and time arrangement reasons. As of the effective date of his resignation, the qualification of Mr. Guan Pinfang as a Director had not been approved by the regulatory authorities.



INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

SUPERVISORS

On January 12, 2023, the Bank held the third workers and employees' congress of the third session of the Board of Supervisors, at which Mr. Wu Fanghua and Mr. Peng Zhiyuan were elected as employee Supervisors of the sixth session of the Board of Supervisors of China Zheshang Bank.

On May 4, 2023, Mr. Pan Huafeng tendered his resignation as an employee Supervisor and a member of the Supervision Committee under Board of Supervisors of the Bank due to adjustments to internal positions.

SENIOR MANAGEMENT

On April 28, 2023, Mr. Liu Long tendered his resignation as a vice president, the secretary to the Board, the company secretary and authorised representative of the Company under Rule 3.05 of the Hong Kong Listing Rules due to his personal career planning.

It was resolved at the 2023 Third Extraordinary Meeting of the Sixth Session of the Board of Directors of the Bank held on May 4, 2023 that Mr. Pan Huafeng be appointed as an Assistant to President of the Company. His letter of appointment will not be issued until his qualification as senior management is approved by the National Administration of Financial Regulation.

It was resolved at the 2023 Ninth Meeting of the Sixth Session of the Board of Directors of the Bank held on June 25, 2023 that Mr. Lin Jingran be appointed as the Vice President of the Company. His letter of appointment will not be issued until his qualification as senior management is approved by the National Administration of Financial Regulation.

III. CHANGE OF DIRECTORS AND SUPERVISORS

On February 27, 2023, Mr. Fu Tingmei was appointed as an independent non-executive Director of China Resources Medical Holdings Company Limited.

On March 10, 2023, Mr. Fu Tingmei ceased to be the independent non-executive Director of Postal Savings Bank of China Co., Ltd.

On June 27, 2023, Mr. Zheng Jindu ceased to be the Chairman of Zhejiang Lawyers Association.

IV. CHANGE IN SHAREHOLDING OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE RESIGNED DURING THE REPORTING PERIOD

Unit: Share

Name	Position	Number of shares held at the beginning of the period	Number of shares held at the end of the period	Changes in number of shares during the reporting period	Reasons for the change
Zhang Rongsen	Executive Director, President	1,341,100	1,743,430	402,330	Participate in rights issue
Ma Hong	Executive Director	63,900	83,070	19,170	Participate in rights issue
Chen Haiqiang	Executive Director, Vice President, Chief Risk Officer	580,000	754,000	174,000	Participate in rights issue
Jing Feng	Vice President, Chief Financial Officer	573,000	744,900	171,900	Participate in rights issue
Luo Feng	Vice President	572,300	743,990	171,690	Participate in rights issue
Jiang Rong	Chief Audit Officer	159,400	207,220	47,820	Participate in rights issue
Wu Fanghua	Employee Supervisor	-	52,000	52,000	Acquire from secondary market and participate in rights issue
Liu Long	Former Vice President, Secretary of the Board, Company Secretary	1,347,900	1,752,270	404,370	Participate in rights issue
Total		4,637,600	6,080,880	1,443,280	

V. EMPLOYEES

As at the end of the reporting period, the Group had 21,068 employees (including dispatched employees, outsourced technicians and employees of the subsidiary of the Company), representing an increase of 1,161 as compared with that at the end of last year. Divided by the position types, 9,146 employees of the Group were categorized as marketing personnel, 1,699 employees as counter personnel, and 10,223 employees as mid-office and back-office personnel; divided by the educational levels, 5,042 obtained post-graduate degree or above (including 89 with doctorate degree), 15,139 obtained bachelor degree, and 887 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 220 employees had retired from the Company.



VI. EMPLOYEE REMUNERATION POLICY

The Company's remuneration policy is guided by its growth strategy and the people-oriented concept with unified and classified management by adhering to the principle of marketization and in accordance with the single-level legal person system. The Company continues to improve the linkage mechanism of remuneration level with performance capabilities of individual positions and personal operational performance, and strives to set up a remuneration management system that reflects internal fairness and external competitiveness, promotes the co-growth of employees and the Company, focuses equally on incentives and restraints, gives attention to both position value, contribution and long-term incentives, and matches the change in remuneration with the market rate and economic benefits.

The Company's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by the Company to its branches is linked with the realization status of overall benefits by such branches and the Company takes into account various kinds of risk factors so that the branch outlets would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and performance allocation methods are applied to different types of employees, which appropriately tilted to the front-office marketing position, and the deferment payment of the performance-based remuneration is implemented in accordance with the internal control principles of prudent operations and strengthened constraints with the payment time basically in line with the risk persistency period of the corresponding business. For employees in the risk and compliance departments, their remuneration is determined by taking into account their position value, abilities to perform duties and other factors, and such remuneration is not directly related to the matters under their regulation and remains independent of other business segments.

VII. EMPLOYEES TRAINING

Based on our operation and development strategy and on the basis of conducting all-staff training, the Company attaches high importance to the training of key talents, so as to comprehensively improve management abilities and professional capabilities of our employees, and provide knowledge and talents support for the implementation of our strategy. During the reporting period, the Bank held 846 training programmes in total with 280,315 attendances.

VIII. INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Number of institution	Number of employees	Total assets (RMB million)
Yangtze River Delta Region	Head office	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang	1	4,503	935,005
	Small Enterprise Credit Center	No. 76, Huancheng West Road, Gongshu District, Hangzhou, Zhejiang	1	46	-
	Fund Operation Center	12F, Tower 1, Century Metropolis, No. 1229 Century Avenue, Pudong New District, Shanghai	1	74	601,991
	Hangzhou Branch	No. 288, Qingchun Road, Gongshu District, Hangzhou, Zhejiang	56	2,754	329,483
	Shanghai Branch	No. 567, Weihai Road, Jing'an District, Shanghai	12	807	137,816
	Nanjing Branch	No. 9, Zhongshan North Road, Nanjing	31	1,334	145,144
	Ningbo Branch	No. 128, Wenkang Road, No. 555, Yangfan Road, Gaoxin District, Ningbo	19	748	87,098
	Suzhou Branch	No. 5, Xingdun Lane, Industrial Park Zone, Suzhou	10	568	73,608
	Hefei Branch	Block A16, Financial Harbour Center, No. 4872, Huizhou Avenue, Binhu New District, Hefei	4	309	32,351
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	9	470	55,312
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	12	512	52,594
	Jinhua Branch	1/F, 2/F, 10/F, Jiafu Business Building, No. 358, Binhong East Road, Jinhua	9	422	35,458
	Zhoushan Branch	No. 88, Lvdao Road, Qiandao Streets, Dinghai District, Zhoushan, Zhejiang	2	91	6,965
	Bohai Rim Region	Beijing Branch	Huajia Jinbao Complex, No. 269, Chaoyangmen South Street, Dongcheng District, Beijing	22	1,001
Jinan Branch		No. 801, Caoshanling South Road, Lixia District, Jinan, Shandong	19	964	91,782
Tianjin Branch		Overseas Chinese Building, Extension No. 1, No.92, Nanjing Road, Heping District, Tianjin	12	510	37,538
Shenyang Branch		No. 467, Shifu Road, Shenhe District, Shenyang	7	314	20,683
Pearl River Delta and Economic Zone on the Western Coast of the Taiwan Straits	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	11	759	106,030
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, Hightech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	12	807	90,505
	Fuzhou Branch	Huawei Building, No. 169, Binxi Avenue, Nanjiang, Cangshan District, Fuzhou, Fujian	1	82	16,207

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Region	Name of institution	Business address	Number of institution	Number of employees	Total assets (RMB million)
Midwestern China Region	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	14	539	52,672
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	12	599	56,654
	Chongqing Branch	Block 3, No. 67, Middle Section of Huangshan Avenue, Yubei District, Chongqing	10	511	63,417
	Wuhan Branch	Zheshang Bank Building (Pacific Finance Plaza), No. 548, 550, 552, 556, Jianshe Avenue, Jiangnan District, Wuhan, Hubei	7	387	32,735
	Zhengzhou Branch	No. 8 Middle Ring Road, Finance Island, Zhengzhou Area (Zhengdong), Henan Pilot Free Trade Zone, Zhengzhou, Henan	7	343	34,439
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	4	265	26,478
	Nanchang Branch	1-2/F, 14-20/F, Block 35, Alpha X, No. 1, Xuefu Road, Honggutan New District, Nanchang, Jiangxi	4	194	23,167
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	9	375	22,494
	Hohhot Branch	No. 8, Chilechuan Street, Saihan District, Hohhot	2	185	24,335
	Guiyang Branch	No. 88, Yan'an Road Central, Yunyan District, Guiyang	1	113	10,821
	Taiyuan Branch	Part of 1/F and 2-7/F, Block A, No. 163 Jinyang Street, Xiaodian District, Taiyuan, Shanxi	1	95	10,457
	Nanning Branch	20-21/F, Block A, China Resources Building, No. 136-1 Minzu Avenue, and No. B1028-1031, -1/F, 136-6 Xingfu Lane, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region	1	95	7,124
	Overseas Institution	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	1	85
Subsidiary	Zheyin Financial Leasing	No. 368, Yan'an Road, Gongshu District, Hangzhou, Zhejiang	1	207	60,529
Offset balance and intra-group elimination			-	-	(631,037)
Total			325	21,068	2,912,260



SIGNIFICANT EVENTS

I. PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company and its subsidiary did not purchase, sell or redeem any of the Company's listed securities.

II. USAGE OF PROCEEDS RAISED

The Company completed the A Share Rights Issue and the H Share Rights Issue on June 27 and July 27, 2023, respectively. The Company allotted three shares for every 10 existing shares to all A share shareholders at a price of RMB2.02 per A Share and to all H Share shareholders at a price of HK\$2.23 per H Share, respectively. 4,829,739,185 A Shares and 1,366,200,000 H Shares were actually issued, respectively, and the total amount of proceeds raised from such issuance were approximately RMB9.756 billion and HK\$3.047 billion, and the net funds, after deducting the issuance expenses, were approximately RMB9.722 billion and HK\$3.012 billion, respectively, which were all planned to be used to replenish the core tier 1 capital of the Company. As of the end of the reporting period, the net proceeds of RMB9.722 billion from the A Share Rights Issue were all used to replenish the core tier 1 capital of the Company. As of the date of issue of this report, the net proceeds of HK\$3.012 billion from the H Share Rights Issue were all used to replenish the core tier 1 capital of the Company.

The use of proceeds of the Company was consistent with such usages as committed in the prospectus of A Share Rights Issue and the H Share Rights Issue of the Company.

III. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal litigations/arbitrations in the ordinary course of business, most of which were filed by the Company itself for the purpose of recovering non-performing loans. The above litigations/arbitrations also include those arising as a result of other disputes. For the relevant information on the case involving disputes of financial loan contracts between the Company and Beijing Glory Xingye Real Estate Co., Ltd. (北京國瑞興業地產股份有限公司), Guorui Properties Limited (國瑞置業有限公司), Shantou Garden Group Co., Ltd. (汕頭花園集團有限公司), Zhang Zhangsun (張章筍) and Ruan Wenjuan (阮文娟), please refer to the Announcement of China Zheshang Bank Co., Ltd. on the Litigation 《浙商銀行股份有限公司關於訴訟事項的公告》 (Number: 2022-029) and Announcement of China Zheshang Bank Co., Ltd. on Litigation Progress 《浙商銀行股份有限公司關於訴訟事項進展的公告》 (Number: 2023-001) issued by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn).

As of the end of the reporting period, there were totally 50 pending litigations/arbitrations (excluding cases involving enforcement opposition and the third parties) where the Company was a defendant, and the total value was RMB312.0386 million. The Company expects that such pending litigations/arbitrations will not have a material adverse impact on the Company's business, financial position or operating results.

IV. MATERIAL CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS

(I) Connected Transactions Related to Daily Operations

The Company carried out the connected transactions in accordance with the relevant requirements of regulatory authorities at home and abroad, i.e. the Administrative Measures for Related Party Transactions of Banking and Insurance Institutions (《銀行保險機構關聯交易管理辦法》), the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, Self-regulatory Guidelines for Listed Companies on the Shanghai Stock Exchange No. 5 – Transaction and Related Party Transaction (《上海證券交易所上市公司自律監管指引第5號 – 交易與關聯交易》) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The connected transactions were conducted on normal commercial terms. The terms of transactions were fair and reasonable and in the benefits of the Company and the shareholders as a whole.

During the reporting period, at the eighth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Hengdian Group (《關於本行對橫店集團關聯方授信方案的議案》), approving to grant maximum credit lines of RMB4.85 billion to Hengdian Group Holdings Limited and its related parties. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (Number: 2023-014) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, at the eighth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Orient Securities Co., Ltd. (《關於本行對東方證券股份有限公司關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB8 billion to Orient Securities Co., Ltd.. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (Number: 2023-014) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, at the eighth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Pre-approval Limit of Deposit-type Related Party Transactions of China Zheshang Bank Co., Ltd. for 2023 (《關於浙商銀行股份有限公司2023年度存款類關聯交易預審批額度的議案》), approving the pre-approval limit of non-demand deposits of the related parties for 2023 formulated by the Company. For details, please refer to the Announcement on the Pre-approval Limit of Deposit-type Related Party Transactions of China Zheshang Bank Co., Ltd. for 2023 (Number: 2023-015) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, the Company provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, including our connected persons. These transactions were entered into on normal commercial terms (or on better terms to the Company) in the ordinary and usual course of our business, and thus are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company also enters into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or on better terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.



SIGNIFICANT EVENTS

Details of related party transactions entered into by the Company as of June 30, 2023 are set out in “Notes to Consolidated Financial Statements – Related Party Relationship and Transactions”.

Saved as disclosed above, no related party transactions set out in “Notes to Consolidated Financial Statements – Related Party Relationship and Transactions” comply with the definition of “connected transactions” or “continuing connected transaction” in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(II) Connected Transactions in Acquisition and Disposal of Assets or Equity

During the reporting period, the Company hasn’t conducted connected transactions involving the acquisition and disposal of assets or equity.

(III) Connected Transactions in relation to Joint External Investment

During the reporting period, the Company hasn’t conducted connected transactions in relation to joint external investment.

(IV) Connected Creditor’s Rights and Liabilities

During the reporting period, the Company hasn’t had any non-operational connected creditor’s rights and liabilities.



SIGNIFICANT EVENTS

V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Material custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved custody, contracting or leasing any assets of other companies or vice versa which fell outside the normal business scope of a bank.

(II) Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the Former CBIRC, there were no other significant guarantees that shall be disclosed.

VI. MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

During the reporting period, at the ninth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Purchase of Office Building for Shenzhen Branch《關於購置深圳分行辦公用房的議案》. For details, please refer to the Announcement of China Zhesang Bank Co., Ltd. on the Purchase of Office Building《浙商銀行股份有限公司關於購買營業辦公用房的公告》 (Number: 2023-046) issued by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

VII. STOCK INCENTIVE PLAN

The Company did not implement any stock incentive plan during the reporting period.

VIII. EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

SIGNIFICANT EVENTS

IX. INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN THE COMPANY

As at June 30, 2023, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in the SFO), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including the interests or short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of Shares (shares)	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Zhang Rongsen (張榮森)	Executive Director, President	A Share	Long position	Beneficial Owner	1,743,430	0.0081	0.0067
Ma Hong (馬紅)	Executive Director	A Share	Long position	Beneficial Owner	83,070	0.0004	0.0003
Chen Haiqiang (陳海強)	Executive Director, Vice President, Chief Risk Officer	A Share	Long position	Beneficial Owner	754,000	0.0035	0.0029
Wu Fanghua (吳方華)	Employee Supervisor	A Share	Long position	Beneficial Owner	52,000	0.0002	0.0002

X. DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, the Board of Supervisors, the Supervisors and Senior Management of the Company and Shareholders holding 5% or more shares during the reporting period.



SIGNIFICANT EVENTS

XI. PERFORMANCE OF THE UNDERTAKINGS

Background of undertakings	Type of undertakings	Undertaking entities	Undertakings	Time and period of undertakings	Any period for performance	Whether timely and strictly performed
Undertaking related to refinancing	Other	Zhejiang Provincial Financial Holdings Co., Ltd.	To subscribe in cash for all the offered shares to be determined in accordance with the rights issue plan and to be allotted to it in proportion to the number of shares held by it at the close of market on the record date of the rights issue.	The rights issue period of the Company	Yes	Yes
	Other	Zhejiang Seaport (Hong Kong) Co., Limited, Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	To subscribe in cash for all the offered H Rights Shares which will be allotted to it in proportion to its shareholding in the Bank as of the H Share Record Date based on the Subscription Price and according to the relevant procedures and requirements as prescribed in the prospectus of the H Share Rights Issue.	The rights issue period of the Company	Yes	Yes

XII. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

By securing the positioning of finance to serve the top priorities of the country and adhering to the concept of financial goodwill, the Bank continued to improve its own governance level, fully demonstrated its responsibility in supporting the construction of Zhejiang Demonstration Zone for Common Prosperity, rural revitalization, green finance, inclusive finance, consumer rights and interests protection, etc., and strived to create value for society, the environment and the economy. It was awarded the “Gamma Award of China Banking ESG Practice in 2023 (2023 年度中國銀行業 ESG 實踐天璣獎)” by Securities Times and “Top Ten China Listed Banks on ESG Star List (Four-star) (中國上市銀行 ESG 星級榜前十(四星級))” by SOHU.

(I) Performance and Policies in relation to Environment

During the reporting period, in order to support the national “3060” goals of peaking carbon emissions by 2030 and achieving carbon neutrality by 2060, the Bank continued to promote green finance and green operation in line with the carbon peaking & neutrality goals and the green finance program, and strived to protect clear waters and green mountains.

In terms of green finance, the Bank comprehensively enhanced research on climate-related risks and opportunities, formulated special credit policies for thermal power, hydropower, wind power, nuclear power, solar power and other sectors, strengthened customer environmental and social risk management, and actively encouraged credit resources to flow into low-carbon, environmentally friendly, clean and efficient business areas. Meanwhile, it integrated the concept of ESG sustainable development into the business, promoted green financial products and service models such as Carbon Easy Loan (碳易貸) and PV Loan (光伏貸), and launched more financing channels for green enterprises, so as to build a multi-dimensional sustainable financial product system such as green loans, green bonds, and green investment. As of the end of the reporting period, the balance of green loans was RMB176.791 billion, representing an increase of RMB30.868 billion or 21.15% from the beginning of the year, and the size of independently underwritten “the first tranche green and targeted Covered Bond (CB) of China Kangfu International Leasing Co., Ltd. in 2023” (中國康富國際租賃股份有限公司2023年度第一期綠色定向資產擔保債務融資工具(CB)) was RMB500 million, being the first targeted and green CB.

In terms of green operation, the Bank strengthened its own carbon footprint management and strived to reduce resource and energy consumption in daily office and operation processes: promoted and expanded the application scenarios of remote banking to provide customers with convenient online channels with less frequency of customers travelling to and from outlets for business and decreased carbon emissions generated by travel, and the rate of online transaction substitution exceeded 99%; further promoted the first national electronic certificate pilot, digital office and paperless quick reimbursement, encouraged green commuting of employees, and continued to improve the eco-efficiency of operations. As of the end of the reporting period, the Bank did not violate any environmental regulation.



SIGNIFICANT EVENTS

(II) Particulars of Consolidating and Expanding Poverty Alleviation Achievements and Rural Revitalization

During the reporting period, the Bank continued to increase the allocation and investment of financial resources in rural areas and areas striving to shake off poverty, especially focusing on the characteristic and advantageous industries in the 26 counties in the mountainous regions of Zhejiang Province, established the “digital intelligent common prosperity loans (數智共富貸)”, promoted the financial consulting system, and effectively supported the development of local specialty industries. As of the end of the reporting period, the large agriculture-related loan balance was RMB213.792 billion, representing an increase of RMB13.868 billion from the beginning of the year, and total financial services amounting to RMB54.204 billion were provided to the 26 counties in the mountainous regions. It strongly promoted East-West collaboration and the “1,000 enterprises for 1,000 villages” (千企結千村) partner assistance program, and adopted various measures including industrial assistance and consumption assistance, with assistance funds of RMB39.41 million in aggregate, which achieved remarkable results. In particular, the Bank helped the five villages in Longyou County, Quzhou, develop industrial projects such as photovoltaic power generation, grain and oil processing, and rural homestays, bringing an average annual operating income of over RMB300,000 to such villages; and focusing on “one bank for one school” (一行一校) education support program, it improved the conditions of rural primary schools in an all-around manner, ranging from infrastructure, living environment, teaching quality to quality education, by establishing cooperation with and accumulatively donating more than RMB26 million to 30 schools, benefiting about 10,000 students.

(III) Protection of Consumer Rights

During the reporting period, the Bank always adhered to the “customer-oriented” and “people-oriented” approach, and continued to strengthen the protection of consumer rights and interests. In order to create efficient, convenient, warm and quality service experience, it intensified consumer protection review, implemented risk controls at an earlier stage and carried out comprehensive review on product agreements and marketing promotion materials; continued to improve the complaint management mechanism and strengthen the construction of complaint management teams in order to handle complaints in a timely and appropriate manner and protect the legitimate rights and interests of consumers; strengthened the establishment of a hierarchical consumer information management and authorization mechanism, and intensified the protection of personal information throughout its life cycle; actively explored a new mode of financial knowledge popularization, built a new brand of “Wealth Management N Course (財富管理 N 課)” education and publicity, completed 31 courseware, 42 videos and 55 special articles according to different publicity scenarios, and promoted the pilot application in Hangzhou Linping Comprehensive Financial Service Demonstration Zone (杭州臨平綜合金融服務示範區) and comprehensive promotion across China; carried out education and publicity activities such as “3•15”, “Popularization of Financial Literacy to Safeguard the Wallets (普及金融知識守住『錢袋子』)”, “Publicity Month for Prevention of Illegal Fundraising (防範非法集資宣傳月)” and “Long Journey of Financial Literacy (普及金融知識萬里行)”, and organized over 5,000 activities, involving more than 19 million consumers.

For more information about social responsibility and ESG, please refer to the 2022 Corporate Social Responsibility Report of China Zheshang Bank and the Company Overview – Social Responsibility section on the official website of the Company (www.czbank.com).

 **SIGNIFICANT EVENTS****XIII. REVIEW OF THE INTERIM RESULTS**

The 2023 interim report of the Company prepared under the China Accounting Standards and the International Financial Reporting Standards has reviewed by KPMG Huazhen LLP and KPMG in accordance with China Standards on Review Engagements and International Standard on Review Engagements, respectively.

The Board of Directors and the audit Committee of the Board of Directors of the Company have reviewed and approved the results and financial report of the Company for the period ended June 30, 2023.

XIV. PUBLISHING THE INTERIM REPORT

The English and Chinese version of the interim report prepared by the Company in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website. For any inconsistency between the two versions, the Chinese version shall prevail.

The Chinese version of the semi-annual report prepared by the Company in accordance with the China Accounting Standards and the Rules of the CSRC for the Preparation of Semi-annual Reports will be available on the website of the Shanghai Stock Exchange and the Company's website.

XV. MAJOR EVENTS OCCURRED AFTER THE REPORTING PERIOD

The Company completed the H Share Rights Issue on July 27, 2023. For details of the H Share Rights Issue, please refer to "CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS – VIII. ISSUANCE AND LISTING OF SECURITIES" in this report.

Saved as disclosed in this report, there is no major event occurred after the Reporting Period.

 **REVIEW REPORT**

To the board of directors of China Zheshang Bank Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial report of China Zheshang Bank Co., Ltd. (“the Bank”) and its subsidiary (“the Group”), which comprise the condensed consolidated statement of financial position at 30 June 2023, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in accordance with the relevant provisions thereof and the 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, *Interim Financial Reporting*.

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 International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board. A review of the 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 International 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 interim financial report as at 30 June 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

29 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Notes	The six months ended 30 June	
		2023 (Unaudited)	2022 (Unaudited)
Interest income		54,117	49,752
Interest expense		(30,148)	(26,515)
NET INTEREST INCOME	III.1	23,969	23,237
Fee and commission income		3,403	2,975
Fee and commission expense		(451)	(343)
NET FEE AND COMMISSION INCOME	III.2	2,952	2,632
Net trading gains	III.3	4,901	4,361
Net gains on financial investments	III.4	778	1,309
Other operating income	III.5	648	239
OPERATING INCOME		33,248	31,778
Operating expenses	III.6	(9,655)	(7,988)
Expected credit losses	III.7	(14,215)	(15,301)
PROFIT BEFORE TAXATION		9,378	8,489
Income tax expense	III.8	(1,413)	(1,316)
PROFIT FOR THE PERIOD		7,965	7,173
Attributable to:			
Shareholders of the Bank		7,743	6,974
Non-controlling interests		222	199

The notes on pages 111 to 233 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	The six months ended 30 June	
		2023 (Unaudited)	2022 (Unaudited)
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial investments designated to be measured at fair value through other comprehensive income		8	10
Items that may be reclassified to profit or loss:			
Changes in the fair value of financial assets measured at fair value through other comprehensive income		286	(1,265)
Allowance for ECLs of financial assets measured at fair value through other comprehensive income		(164)	568
Exchange difference from the translation of foreign operations		295	596
Other comprehensive income, net of tax		425	(91)
Total comprehensive income		8,390	7,082
Total comprehensive income attributable to:			
Shareholders of the Bank		8,166	6,883
Non-controlling interests		224	199
Earnings per share attributable to ordinary shareholders of the Bank:			
	III.9		
Basic (RMB yuan)		0.34	0.27
Diluted (RMB yuan)		0.34	0.27

The notes on pages 111 to 233 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Notes	30 June 2023 (Unaudited)	31 December 2022 (Audited)
ASSETS			
Cash and balances with the central bank	III.10	151,235	185,625
Precious metals		8,804	13,860
Deposits with banks and other financial institutions	III.11	51,106	43,461
Placements with banks and other financial institutions	III.12	9,331	9,581
Derivative financial assets	III.13	25,265	14,179
Financial assets purchased under resale agreements	III.14	33,624	15,886
Loans and advances to customers	III.15	1,611,322	1,486,291
Financial investments	III.16		
– Financial assets measured at fair value through profit or loss		299,384	189,020
– Financial assets measured at amortised cost		384,052	368,792
– Financial assets measured at fair value through other comprehensive income		226,877	194,037
Fixed assets	III.18	19,203	18,394
Right-of-use assets	III.19	4,952	5,016
Intangible assets	III.20	628	617
Deferred tax assets	III.21	22,359	20,901
Other assets	III.22	64,118	56,270
TOTAL ASSETS		2,912,260	2,621,930
LIABILITIES			
Due to the central bank		72,916	97,170
Deposits from banks and other financial institutions	III.24	317,006	241,814
Placements from banks and other financial institutions	III.25	78,550	64,155
Financial liabilities at fair value through profit or loss	III.26	10,765	55
Derivative financial liabilities	III.13	26,503	14,462
Financial assets sold under repurchase agreements	III.27	41,899	6,066
Customer deposits	III.28	1,822,985	1,681,443
Employee benefits payable	III.29	4,568	5,786
Taxes payable	III.30	3,633	4,027
Provisions	III.31	2,250	1,838
Debt securities issued	III.32	332,891	323,033
Lease liabilities		3,302	3,318
Other liabilities	III.33	15,527	12,833
TOTAL LIABILITIES		2,732,795	2,456,000

The notes on pages 111 to 233 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Notes	30 June 2023 (Unaudited)	31 December 2022 (Audited)
EQUITY			
Share capital	III.34	26,098	21,269
Other equity instruments	III.35	24,995	24,995
– Perpetual bond		24,995	24,995
Capital reserve	III.36	37,182	32,289
Other comprehensive income	III.37	2,614	2,191
Surplus reserve	III.38	11,075	11,075
Statutory general reserve	III.39	29,704	26,457
Retained earnings	III.40	44,687	44,657
Total equity attributable to shareholders of the Bank		176,355	162,933
Non-controlling interests		3,110	2,997
TOTAL EQUITY		179,465	165,930
TOTAL LIABILITIES AND EQUITY		2,912,260	2,621,930

The interim financial report were approved by the board of directors on 29 August 2023:

Lu Jianqiang
Chairman

Zhang Rongsen
President

Jing Feng
*Principal in-charge
of Finance*

Peng Zhiyuan
*Director of the
Financial Department*

The notes on pages 111 to 233 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Notes	Attributable to shareholders of the Bank							Non-Controlling interests	Total equity	
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			Subtotal
Balance at 1 January 2023		21,269	24,995	32,289	2,191	11,075	26,457	44,657	162,933	2,997	165,930
Changes in equity for the period											
1. Total comprehensive income		-	-	-	423	-	-	7,743	8,166	224	8,390
2. Capital contributions by shareholders											
- Contribution by ordinary shareholders	III.34	4,829	-	4,893	-	-	-	-	9,722	-	9,722
3. Appropriation of profits											
- Appropriation to statutory general reserve	III.39	-	-	-	-	-	3,247	(3,247)	-	-	-
- Distributions to ordinary shareholders	III.40	-	-	-	-	-	-	(4,466)	(4,466)	(111)	(4,577)
Balance at 30 June 2023		26,098	24,995	37,182	2,614	11,075	29,704	44,687	176,355	3,110	179,465

The notes on pages 111 to 233 form part of this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Notes	Attributable to shareholders of the Bank							Subtotal	Non-Controlling interests	Total equity
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			
Balance at 1 January 2022		21,269	39,953	32,018	557	9,743	23,802	36,827	164,169	2,714	166,883
Changes in equity for the period											
1. Total comprehensive income		-	-	-	(91)	-	-	6,974	6,883	199	7,082
2. Capital deduction by shareholders											
- Capital deduction by other equity instruments holders	III.35	-	(14,958)	271	-	-	-	-	(14,687)	-	(14,687)
3. Appropriation of profits											
- Appropriation to statutory general reserve	III.39	-	-	-	-	-	2,584	(2,584)	-	-	-
- Distributions to ordinary shareholders	III.40	-	-	-	-	-	-	-	-	(88)	(88)
- Distributions to preference shareholders	III.40	-	-	-	-	-	-	(838)	(838)	-	(838)
Balance at 30 June 2022		21,269	24,995	32,289	466	9,743	26,386	40,379	155,527	2,825	158,352

The notes on pages 111 to 233 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (Audited)
(In RMB millions, unless otherwise stated)

	Notes	Attributable to shareholders of the Bank								Non-Controlling interests	Total equity
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings	Subtotal		
Balance at 1 January 2022		21,269	39,953	32,018	557	9,743	23,802	36,827	164,169	2,714	166,883
Changes in equity for the year											
1. Total comprehensive income		-	-	-	1,634	-	-	13,618	15,252	371	15,623
2. Capital deduction by shareholders											
- Capital deduction by other equity instruments holders	III.35	-	(14,958)	271	-	-	-	-	(14,687)	-	(14,687)
3. Appropriation of profits											
- Appropriation to surplus reserve	III.38	-	-	-	-	1,332	-	(1,332)	-	-	-
- Appropriation to statutory general reserve	III.39	-	-	-	-	-	2,655	(2,655)	-	-	-
- Distributions to ordinary shareholders	III.40	-	-	-	-	-	-	-	-	(88)	(88)
- Distributions to preference shareholders	III.40	-	-	-	-	-	-	(838)	(838)	-	(838)
- Distributions to perpetual bond holders	III.40	-	-	-	-	-	-	(963)	(963)	-	(963)
Balance at 31 December 2022		21,269	24,995	32,289	2,191	11,075	26,457	44,657	162,933	2,997	165,930

The notes on pages 111 to 233 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	For the six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Cash flows from operating activities:		
Profit before taxation	9,378	8,489
Adjustments for:		
– Expected credit losses	14,215	15,301
– Depreciation and amortisation	1,038	904
– Interest income from financial investments	(10,519)	(9,074)
– Net investment income	(2,059)	(4,196)
– Net (gains)/losses from changes in fair value	(2,033)	1,293
– Net foreign exchange (gains)/losses	(60)	268
– Net gains on disposal of fixed assets	(4)	(1)
– Interest expense on debt securities issued	4,624	4,649
– Interest expense on lease liabilities	76	69
– Deferred tax expense	(1,501)	(1,965)
Net changes in operating assets and operating liabilities:		
Net decrease/(increase) in balances with the central bank	3,632	(9,843)
Net increase in deposits with banks and other financial institutions	(2,132)	(830)
Net decrease/(increase) in placements with banks and other financial institutions	1,079	(549)
Net (increase)/decrease in financial assets purchased under resale agreements	(1)	1,035
Net increase in loans and advances to customers	(134,754)	(130,032)
Net (increase)/decrease in financial assets held for trading	(114,641)	19,429
Net decrease in other operating assets	11,919	2,983
Net (decrease)/increase in due to the central bank	(24,620)	5,017
Net increase in deposits from banks and other financial institutions	74,379	3,011
Net increase in placements from banks and other financial institutions	4,520	6,548
Net increase in financial assets sold under repurchase agreements	35,776	5,000
Net increase in customer deposits	140,451	221,770
Net decrease in other operating liabilities	(1,246)	(4,976)
Net cash flows generated from operating activities before taxation	7,517	134,300
Income tax paid	(4,275)	(3,721)
Net cash generated from operating activities	3,242	130,579

The notes on pages 111 to 233 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2023 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	For the six months ended 30 June	
		2023 (Unaudited)	2022 (Unaudited)
Cash flows from investing activities:			
Proceeds from disposal of fixed assets		4	13
Payment for acquisition of fixed assets, intangible assets and other long-term assets		(1,883)	(3,023)
Investment returns received		14,074	13,426
Proceeds from disposal of investments		855,071	634,886
Payment for acquisition of investments		(887,859)	(690,191)
Net cash used in investing activities		(20,593)	(44,889)
Cash flows from financing activities:			
Proceeds from issuance of shares		9,722	–
Proceeds from issuance of debt securities		233,968	209,534
Repayments of principal on debt securities issued		(223,697)	(209,061)
Repayments of interest on debt securities issued		(5,198)	(4,910)
Repayments of other equity instruments		–	(14,687)
Payment for dividend distribution		(4,507)	(914)
Repayments of principal element of lease liabilities		(336)	(319)
Repayments of interest element of lease liabilities		(76)	(69)
Net cash generated from/(used in) financing activities		9,876	(20,426)
Effect of exchange rate changes on cash and cash equivalents		544	852
Net (decrease)/increase in cash and cash equivalents		(6,931)	66,116
Cash and cash equivalents at the beginning of the period		107,748	90,825
Cash and cash equivalents at the end of the period	III.41	100,817	156,941
Net cash flows from operating activities include:			
Interest received		42,190	40,206
Interest paid		(22,959)	(18,849)

The notes on pages 111 to 233 form part of this interim financial report.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

I GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank established on the basis of the original Zhejiang Commercial Bank with the approval from the original China Banking Regulatory Commission (hereinafter referred to as “the original CBIRC”) and the original Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the original CBIRC. On 26 July 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License (No. 330000000013295) in Zhejiang Province, the People’s Republic of China (the “PRC”). On 7 November 2016, the Bank obtained the Uniform Social Credit Code (No.91330000761336668H).

The Bank was listed on the Hong Kong Stock Exchange on 30 March 2016 with stock code of 2016, the Bank was listed on the Shanghai Stock Exchange on 26 November 2019 with stock code of 601916. At 30 June 2023, the Bank’s registered capital is RMB26,098,435,963.

At 30 June 2023, the Bank has established 323 branches in 22 provinces (autonomous regions or municipalities) and Hong Kong in China, including 72 branches (30 of them are tier-one branches), 2 branch-level specialized institution and 249 sub-branches. The principal activities of the Bank include corporate and retail banking, treasury business, and other banking service.

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) was established on 18 January 2017. At 30 June 2023, the registered capital of Zheyin Financial Leasing is RMB4 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank has included it in the scope of the consolidated financial statements. The Bank and its subsidiary, Zheyin Financial Leasing, are collectively referred to as “the Group”.

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim financial report has been prepared on a going concern basis.

The interim financial report has been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and do not include all information and disclosures disclosed in the annual financial statements. The interim financial report should be read in conjunction with the Group’s last annual consolidated financial statements at and for the year ended 31 December 2022.

This interim financial report contains condensed consolidated 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 consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRSs.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, 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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2022.

The following new and amended to IFRSs (including IAS and its amendments and IFRIC interpretations) issued by the International Accounting Standards Board take effect for the current accounting period beginning on or after 1 January 2023:

- Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*;
- Amendments to IAS 8, *Definition of Accounting Estimate*;
- Amendments to IAS 12, *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*;
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRSs (including IAS and its amendments and IFRIC interpretations) are discussed below:

(1) Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*

IAS 1 and IFRS Practice Statement 2 Amendments provide guidance to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies. The amendments add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The adoption has no material impact on the financial position and the financial result of the Group.

(2) Amendments to IAS 8, *Definition of Accounting Estimate*

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates.

The adoption has no material impact on the financial position and the financial result of the Group.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

- (3) Amendments to IAS 12, *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*.

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets in the financial statements, but does not impact the deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under IAS 12.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net Interest Income

	For the six months ended 30 June	
	2023	2022
Interest income:		
Loans and advances to customers		
– Corporate loans and advances	24,900	23,420
– Personal loans and advances	13,212	12,364
– Discounted bills	1,408	1,313
Financial investments		
– Financial assets measured at amortised cost (“AC”)	7,442	7,228
– Financial assets measured at fair value through other comprehensive income (“FVOCI”)	3,077	1,846
Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements	1,431	1,171
Balances with the central bank	1,025	942
Finance lease receivables	1,622	1,468
Total	54,117	49,752
Interest expense:		
Customer deposits		
– Corporate customers	(16,349)	(14,513)
– Personal customers	(2,751)	(2,313)
Debt securities issued	(4,624)	(4,649)
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	(5,601)	(4,237)
Due to the central bank	(747)	(734)
Lease liabilities	(76)	(69)
Total	(30,148)	(26,515)
Net interest income	23,969	23,237



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2 Net Fee and Commission Income

	For the six months ended 30 June	
	2023	2022
Fee and commission income:		
Agency and entrustment service	949	874
Commitment and guarantee service	848	823
Underwriting and consultation service	671	547
Settlement and clearing business	371	285
Custodian and other fiduciary service	301	256
Fees from bank cards	105	115
Others	158	75
Total	3,403	2,975
Fee and commission expense	(451)	(343)
Net fee and commission income	2,952	2,632

3 Net Trading Gains

	For the six months ended 30 June	
	2023	2022
Net gains arising from financial instruments measured at FVTPL	4,557	2,547
Exchange gains and related derivatives	487	1,571
Precious metals and related derivatives	120	127
Other derivatives	(263)	116
Total	4,901	4,361

4 Net Gains on Financial Investments

	For the six months ended 30 June	
	2023	2022
Net gains arising from financial assets measured at FVOCI	921	1,390
Net losses arising from financial assets measured at AC	(82)	(70)
Other investment losses	(61)	(11)
Total	778	1,309

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5 Other Operating Income

	For the six months ended 30 June	
	2023	2022
Operating lease income	175	105
Government grants	384	34
Other miscellaneous income	89	100
Total	648	239

6 Operating Expense

	Notes	For the six months ended 30 June	
		2023	2022
Staff costs	(1)	6,069	5,048
General and administrative expenses		2,148	1,658
Depreciation and amortisation		949	851
Taxes and surcharges		358	334
Donations		8	9
Auditors' remuneration		3	3
Others	(2)	120	85
Total		9,655	7,988

(1) Staff costs

	For the six months ended 30 June	
	2023	2022
Salaries, bonuses and allowances	4,430	3,909
Other social insurance and benefit costs	745	400
Housing funds	235	191
Pension costs – defined contribution plans	559	475
Labor union fee and staff education fee	100	73
Total	6,069	5,048

(2) During reporting period, the expense relating to short-term leases and leases of low-value assets which were simplified processed by the Group are not significant.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7 Expected Credit Losses (“ECL”s)

	For the six months ended 30 June	
	2023	2022
Deposits with banks and other financial institutions	4	–
Placements with banks and other financial institutions	(176)	33
Financial assets purchased under resale agreements	8	6
Loans and advances to customers		
– measured at AC	9,685	8,277
– measured at FVOCI	(93)	572
Financial investments		
– measured at AC	3,961	5,733
– measured at FVOCI	(60)	183
Finance lease receivables	260	253
Other assets	217	105
Off-balance sheet items	409	139
Total	14,215	15,301

8 Income Tax Expense

	For the six months ended 30 June	
	2023	2022
Current income tax expense	2,914	3,281
Deferred tax expense	(1,501)	(1,965)
Total	1,413	1,316

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group in accordance with PRC income tax regulations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

8 Income Tax Expense *(Continued)*

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the statutory tax rate to profit before taxation can be reconciled as follows:

		For the six months ended 30 June	
	Notes	2023	2022
Profit before taxation		9,378	8,489
Tax calculated at statutory tax rate		2,345	2,122
Effects of non-taxable income	(1)	(1,381)	(1,545)
Effects of non-deductible expenses	(2)	449	739
Income tax expense		1,413	1,316

(1) The non-taxable income mainly represents interest income arising from treasury bonds and municipal government bonds, and dividend income arising from fund investments, which are income tax free in accordance with the PRC tax regulations.

(2) The non-deductible expenses mainly include the non-deductible write-off losses assessed and confirmed item by item, and certain expenses, which are not deductible before taxation according to PRC tax regulations.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

9 Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding. At 30 June 2023, the Group possesses no share with potential dilution effect hence there's no difference between basic and diluted earnings per share.

	For the six months ended 30 June		
	2023	2022 (after adjustment) (Note (1))	2022 (before adjustment)
Consolidated net profit attributable to shareholders of the Bank	7,743	6,974	6,974
Less: Net profit attributable to other equity instruments holders of the Bank	–	(838)	(838)
Consolidated net profit attributable to ordinary shareholders of the Bank (in RMB millions)	7,743	6,136	6,136
Weighted average number of ordinary shares (in millions of shares)	22,455	22,455	21,269
Basic and diluted earnings per share (RMB yuan/share)	0.34	0.27	0.29

- (1) In accordance with the International Accounting Standards 33, *Earnings Per Share*, the Group adjusted the weighted average number of ordinary shares when calculating the adjusted basic and diluted earnings per share in consideration of the factors relating to the rights issue.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10 Cash and Balances with the Central Bank

	Notes	30 June 2023	31 December 2022
Cash		669	560
Balances with the central bank			
– Statutory deposit reserves	(1)	124,024	129,775
– Surplus deposit reserves	(2)	24,030	54,885
– Foreign exchange risk reserves	(3)	2,394	305
– Fiscal deposits		60	30
Subtotal		150,508	184,995
Interest accrued		58	70
Total		151,235	185,625

- (1) The Group is required to place statutory deposit reserves with the People’s Bank of China (the “PBOC”). At the balance sheet date, rates for statutory deposit reserves were as follows:

	30 June 2023	31 December 2022
Statutory deposit reserves rate for deposits denominated in RMB	7.25%	7.50%
Statutory deposit reserves rate for deposits denominated in foreign currencies	6.00%	6.00%

The statutory deposit reserves ratios of the subsidiary of the Bank complied with the requirement of the PBOC.

- (2) Surplus deposit reserves placed with the PBOC is mainly for settlement purpose.
- (3) At 30 June 2023, the foreign exchange risk reserve ratio for forward foreign exchange sales of the Bank is 20% (31 December 2022: 20%).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11 Deposits with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2023	31 December 2022
In Mainland China		
– Banks	38,992	28,978
– Other financial institutions	8,293	8,640
Outside Mainland China		
– Banks	3,677	4,829
– Other financial institutions	44	934
Interest accrued	117	93
Gross amount	51,123	43,474
Less: Allowance for ECLs (Note III.23)	(17)	(13)
Carrying amount	51,106	43,461

12 Placements with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2023	31 December 2022
In Mainland China		
– Banks	218	–
– Other financial institutions	8,100	9,457
Outside Mainland China		
– Banks	866	223
Interest accrued	191	121
Gross amount	9,375	9,801
Less: Allowance for ECLs (Note III.23)	(44)	(220)
Carrying amount	9,331	9,581

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13 Derivative Financial Instruments

The Group's derivative financial instruments include interest rate derivatives, currency derivatives, precious metal and other derivatives. At the balance sheet date, the derivative financial instruments held by the Group are set out below:

At 30 June 2023

	Notional amount	Fair value	
		Derivative financial assets	Derivative financial liabilities
Interest rate derivatives	2,146,128	8,128	(8,743)
Currency derivatives	764,527	14,875	(14,715)
Precious metal and other derivatives	107,478	2,262	(3,045)
Total	3,018,133	25,265	(26,503)

At 31 December 2022

	Notional amount	Fair value	
		Derivative financial assets	Derivative financial liabilities
Interest rate derivatives	1,928,894	4,907	(5,184)
Currency derivatives	690,538	8,291	(8,390)
Precious metal and other derivatives	71,063	981	(888)
Total	2,690,495	14,179	(14,462)

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in the Shanghai Clearing House, precious metals futures, precious metals (T+D) and standard bond forward were settled daily and the corresponding receipts and payments were included in the guaranteed deposits.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

14 Financial Assets Purchased Under Resale Agreements

(1) Analyzed by type and location of counterparties

	30 June 2023	31 December 2022
In Mainland China		
– Banks	6,750	15,192
– Other financial institutions	26,882	700
Interest accrued	7	1
Gross amount	33,639	15,893
Less: Allowance for ECLs (Note III.23)	(15)	(7)
Carrying amount	33,624	15,886

(2) Analyzed by type of collateral

	30 June 2023	31 December 2022
Bills	1,016	2,022
Bonds		
– Financial bonds	29,015	2,239
– Government bonds	3,601	11,631
Interest accrued	7	1
Gross amount	33,639	15,893
Less: Allowance for ECLs (Note III.23)	(15)	(7)
Carrying amount	33,624	15,886

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers

	30 June 2023	31 December 2022
Loans and advances to customers measured at AC	1,273,063	1,163,019
Loans and advances to customers measured at FVOCI	338,259	323,272
Total	1,611,322	1,486,291

(1) Analyzed by classification and nature

	Note	30 June 2023	31 December 2022
Loans and advances to customers measured at AC			
Corporate loans and advances		874,064	808,018
Personal loans and advances			
– Personal business loans		172,202	159,281
– Personal consumer loans		138,161	122,278
– Residential mortgage loans		124,299	107,249
Personal loans and advances		434,662	388,808
Loans and advances to customers measured at FVOCI			
Corporate loans and advances		202,012	179,061
Discounted bills	(a)	116,572	112,374
Personal loans and advances		18,070	29,073
Subtotal		1,645,380	1,517,334
Fair value changes		1,500	2,605
Interest accrued		6,207	5,091
Gross amount		1,653,087	1,525,030
Less: Allowance for ECLs (Note III.23)		(41,765)	(38,739)
Carrying amount		1,611,322	1,486,291

(a) At balance sheet date, part of discounted bills are pledged for secured liabilities, please refer to Note VIII.1.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(2) Analyzed by type of collateral

	30 June 2023		31 December 2022	
	Amount	Proportion	Amount	Proportion
Unsecured loans	419,878	25.52%	367,312	24.21%
Guaranteed loans	323,207	19.64%	289,524	19.08%
Collateralized loans				
– Mortgage loans	723,682	43.98%	675,821	44.53%
– Pledged loans	62,041	3.78%	72,303	4.77%
Discounted bills	116,572	7.08%	112,374	7.41%
Subtotal	1,645,380	100.00%	1,517,334	100.00%
Fair value changes	1,500		2,605	
Interest accrued	6,207		5,091	
Gross amount	1,653,087		1,525,030	
Less: Allowance for ECLs (Note III.23)	(41,765)		(38,739)	
Carrying amount	1,611,322		1,486,291	

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(3) Overdue loans and advances to customers analyzed by overdue period (fair value changes and interest accrued excluded)

	30 June 2023				Total
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	
Unsecured loans	1,847	2,915	982	64	5,808
Guaranteed loans	2,262	2,191	2,091	211	6,755
Collateralized loans					
– Mortgage loans	7,161	6,957	1,601	101	15,820
– Pledged loans	80	304	316	138	838
Total overdue loans	11,350	12,367	4,990	514	29,221

	31 December 2022				Total
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	
Unsecured loans	2,279	2,981	1,085	38	6,383
Guaranteed loans	2,733	1,066	4,283	216	8,298
Collateralized loans					
– Mortgage loans	6,721	5,858	1,417	106	14,102
– Pledged loans	572	170	411	6	1,159
Total overdue loans	12,305	10,075	7,196	366	29,942

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



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(4) Analyzed by assessment of allowance for ECLs

(a) Allowance for ECLs of loans and advances to customers measured at AC (interest accrued excluded)

	30 June 2023			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers measured at AC				
– Corporate loans and advances	811,045	44,215	18,804	874,064
– Personal loans and advances	423,021	4,814	6,827	434,662
Gross amount	1,234,066	49,029	25,631	1,308,726
Less: Allowance for ECLs (Note III.23)	(15,100)	(11,685)	(14,980)	(41,765)
Carrying amount	1,218,966	37,344	10,651	1,266,961
	31 December 2022			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers measured at AC				
– Corporate loans and advances	749,559	39,344	19,115	808,018
– Personal loans and advances	378,014	4,263	6,531	388,808
Gross amount	1,127,573	43,607	25,646	1,196,826
Less: Allowance for ECLs (Note III.23)	(13,094)	(10,428)	(15,217)	(38,739)
Carrying amount	1,114,479	33,179	10,429	1,158,087

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(4) Analyzed by assessment of allowance for ECLs (Continued)

(b) Allowance for ECLs of loans and advances to customers measured at FVOCI (fair value changes and interest accrued excluded)

	30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Corporate loans and advances	199,902	1,548	562	202,012
– Discounted bills	116,555	4	13	116,572
– Personal loans and advances	17,477	284	309	18,070
Total	333,934	1,836	884	336,654
Allowance for ECLs (Note III.23)	(1,354)	(63)	(404)	(1,821)

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Corporate loans and advances	177,494	989	578	179,061
– Discounted bills	112,294	49	31	112,374
– Personal loans and advances	28,915	133	25	29,073
Total	318,703	1,171	634	320,508
Allowance for ECLs (Note III.23)	(1,723)	(38)	(225)	(1,986)



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(5) Movements of the allowance for ECLs

(a) *Movements of the allowance for ECLs of loans and advances to customers measured at AC*

	For the six months ended 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	13,094	10,428	15,217	38,739
Transfer				
– to Stage 1	96	(88)	(8)	–
– to Stage 2	(263)	418	(155)	–
– to Stage 3	(129)	(1,625)	1,754	–
Charge for the period (Note III.7)	2,288	2,552	4,845	9,685
Write-off and transfer out	–	–	(7,418)	(7,418)
Recoveries of loans and advances previously written off	–	–	782	782
Other movements	14	–	(37)	(23)
Balance at 30 June 2023	15,100	11,685	14,980	41,765
	For the year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	11,387	7,275	16,688	35,350
Transfer				
– to Stage 1	203	(193)	(10)	–
– to Stage 2	(209)	442	(233)	–
– to Stage 3	(109)	(913)	1,022	–
Charge for the year	1,773	3,817	10,406	15,996
Write-off and transfer out	–	–	(14,388)	(14,388)
Recoveries of loans and advances previously written off	–	–	1,972	1,972
Other movements	49	–	(240)	(191)
Balance at 31 December 2022	13,094	10,428	15,217	38,739

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(5) Movements of the allowance for ECLs (Continued)

(b) Movements of the allowance for ECLs of loans and advances to customers measured at FVOCI

	For the six months ended 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	1,723	38	225	1,986
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(11)	11	–	–
– to Stage 3	(13)	(11)	24	–
(Reversal)/Charge for the period (Note III.7)	(345)	25	227	(93)
Write-off and transfer out	–	–	(72)	(72)
Balance at 30 June 2023	1,354	63	404	1,821
	For the year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	680	–	57	737
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(3)	–	3	–
Charge for the year	1,046	38	165	1,249
Balance at 31 December 2022	1,723	38	225	1,986



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments

	Notes	30 June 2023	31 December 2022
Financial investments measured at FVTPL	16.1	299,384	189,020
Financial investments measured at AC	16.2	384,052	368,792
Financial investments measured at FVOCI	16.3	226,877	194,037
Total		910,313	751,849

16.1 Financial investments measured at FVTPL

	Note	30 June 2023	31 December 2022
Fund investments	(1)	122,309	126,128
Bond and ABS investments			
– Government bonds		5,145	4,752
– Financial bonds		75,746	9,451
– Interbank certificates of deposit		51,445	7,851
– Asset-backed securities (“ABS”)		14,460	21,417
– Other bonds		24,053	12,185
Equity investments		4,723	4,092
Trust schemes and asset management plans		1,066	2,924
Wealth management products		437	220
Total		299,384	189,020

(1) Fund investments include the Group’s investments in funds that are included in the scope of consolidation in accordance with the definition of control set out in Note IV.2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.1 Financial investments measured at FVTPL *(Continued)*

Analyzed by listing location:

	30 June 2023	31 December 2022
Fund investments		
– Listed outside Hong Kong	122,309	126,128
Bond and ABS investments		
– Listed in Hong Kong	41,038	14,285
– Listed outside Hong Kong	129,811	41,371
Trust schemes and asset management plans		
– Unlisted	1,066	2,924
Equity investments		
– Listed outside Hong Kong	2,129	1,654
– Unlisted	2,594	2,438
Wealth management products		
– Unlisted	437	220
Total	299,384	189,020

Bond investments traded on the Mainland interbank bond market are included in the listed outside Hong Kong category.



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(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.1 Financial investments measured at FVTPL *(Continued)*

Analyzed by type of issuers:

	30 June 2023	31 December 2022
Mainland China issuers		
– Government	5,145	4,752
– Banking and other financial institutions	230,346	163,122
– Corporate entities	26,890	15,497
Issuers outside Mainland China		
– Banking and other financial institutions	32,607	987
– Corporate entities	4,396	4,662
Total	299,384	189,020

16.2 Financial investments measured at AC

	Notes	30 June 2023	31 December 2022
Bond and ABS investments	(1)		
– Government bonds		175,568	155,550
– Financial bonds		76,689	75,372
– Debt financing plans		20,762	44,029
– Asset-backed securities (“ABS”)		772	664
– Other bonds		28,039	25,760
Trust schemes and asset management plans	(2)	100,171	81,190
Interest accrued		7,620	7,275
Gross amount		409,621	389,840
Less: Allowance for ECLs (Note III.23)		(25,569)	(21,048)
Carrying amount		384,052	368,792

(1) At balance sheet date, part of bond investments measured at amortised cost are pledged for secured liabilities, please refer to Note VIII.1.

(2) Trust schemes and asset management plans, mainly invested in credit assets and equity investments under repurchase agreements, are managed and operated by third-party trustees or asset managers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

Analyzed by listing location:

	30 June 2023	31 December 2022
Bond and ABS investments		
– Listed in Hong Kong	16,259	23,018
– Listed outside Hong Kong	264,300	234,328
– Unlisted	21,271	44,029
Trust schemes and asset management plans		
– Unlisted	100,171	81,190
Interest accrued	7,620	7,275
Total	409,621	389,840

Analyzed by type of issuers:

	30 June 2023	31 December 2022
Mainland China issuers		
– Government	175,568	155,550
– Banking and other financial institutions	76,961	75,428
– Corporate entities	140,615	143,531
Issuers outside Mainland China		
– Banking and other financial institutions	36	–
– Corporate entities	8,821	8,056
Interest accrued	7,620	7,275
Total	409,621	389,840



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

The gross amount and allowance for ECLs of financial investments measured at AC are analyzed as follows (interest accrued excluded):

	30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	343,202	12,356	46,443	402,001
Less: Allowance for ECLs (Note III.23)	(791)	(2,613)	(22,165)	(25,569)
Carrying amount	342,411	9,743	24,278	376,432

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	331,120	18,877	32,568	382,565
Less: Allowance for ECLs (Note III.23)	(980)	(3,866)	(16,202)	(21,048)
Carrying amount	330,140	15,011	16,366	361,517



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

Movement of allowance for ECLs of financial investments measured at AC

	For the six months ended 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	980	3,866	16,202	21,048
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(6)	(1,671)	1,677	–
(Reversal)/Charge for the period (Note III.7)	(189)	418	3,732	3,961
Write-off and transfer out	–	–	(654)	(654)
Recoveries of financial investments previously written off	–	–	1,493	1,493
Other movements	6	–	(285)	(279)
Balance at 30 June 2023	791	2,613	22,165	25,569

	For the year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	1,069	1,915	13,691	16,675
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(68)	68	–	–
– to Stage 3	(13)	(607)	620	–
(Reversal)/Charge for the year	(8)	2,490	9,911	12,393
Write-off and transfer out	–	–	(8,648)	(8,648)
Recoveries of financial investments previously written off	–	–	1,104	1,104
Other movements	–	–	(476)	(476)
Balance at 31 December 2022	980	3,866	16,202	21,048



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.3 Financial investments measured at FVOCI

	Notes	30 June 2023	31 December 2022
Bond and ABS investments	(1)		
– Government bonds		102,240	78,797
– Financial bonds		27,752	27,475
– Interbank certificates of deposit		26,449	34,056
– Asset-backed securities (“ABS”)		21,317	13,726
– Other bonds		45,474	35,739
Other debt instruments		347	999
Interest accrued		1,975	1,932
Subtotal		225,554	192,724
Financial investments designated to be measured at FVOCI			
Equity investments	(2)	1,323	1,313
Total		226,877	194,037

(1) At balance sheet date, part of bond and ABS investments in the financial investments measured at FVOCI are pledged for secured liabilities, please refer to Note VIII.1.

(2) Certain non-trading equity investments are designated by the Group as financial investments measured at FVOCI. For the six months ended 30 June 2023, the Group has not recognized dividend income on such equity investments (For the year ended 31 December 2022: RMB8 million).

Analyzed by listing location:

	30 June 2023	31 December 2022
Bond and ABS investments and other debt instruments		
– Listed in Hong Kong	48,959	22,950
– Listed outside Hong Kong	168,012	166,843
– Unlisted	6,608	999
Equity investments		
– Unlisted	1,323	1,313
Interest accrued	1,975	1,932
Total	226,877	194,037

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.3 Financial investments measured at FVOCI *(Continued)*

Analyzed by type of issuers:

	30 June 2023	31 December 2022
Mainland China issuers		
– Government	88,862	70,485
– Banking and other financial institutions	25,568	23,787
– Corporate entities	50,279	36,660
Issuers outside Mainland China		
– Government	13,378	8,312
– Banking and other financial institutions	33,219	40,657
– Corporate entities	12,273	10,891
Interest accrued	1,975	1,932
Subtotal	225,554	192,724
Equity investments	1,323	1,313
Total	226,877	194,037



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investments *(Continued)*

16.3 Financial investments measured at FVOCI *(Continued)*

Movement of allowance for ECLs of debt investments measured at FVOCI:

	For the six months ended 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	391	–	–	391
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(11)	11	–	–
– to Stage 3	–	–	–	–
(Reversal)/Charge for the period (Note III.7)	(138)	63	15	(60)
Other movements	6	–	–	6
Balance at 30 June 2023	248	74	15	337

	For the year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	146	–	28	174
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	–	–	–	–
Charge/(Reversal) for the year	240	–	(22)	218
Write-off	–	–	(6)	(6)
Other movements	5	–	–	5
Balance at 31 December 2022	391	–	–	391

17 Investment in Subsidiary

The Bank

	30 June 2023	31 December 2022
Zheyin Financial Leasing	2,040	2,040

For details of the subsidiary, please refer to Note IV.1.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets

	Notes	30 June 2023	31 December 2022
Fixed assets	(1)	17,054	16,565
Construction in progress	(2)	2,149	1,829
Total		19,203	18,394

(1) Fixed assets

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets in the operating leases	Total
Cost					
At 1 January 2023	15,895	2,079	177	2,700	20,851
Additions for the period	–	45	12	1,358	1,415
Transfers from construction in progress	9	–	–	–	9
Disposals for the period	–	(5)	(4)	(450)	(459)
At 30 June 2023	15,904	2,119	185	3,608	21,816
Less: Accumulated depreciation					
At 1 January 2023	(2,350)	(1,500)	(130)	(306)	(4,286)
Charge for the period	(307)	(115)	(7)	(90)	(519)
Disposals for the period	–	5	4	34	43
At 30 June 2023	(2,657)	(1,610)	(133)	(362)	(4,762)
Carrying amount					
Balance at 30 June 2023	13,247	509	52	3,246	17,054
Balance at 1 January 2023	13,545	579	47	2,394	16,565



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets *(Continued)*

(1) Fixed assets (Continued)

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets leased out under operating leases	Total
Cost					
At 1 January 2022	12,664	1,923	164	1,664	16,415
Additions for the year	2,885	187	23	1,371	4,466
Transfers from construction in progress	346	–	–	–	346
Disposals for the year	–	(31)	(10)	(335)	(376)
At 31 December 2022	15,895	2,079	177	2,700	20,851
Less: Accumulated depreciation					
At 1 January 2022	(1,834)	(1,274)	(125)	(194)	(3,427)
Charge for the year	(516)	(254)	(14)	(126)	(910)
Disposals for the year	–	28	9	14	51
At 31 December 2022	(2,350)	(1,500)	(130)	(306)	(4,286)
Carrying amount					
Balance at 31 December 2022	13,545	579	47	2,394	16,565
Balance at 1 January 2022	10,830	649	39	1,470	12,988

At balance sheet date, there is no significant idle assets held by the Group.

At 30 June 2023, the Group's properties and buildings with a net value of RMB1,590 million (31 December 2022: RMB1,934 million) were still in progress of obtaining the legal titles.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets *(Continued)*

(2) Construction in progress

	Construction in progress
Balance at 1 January 2023	1,829
Additions for the period	353
Transfers to fixed assets	(9)
Transfers to long-term prepaid expenses	(24)
Balance at 30 June 2023	2,149

	Construction in progress
Balance at 1 January 2022	1,677
Additions for the year	565
Transfers to fixed assets	(346)
Transfers to long-term prepaid expenses	(67)
Balance at 31 December 2022	1,829



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

19 Right-of-use Assets

	Land use rights	Properties and buildings	Others	Total
Cost				
At 1 January 2023	1,950	5,684	56	7,690
Additions for the period	–	329	–	329
Reductions for the period	–	(543)	(5)	(548)
At 30 June 2023	1,950	5,470	51	7,471
Less: Accumulated depreciation				
At 1 January 2023	(272)	(2,379)	(23)	(2,674)
Charge for the period	(25)	(355)	(4)	(384)
Reductions for the period	–	534	5	539
At 30 June 2023	(297)	(2,200)	(22)	(2,519)
Carrying amount				
Balance at 30 June 2023	1,653	3,270	29	4,952
Balance at 1 January 2023	1,678	3,305	33	5,016

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

19 Right-of-use Assets *(Continued)*

	Land use rights	Properties and buildings	Others	Total
Cost				
At 1 January 2022	1,950	4,658	49	6,657
Additions for the year	–	1,094	10	1,104
Reductions for the year	–	(68)	(3)	(71)
At 31 December 2022	1,950	5,684	56	7,690
Less: Accumulated depreciation				
At 1 January 2022	(223)	(1,747)	(17)	(1,987)
Charge for the year	(49)	(637)	(6)	(692)
Reductions for the year	–	5	–	5
At 31 December 2022	(272)	(2,379)	(23)	(2,674)
Carrying amount				
Balance at 31 December 2022	1,678	3,305	33	5,016
Balance at 1 January 2022	1,727	2,911	32	4,670



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

20 Intangible Assets

	Computer software
Cost	
At 1 January 2023	1,049
Additions for the period	57
Reductions for the period	(1)
	1,105
At 30 June 2023	1,105
Less: Accumulated amortisation	
At 1 January 2023	(432)
Charge for the period	(46)
Reductions for the period	1
	(477)
At 30 June 2023	(477)
Carrying amount	
Balance at 30 June 2023	628
Balance at 1 January 2023	617
	Computer software
Cost	
At 1 January 2022	840
Additions for the year	209
	1,049
At 31 December 2022	1,049
Less: Accumulated amortisation	
At 1 January 2022	(354)
Charge for the year	(78)
	(432)
At 31 December 2022	(432)
Carrying amount	
Balance at 31 December 2022	617
Balance at 1 January 2022	486



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

21 Deferred Tax Assets and Liabilities

(1) Deferred tax assets and liabilities before offsetting

	30 June 2023		31 December 2022	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Allowance for ECLs and provisions	85,965	21,491	79,562	19,891
Employee benefits payable	2,387	597	2,838	710
Unrealized losses of financial instruments measured at FVTPL and precious metals	489	122	1,279	320
Unrealized losses of derivative financial instruments	469	117	-	-
Unrealized losses of financial investments measured at FVOCI	-	-	29	7
Others	4,211	1,054	4,156	1,038
Deferred tax assets before offsetting	93,521	23,381	87,864	21,966
Depreciation of fixed assets	(422)	(106)	(344)	(86)
Unrealized gains of financial investments measured at FVOCI	(364)	(91)	-	-
Unrealized gains of derivative financial instruments	-	-	(577)	(144)
Others	(3,299)	(825)	(3,338)	(835)
Deferred tax liabilities before offsetting	(4,085)	(1,022)	(4,259)	(1,065)
Net amount after offsetting	89,436	22,359	83,605	20,901

(2) Changes in deferred tax

	30 June 2023	31 December 2022
Balance at the beginning of the period/year	20,901	18,077
Charge to profit or loss for the period/year	1,501	3,070
Charge to other comprehensive income	(43)	(246)
Balance at the end of the period/year	22,359	20,901

At the balance sheet date, the Group has no significant unrecognized deferred tax assets and liabilities.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22 Other Assets

	Note	30 June 2023	31 December 2022
Finance lease receivables	(1)	52,693	46,752
Guaranteed deposits		1,709	1,040
Continuing involvement assets (Note III.42 (1))		1,577	1,577
Settlement and clearing accounts		1,554	1,434
Interest receivable		1,099	974
Repossessed assets		1,066	808
Fee receivables		876	678
Prepayment		805	560
Long-term prepaid expenses		762	768
Deductible input Value Added Tax (“VAT”)		369	598
Others		1,608	1,081
Total		64,118	56,270

(1) Finance lease receivables

	30 June 2023	31 December 2022
Finance lease receivables	4,205	3,128
Less: Unrecognized finance income	(517)	(270)
Balance of finance lease receivables	3,688	2,858
Finance leaseback receivables	50,060	44,986
Subtotal	53,748	47,844
Interest accrued	451	414
Less: Allowance for ECLs (Note III.23)	(1,506)	(1,506)
Carrying amount	52,693	46,752

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other Assets (Continued)

(1) Finance lease receivables (Continued)

The undiscounted finance lease receivables to be received by the Group in each of the five consecutive accounting years after the balance sheet date are as follows:

	30 June 2023		31 December 2022	
	Amount	Proportion	Amount	Proportion
Within 1 year (inclusive)	1,678	39.90%	1,594	50.97%
1–2 years (inclusive)	1,389	33.03%	959	30.66%
2–3 years (inclusive)	419	9.96%	368	11.76%
3–4 years (inclusive)	118	2.81%	63	2.01%
4–5 years (inclusive)	86	2.05%	20	0.64%
Above 5 years	515	12.25%	124	3.96%
Total	4,205	100.00%	3,128	100.00%

Analyzed by assessment of allowance for ECLs of finance lease receivables (interest accrued excluded)

	30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables	52,107	764	877	53,748
Less: Allowance for ECLs (Note III.23)	(960)	(103)	(443)	(1,506)
Carrying amount	51,147	661	434	52,242

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables	45,744	645	1,455	47,844
Less: Allowance for ECLs (Note III.23)	(916)	(58)	(532)	(1,506)
Carrying amount	44,828	587	923	46,338



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22 Other Assets *(Continued)*

(1) Finance lease receivables (Continued)

Movements of the allowance for ECLs of finance lease receivables

	For the six months ended 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	916	58	532	1,506
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(15)	15	–	–
– to Stage 3	(44)	(20)	64	–
Charge for the period (Note III.7)	103	50	107	260
Write-off	–	–	(310)	(310)
Recoveries of finance lease receivables previously written off	–	–	50	50
Balance at 30 June 2023	960	103	443	1,506

	For the year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	781	268	328	1,377
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(16)	16	–	–
– to Stage 3	(50)	(195)	245	–
Charge/(Reversal) for the year	201	(31)	330	500
Write-off	–	–	(479)	(479)
Recoveries of finance lease receivables previously written off	–	–	108	108
Balance at 31 December 2022	916	58	532	1,506

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Allowance for ECLs

	Notes	1 January 2023	Charge/ (Reversal) for the period	Write-off and transfer out	Others (Note (1))	30 June 2023
Deposits with banks and other financial institutions	III.11	13	4	-	-	17
Placements with banks and other financial institutions	III.12	220	(176)	-	-	44
Financial assets purchased under resale agreements	III.14	7	8	-	-	15
Loans and advances to customers	III.15					
- measured at AC		38,739	9,685	(7,418)	759	41,765
- measured at FVOCI		1,986	(93)	(72)	-	1,821
Financial investments	III.16					
- measured at AC		21,048	3,961	(654)	1,214	25,569
- measured at FVOCI		391	(60)	-	6	337
Finance lease receivables	III.22(1)	1,506	260	(310)	50	1,506
Other assets		417	217	(55)	10	589
Off-balance sheet items	III.31	1,838	409	-	3	2,250
Total		66,165	14,215	(8,509)	2,042	73,913

	Notes	1 January 2022	Charge/ (Reversal) for the year	Write-off and transfer out	Others (Note (1))	31 December 2022
Deposits with banks and other financial institutions	III.11	5	8	-	-	13
Placements with banks and other financial institutions	III.12	51	165	-	4	220
Financial assets purchased under resale agreements	III.14	18	(11)	-	-	7
Loans and advances to customers	III.15					
- measured at AC		35,350	15,996	(14,388)	1,781	38,739
- measured at FVOCI		737	1,249	-	-	1,986
Financial investments	III.16					
- measured at AC		16,675	12,393	(8,648)	628	21,048
- measured at FVOCI		174	218	(6)	5	391
Finance lease receivables	III.22(1)	1,377	500	(479)	108	1,506
Other assets		232	251	(92)	26	417
Off-balance sheet items	III.31	4,952	(3,116)	-	2	1,838
Total		59,571	27,653	(23,613)	2,554	66,165

(1) Others include the recoveries of financial assets previously written off and the effect of changes in exchange rates.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

24 Deposits from Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2023	31 December 2022
In Mainland China		
– Banks	75,250	59,267
– Other financial institutions	231,796	174,251
Outside Mainland China		
– Other financial institutions	7,871	7,020
Interest accrued	2,089	1,276
Total	317,006	241,814

25 Placements from Banks and Other Financial Institutions

Analyzed by accounting treatment, type and location of counterparties

	Note	30 June 2023	31 December 2022
Measured at amortised cost:			
In Mainland China			
– Banks		44,189	38,536
– Other financial institutions		1,650	3,400
Outside Mainland China			
– Banks		10,127	9,510
Interest accrued		494	409
Subtotal		56,460	51,855
Designated as at fair value through profit or loss:	(1)		
In Mainland China			
– Banks		22,090	11,835
– Other financial institutions		–	465
Subtotal		22,090	12,300
Total		78,550	64,155

- (1) There were no significant changes in the credit spread of the Group and therefore the amounts of changes in fair value of the financial liabilities designated as at fair value through profit or loss arising from changes in credit risk were not considered significant. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

26 Financial Liabilities at Fair Value through Profit or Loss

	Notes	30 June 2023	31 December 2022
Financial liabilities designated as at fair value through profit or loss	(1)		
– Financial liabilities related to precious metals	(2)	68	55
– Others	(3)	10,657	–
Financial liabilities held for trading			
– Short positions of trading bonds		40	–
Total		10,765	55

- (1) There were no significant changes in the credit spread of the Group and therefore the amounts of changes in fair value of the financial liabilities designated as at fair value through profit or loss arising from changes in credit risk were not considered significant. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.
- (2) According to the risk management strategy, the Group matches the financial liabilities related to precious metals with precious metals or derivatives, and therefore recognizes them as financial liabilities measured at fair value through profit and loss.
- (3) Others mainly represent shares held by other parties rather than the Group and liabilities of consolidated structured entities.

27 Financial Assets Sold Under Repurchase Agreements

Analyzed by type of collateral

	30 June 2023	31 December 2022
Bonds sold under repurchase agreements	41,823	6,047
Interest accrued	76	19
Total	41,899	6,066



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

28 Customer Deposits

	30 June 2023	31 December 2022
Demand deposits		
– Corporate customers	762,882	614,537
– Personal customers	57,489	62,575
Subtotal	820,371	677,112
Time deposits		
– Corporate customers	793,186	830,064
– Personal customers	185,704	150,916
Subtotal	978,890	980,980
Other deposits	579	1,297
Interest accrued	23,145	22,054
Total	1,822,985	1,681,443

Pledged deposits of customer deposits are listed as follows:

	30 June 2023	31 December 2022
Acceptances deposits	43,880	27,158
Letters of credit and guarantee deposits	30,853	23,031
Other pledged deposits	114,147	108,297
Total	188,880	158,486

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

29 Employee Benefits Payable

	1 January 2023	Accrual during the period	Payments during the period	30 June 2023
Salaries, bonuses and allowances	5,646	4,430	(5,628)	4,448
Staff welfare	–	536	(536)	–
Housing fund	–	235	(235)	–
Social insurance				
– Medical insurance	–	132	(132)	–
– Work-related injury insurance	–	3	(3)	–
– Maternity insurance	–	4	(4)	–
Commercial insurance	–	70	(70)	–
Labour union fee and staff education fee	140	100	(120)	120
Basic pension insurance	–	246	(246)	–
Unemployment insurance	–	8	(8)	–
Annuity	–	305	(305)	–
Total	5,786	6,069	(7,287)	4,568

	1 January 2022	Accrual during the year	Payments during the year	31 December 2022
Salaries, bonuses and allowances	5,180	8,265	(7,799)	5,646
Staff welfare	–	714	(714)	–
Housing fund	–	427	(427)	–
Social insurance				
– Medical insurance	–	234	(234)	–
– Work-related injury insurance	–	6	(6)	–
– Maternity insurance	–	7	(7)	–
Commercial insurance	–	74	(74)	–
Labour union fee and staff education fee	98	174	(132)	140
Basic pension insurance	–	455	(455)	–
Unemployment insurance	–	15	(15)	–
Annuity	–	525	(525)	–
Total	5,278	10,896	(10,388)	5,786



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 Taxes Payable

	30 June 2023	31 December 2022
Income tax payable	2,473	3,834
Value added tax (“VAT”) payable	865	–
Others	295	193
Total	3,633	4,027

31 Provisions

	30 June 2023	31 December 2022
Allowance for ECLs of off-balance sheet items (Note III.23)	2,250	1,838



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

32 Debt Securities Issued

	Notes	30 June 2023	31 December 2022
Fixed-rate offering – tier 2 capital bond – 2028	(1)	–	15,000
Fixed-rate small and micro businesses financial bonds – 2023	(2)	–	10,000
Fixed-rate small and micro businesses financial bonds – 2023	(3)	–	15,000
Fixed-rate small and micro businesses financial bonds – 2024	(4)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2025	(5)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2025	(6)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2025	(7)	5,000	5,000
Fixed-rate small and micro businesses financial bonds – 2027	(8)	5,000	5,000
Fixed-rate green financial bonds – 2025	(9)	10,000	10,000
Fixed-rate special financial bonds for “agriculture, rural areas and farmers” – 2025	(10)	5,000	5,000
Fixed-rate financial bonds – 2024	(11)	1,500	1,500
Fixed-rate financial bonds – 2025	(12)	1,400	1,400
Fixed-rate small and micro businesses financial bonds – 2026	(13)	10,000	–
Fixed-rate offering – tier 2 capital bond – 2033	(14)	20,000	–
Fixed-rate USD note – 2023	(15)	–	486
Zero-coupon USD note – 2023	(16)	–	695
Fixed-rate USD medium term note – 2024	(17)	3,633	3,475
Certificates of deposit	(18)	1,542	1,243
Interbank certificates of deposit	(19)	238,837	217,684
Subtotal		331,912	321,483
Interest accrued		979	1,550
Total		332,891	323,033



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

32 Debt Securities Issued *(Continued)*

- (1) Fixed-rate offering – tier 2 capital bonds of RMB15 billion were issued on 13 June 2018, with a maturity of 10 years and a fixed coupon rate of 4.80%. The Bank has an option to redeem the bond at its par value in 2023. The Bank has chosen to redeem all the bonds on 15 June 2023.
- (2) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 3 March 2020, with a maturity of 3 years and a fixed coupon rate of 2.95%. The Bank has no option to redeem the bond before maturity. The bond matured on 5 March 2023.
- (3) Fixed-rate small and micro businesses financial bonds of RMB15 billion was issued on 8 April 2020, with a maturity of 3 years and a fixed coupon rate of 2.50%. The Bank has no option to redeem the bond before maturity. The bond matured on 10 April 2023.
- (4) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 24 September 2021, with a maturity of 3 years and a fixed coupon rate of 3.00%. The Bank has no option to redeem the bond before maturity.
- (5) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 23 February 2022, with a maturity of 3 years and a fixed coupon rate of 2.83%. The Bank has no option to redeem the bond before maturity.
- (6) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 7 April 2022, with a maturity of 3 years and a fixed coupon rate of 2.93%. The Bank has no option to redeem the bond before maturity.
- (7) Fixed-rate small and micro businesses financial bonds of RMB5 billion was issued on 18 October 2022, with a maturity of 3 years and a fixed coupon rate of 2.47%. The Bank has no option to redeem the bond before maturity.
- (8) Fixed-rate small and micro businesses financial bonds of RMB5 billion was issued on 18 October 2022, with a maturity of 5 years and a fixed coupon rate of 2.85%. The Bank has no option to redeem the bond before maturity.
- (9) Fixed-rate green financial bonds of RMB10 billion were issued on 13 December 2022, with a maturity of 3 years and a fixed coupon rate of 3.05%. The Bank has no option to redeem the bond before maturity.
- (10) Fixed-rate special financial bonds for “agriculture, rural areas and farmers” of RMB5 billion were issued on 13 December 2022, with a maturity of 3 years and a fixed coupon rate of 3.05%. The Bank has no option to redeem the bond before maturity.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

32 Debt Securities Issued *(Continued)*

- (11) Zheyin Financial Leasing issued fixed-rate financial bonds of RMB1.5 billion on 22 July 2021, with a maturity of 3 years and a fixed coupon rate of 3.48%.
- (12) Zheyin Financial Leasing issued fixed-rate financial bonds of RMB1.4 billion on 2 June 2022, with a maturity of 3 years and a fixed coupon rate of 2.97%.
- (13) Fixed-rate small and micro businesses financial bonds of RMB10 billion was issued on 24 April 2023, with a maturity of 3 years and a fixed coupon rate of 2.80%. The Bank has no option to redeem the bond before maturity.
- (14) Fixed-rate offering – tier 2 capital bonds of RMB20 billion were issued on 25 May 2023, with a maturity of 10 years and a fixed coupon rate of 3.47%. The Bank has an option to redeem the bond at its par value in 2028.
- (15) Fixed-rate USD note of USD70 million (total value amounted RMB486 million) was issued by the Hong Kong Branch on 28 November 2022, with a fixed coupon rate of 4.00%. The note matured on 30 January 2023.
- (16) Zero-coupon USD note of USD100 million (total value amounted RMB695 million) was issued by the Hong Kong Branch on 20 November 2022. This note matured on 10 February 2023.
- (17) Fixed-rate USD medium term note of USD0.5 billion (total value amounted RMB3,633 million, total value amounted RMB3,475 million in 2022) was issued by the Hong Kong Branch on 16 March 2021 with a maturity of 3 years. This note will mature in 2024 with a fixed coupon rate of 1.10%.
- (18) There were 3 unpaid certificates of deposit at Hong Kong Branch at 30 June 2023, which have total face value amounted RMB1,542 million with maturity less than one year. Two of the certificates of deposit were issued in US dollar with a face value amounted RMB1,042 million. The other certificates of deposit were issued in offshore RMB and have total face value amounted RMB500 million (There were 2 unpaid certificates of deposit at Hong Kong Branch at 31 December 2022, which have total face value amounted RMB1,243 million with maturity less than one year. One of the certificates of deposit were issued in US dollar with a face value amounted RMB243 million. The other certificates of deposit were issued in offshore RMB and have total face value amounted RMB1 billion).
- (19) At 30 June 2023, the Bank has issued a total of 148 interbank certificates of deposit in the interbank market but not yet due, with maximum maturity of one year (At 31 December 2022, the Bank has issued a total of 107 interbank certificates of deposit in the interbank market but not yet due, with maximum maturity of one year).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

33 Other Liabilities

	30 June 2023	31 December 2022
Settlement and clearing accounts	4,540	2,930
Deposits related to finance lease	4,030	3,756
Account payable	2,012	1,732
Continuing involvement liabilities (Note III.42 (1))	1,577	1,577
Deferred income	635	748
Dividends payable	264	194
Others	2,469	1,896
Total	15,527	12,833

34 Share Capital

	30 June 2023	31 December 2022
Ordinary shares in Mainland China (A share)	21,544	16,715
Overseas ordinary shares (H share)	4,554	4,554
Total	26,098	21,269

On 27 June 2023, the Bank received the proceeds raised from the A share Rights Issue. The net proceeds from the A share Rights Issue amounted to RMB9,722 million, of which RMB4,829 million was credited to share capital and RMB4,893 million was credited to capital reserve.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments

	Note	30 June 2023	31 December 2022
Perpetual bonds	(1)	24,995	24,995

(1) *Perpetual bonds*

(a) *List of perpetual bonds issued at the end of the period*

Equity instruments in issue	Perpetual bond
Issue date	25 November 2021
Accounting treatment	Equity instrument
Initial interest rate	3.85%
Issuance price per share (RMB/share)	100
Number (In millions)	250
Amount (RMB in millions)	25,000
Issuance fee (RMB in millions)	5
Maturity date	No maturity date
Conversion condition	None
Conversion status	None

(b) *Main terms of perpetual bonds*

The duration of the perpetual bonds is the same as the continuing operation of the Bank. The perpetual bonds issuance sets conditional redemption rights for the issuer. The Bank shall have the right to redeem all or part of the perpetual bonds on each annual interest payment date (including the fifth interest payment date since the date of issuance) five years after the date of issuance. If, after the issuance of the perpetual bonds, unpredictable changes in regulations result in that the perpetual bonds is no longer classified in other tier-one capital, the Bank shall have the right to redeem all, but not part, of the perpetual bonds.

The Bank shall exercise the right of redemption subject to the approval of the original China Banking Regulatory Commission (hereinafter refer to as “the original CBIRC”) and on the condition that the following conditions are satisfied: (1) replacing the redeemed instrument with a capital instrument of equal or higher quality, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (2) or the capital position of the Bank after the redemption right is exercised will remain significantly higher than the regulatory capital requirements stipulated by the original CBIRC.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(1) Perpetual bonds (Continued)

(b) Main terms of perpetual bonds (Continued)

The claims in respect of the perpetual bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the perpetual bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other additional tier-one capital instruments of the Bank that rank pari passu with the bonds. If subsequent amendments to the *PRC Enterprise Bankruptcy Law* or relevant regulations are applicable, such relevant laws and regulations shall prevail.

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write-down/write-off part or all of the principal of the perpetual bonds without the consent of the bondholders. The amount of the write-down/write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate principal amount of all additional tier 1 capital instruments with the identical Trigger Event. A Non-Viability Trigger Event refers to the earlier occurrence under the following circumstances: (1) the original CBIRC deems that the Bank would become non-viable without a write-down/write-off; (2) the relevant authorities deem that the Bank would become non-viable without a public sector injection of capital or equivalent support. The write-down/write-off will not be restored.

The coupon rate of the perpetual bonds will be adjusted at defined intervals with a coupon rate adjustment period which is every 5 years since the payment settlement date. In any coupon rate adjusted period, the interest payments on the perpetual bonds will be made at a prescribed fixed coupon rate. The coupon rate at the time of issuance will be determined by book running and centralised allocation.

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of the 5-year bond yield curve published on www.ChinaBond.com.cn (or other websites recognized by the China Central Depository & Clearing Co., Ltd.) 5 trading days prior to the Announcement Date of the Subscription Agreement or the adjustment date of the benchmark interest rate (excluding the current day) (rounded up to 0.01%). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(1) Perpetual bonds (Continued)

(b) Main terms of perpetual bonds (Continued)

The Bank shall have the right to cancel all or part of the interest distribution of the perpetual bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distribution to meet other obligations as they fall due. The cancellation of all or part of interest distribution on the perpetual bonds will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shareholders. Any cancellation of any all or part or interest distribution on the perpetual bonds will require the deliberation and approval of the general shareholders meeting. The Bank shall give notice to the investors on such cancellation in a timely manner.

In the case of cancelling all or part of interest distributions on the perpetual bonds, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the interest distribution in whole to the holders of the perpetual bonds. The Dividend Stopper on ordinary shares will not compromise the Bank's discretion to cancel distributions, and will not impede the Bank from replenishing its capital.

The interest distributions on the perpetual bonds must come from distributable items, and will not be affected by the rating of the Bank, nor will be reset based on any change to such rating. The interest distribution on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the bondholders in the applicable period will not accumulate or compound to the subsequent distribution period thereafter. The perpetual bonds do not have any step-up mechanism or any other incentive to redeem. Investors are not allowed to sell the perpetual bonds.

(c) Changes in perpetual bonds outstanding at the end of the period/year

There was no change in the perpetual bonds outstanding at the end of the period/year during the period/year.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(2) Preference shares

(a) Changes in preference shares outstanding

Pursuant to the terms of the perpetual Offshore Preference Shares and the reply letter from the original CBIRC where no objection was raised to the Bank's redemption of the Offshore Preference Shares, the Bank redeemed all USD2,175 million of non-cumulative perpetual Offshore Preference Shares on 29 March 2022 (the "Redemption Date") at the redemption price, being the aggregate of an amount equal to the liquidation preference of each Offshore Preference Share plus any declared but unpaid dividends accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the Redemption Date.

Please refer to Note III.40 for details of dividends paid by the Bank to preference shareholders.

(3) Information related to the holders of the equity instruments

	30 June 2023	31 December 2022
Equity attributable to shareholders of the Bank		
– Ordinary shareholders of the Bank	151,360	137,938
– Other equity instruments holders of the Bank	24,995	24,995
Non-controlling interests		
– Ordinary shareholders of non-controlling interests	3,110	2,997

(4) Changes in other equity instruments outstanding at the end of the period

	31 December 2022	Increase	Decrease	30 June 2023
Perpetual Bond				
Number (In millions)	250	–	–	250
Amount (RMB in millions)	24,995	–	–	24,995



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Capital Reserve

	1 January 2023	Increase (Note III.34)	Decrease	30 June 2023
Share premium	32,289	4,893	–	37,182

	1 January 2022	Increase	Decrease	31 December 2022
Share premium	32,018	271	–	32,289

37 Other Comprehensive Income

	Other comprehensive income in the consolidated statement of financial position			Other comprehensive income in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2023					
	1 January 2023	Net-of-tax amount attributable to shareholders of the Bank	30 June 2023	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Income tax expense	After-tax amount of the period	Net-of- tax amount attributable to shareholders of the Bank	Net-of- tax amount attributable to shareholders of the Non- Controlling interests
Items that will not be reclassified to profit or loss									
– Changes in fair value of financial investments designated to be measured at FVOCI	217	8	225	10	–	(2)	8	8	–
Items that may be reclassified to profit or loss									
– Changes in fair value of financial assets measured at FVOCI	(237)	286	49	1,303	(921)	(96)	286	286	–
– Allowance for ECLs of financial assets measured at FVOCI	1,783	(164)	1,619	(219)	–	55	(164)	(164)	–
– Exchange differences from the translation of foreign operations	428	293	721	295	–	–	295	293	2
Total	2,191	423	2,614	1,389	(921)	(43)	425	423	2

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

37 Other Comprehensive Income *(Continued)*

	Other comprehensive income in the consolidated statement of financial position		Other comprehensive income in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022				
	1 January 2022	Net-of-tax amount attributable to shareholders of the Bank 31 December 2022	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	
Items that will not be reclassified to profit or loss							
- Changes in fair value of financial investments designated to be measured at FVOCI	179	38	217	51	-	(13)	38
Items that may be reclassified to profit or loss							
- Changes in fair value of financial assets measured at FVOCI	166	(403)	(237)	1,358	(1,895)	134	(403)
- Allowance for ECLs of financial assets measured at FVOCI	684	1,099	1,783	1,466	-	(367)	1,099
- Exchange differences from the translation of foreign operations	(472)	900	428	900	-	-	900
Total	557	1,634	2,191	3,775	(1,895)	(246)	1,634

38 Surplus Reserve

	Statutory surplus reserve
Balance at 1 January 2022	9,743
Appropriation (Note III.40)	1,332
Balance at 31 December 2022	11,075
Appropriation (Note III.40)	-
Balance at 30 June 2023	11,075

Pursuant to the Company Law of the PRC and the Articles, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserve.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

39 Statutory General Reserve

	Statutory general reserve
Balance at 1 January 2022	23,802
Appropriation (Note III.40)	2,655
Balance at 31 December 2022	26,457
Appropriation (Note III.40)	3,247
Balance at 30 June 2023	29,704

Pursuant to *the Administrative Measures on Accrual of Provisions by Financial Enterprises* (Caijin [2012] No. 20), the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks, which should not be less than 1.5% of the year-end balance of its risk assets.

40 Profit appropriations

	Notes	30 June 2023	31 December 2022
Balance at the beginning of the period/year		44,657	36,827
Add: Net profit attributable to shareholders of the Bank		7,743	13,618
Deduct: Appropriation to surplus reserve		–	(1,332)
Appropriation to statutory general reserve		(3,247)	(2,655)
Distribution to ordinary shareholders	(1)	(4,466)	–
Distribution to offshore preference shareholders	(2)	–	(838)
Distribution to perpetual bonds holders	(3)	–	(963)
Balance at the end of the period/year		44,687	44,657

(1) Approved and distributed dividends of ordinary shareholders

As approved by shareholders in 2022 Annual General Meeting on 4 May 2023, based on the Bank's total ordinary shares amounting to 21,269 million shares on the record date of profit distribution, the Bank declared a cash dividend of RMB2.10 for each 10 ordinary shares, with total amount of RMB4,466 million.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

40 Profit appropriations *(Continued)*

(2) *Approved and distributed dividends of offshore preference shareholders*

On 25 January 2022, the board of directors approved to distribute dividends with a total amount of USD132 million (tax inclusive) to offshore preference shareholders. It is calculated at a dividend rate of 5.45% (after tax), equivalent to RMB838 million. The dividend issuance date was 29 March 2022.

(3) *Announcement and distribution to perpetual bonds holders*

On 21 November 2022, the Bank announced the interest of perpetual bonds issued amounting to RMB963 million at the initial annual interest rate of 3.85% prior to the interest rate reset date determined by the terms of the bond. The distribution date was 26 November 2022.

41 Notes to Consolidated Cash Flow Statements

(1) *Cash and cash equivalents*

	30 June 2023	30 June 2022
Cash	669	559
Surplus deposit reserves with the central bank	24,030	28,221
Deposits with banks and other financial institutions with original maturities of less than three months	41,500	39,743
Placements with banks and other financial institutions with original maturities of less than three months	1,084	–
Financial assets purchased under resale agreements with original maturities of less than three months	33,534	88,418
Total	100,817	156,941



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

41 Notes to Consolidated Cash Flow Statements *(Continued)*

(2) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Debt securities issued	Dividend payable	Lease liabilities	Total
At 1 January 2023	323,033	194	3,318	326,545
Cash changes:				
Proceeds from issuance of debt securities	233,968	-	-	233,968
Repayments of principal on debt securities issued	(223,697)	-	-	(223,697)
Repayments of interest on debt securities issued	(5,198)	-	-	(5,198)
Payment for dividend distribution	-	(4,507)	-	(4,507)
Payment for principal element of lease liabilities	-	-	(336)	(336)
Payment for interest element of lease liabilities	-	-	(76)	(76)
Non-cash changes:				
Interest expense (Note III.1)	4,624	-	76	4,700
Dividends declared	-	4,577	-	4,577
Additions of lease liabilities	-	-	320	320
Exchange difference	161	-	-	161
At 30 June 2023	332,891	264	3,302	336,457



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

41 Notes to Consolidated Cash Flow Statements *(Continued)*

(2) Reconciliation of liabilities arising from financing activities *(Continued)*

	Debt securities issued	Dividend payable	Lease liabilities	Total
At 1 January 2022	318,908	305	2,926	322,139
Cash changes:				
Proceeds from issuance of debt securities	209,534	–	–	209,534
Repayments of principal on debt securities issued	(209,061)	–	–	(209,061)
Repayments of interest on debt securities issued	(4,910)	–	–	(4,910)
Payment for dividend distribution	–	(914)	–	(914)
Payment for principal element of lease liabilities	–	–	(319)	(319)
Payment for interest element of lease liabilities	–	–	(69)	(69)
Non-cash changes:				
Interest expense (Note III.1)	4,649	–	69	4,718
Dividends declared	–	926	–	926
Additions of lease liabilities	–	–	377	377
Exchange difference	490	–	–	490
At 30 June 2022	319,610	317	2,984	322,911

42 Transfer of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned, the Group fully or partially derecognize the transferred financial assets. In other cases where these transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these financial assets, the Group continued to recognize the transferred financial assets.

(1) Securitization transactions

In the process of securitization of credit assets, the Group transfers credit assets to structured entities and issues asset-backed securities as issuers. The Group would determine whether or not to derecognize the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

42 Transfer of Financial Assets *(Continued)*

(1) Securitization transactions *(Continued)*

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. For the six months ended 30 June 2023, the Group has transferred the ownership of the loans amounted to RMB9,442 million (For the six months ended 30 June 2022: RMB615 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognised the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of risks and rewards undertaken by the Group with value changes of the transferred financial assets. For the six months ended 30 June 2023, there is no Group's continuing involvement (For the six months ended 30 June 2022: Nil). At 30 June 2023, the carrying amount of the assets and liabilities that the Group continues to recognise on the statement of financial position was RMB1,577 million (31 December 2022: RMB1,577 million). The Group also recognised other assets and other liabilities of the same amount arising from such continuing involvement.

(2) Non-performing assets transfer

For the six months ended 30 June 2023, the Group transferred non-performing loans amounting to RMB1,425 million (for the six months ended 30 June 2022: RMB1,713 million) and financial investments amounting to RMB350 million (for the six months ended 30 June 2022: Nil) to the asset management companies. For the six months ended 30 June 2023, the Group has transferred the ownership of non-performing loans amounted to RMB3,831 million (for the six months ended 30 June 2022: RMB615 million) through securitization transactions. As the Group transferred substantially all the risks and rewards of these non-performing loans and financial investments, the Group derecognized these non-performing loans and financial investments.

(3) Repurchase and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include securities delivered as collateral in a repurchase transaction to a counterparty and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but have obligations to return the securities at the maturity of the contracts. In some cases, if the value of the relevant securities rises or falls, the Group may require the counterparty to pay additional cash as collateral or need to return part of the cash collateral to the counterparty. The Group determined that it retained substantially all the risks and rewards of these securities and therefore had not derecognized them. At 30 June 2023, the face value of debt securities lent to counterparties was RMB20,860 million (31 December 2022: RMB25,350 million).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV INTERESTS IN OTHER ENTITIES

1 Interests in subsidiary

At the balance sheet date, details of the subsidiary included in the consolidated financial statements are as follows:

Name	Place of incorporation	Registered address	Business nature	Registered capital	Proportion of equity/voting rights
Zheyin Financial Leasing	Zhejiang Province	Zhoushan	Financial institution	RMB4 billion	51%

2 Interests in the structured entities

The Group manages or invests in multiple structured entities, which include fund investments, trust schemes and asset management plans, asset-backed securities and wealth management products. To determine whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities.

(1) Consolidated structured entities directly held by the Group

If the Group has power over structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements.

(2) Unconsolidated structured entities directly held by the Group

If the Group does not have substantive rights to the primary activities of the structured entities, or the Group only has insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements.

The unconsolidated structured entities directly held by the Group include investment funds, trust schemes and asset management plans, asset-backed securities and wealth management products initiated and established by third-party institutions.

Considering the relevant agreements and the Group's investments in the structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV INTERESTS IN OTHER ENTITIES *(Continued)*

2 Interests in the structured entities *(Continued)*

(2) Unconsolidated structured entities directly held by the Group (Continued)

The following table sets out an analysis of the line items in the consolidated statement of financial position in which assets were recognized relating to the Group's interests in structured entities sponsored by third party institutions and directly held by the Group:

	30 June 2023			Total
	Financial investments measured at	Financial investments measured at	Financial investments measured at	
	FVTPL	AC	FVOCI	
Fund investments	69,029	–	–	69,029
Trust schemes and asset management plans	1,066	78,389	–	79,455
Asset-backed securities	12,883	770	21,398	35,051
Wealth management products	437	–	–	437
Total	83,415	79,159	21,398	183,972

	31 December 2022			Total
	Financial investments measured at	Financial investments measured at	Financial investments measured at	
	FVTPL	AC	FVOCI	
Fund investments	126,128	–	–	126,128
Trust schemes and asset management plans	2,924	63,464	–	66,388
Asset-backed securities	19,840	661	13,814	34,315
Wealth management products	220	–	–	220
Total	149,112	64,125	13,814	227,051

The maximum exposures to loss in the above unconsolidated structured entities directly held by the Group are the fair value or amortised cost of the assets held by the Group in the consolidated statement of financial position.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV INTERESTS IN OTHER ENTITIES *(Continued)*

2 Interests in the structured entities *(Continued)*

(3) Structured entities which the Group is the sponsor, but which are not included in the consolidated financial statements

The types of unconsolidated structured entities sponsored by the Group include non-principal-guarantee 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 wealth management products to investors. Interest held by the Group are fees charged by providing management services.

At 30 June 2023, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group was RMB176,437 million (31 December 2022: RMB210,705 million). For the six months ended 30 June 2023, the commission income recognised by the Group for providing asset management services for such financial products was RMB217 million (For the six months ended 30 June 2022: RMB301 million). At the balance sheet date, the balance of service charges receivable for asset management services of the Group was not material.

V SEGMENT REPORTING

1 Business segment

For management purposes, the Group is organized into different operating segments, namely corporate banking, retail banking and treasury operations, based on internal organizational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and other institutions. The products and services include corporate loans and advances, trade financing, corporate deposits, credit commitments and financial guarantee, underwriting of debt instruments and various types of corporate intermediary services, etc.

Retail banking

The retail banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans and advances, personal deposits, wealth management businesses, card businesses and various types of retail banking services, etc.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

1 Business segment *(Continued)*

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, repurchase transactions, debt instruments investments, equity instruments investments, financial derivatives businesses for proprietary trading or on behalf of customers, as well as financial products and services provided to other financial institutions. The division also manages the liquidity level of the Group, including the issuance of debt securities.

Other business

Other business segments refer to other businesses not included in the above reporting segments and related businesses of the subsidiary.

The accounting policies adopted in the preparation of segment reports are consistent with those adopted in the preparation of the Group's consolidated financial statements.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as internal net interest income/expense. Net interest income and expense relating to third parties are referred to as external net interest income/expense.

Segment revenues, expenses, profits, 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, profits, assets and liabilities are included in the internal balances and internal transactions that are offsetted in preparing the financial statements. Segment capital expenditure refers to the total cash outflow of purchasing fixed assets, intangible assets and other long-term assets in the accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2023/30 June 2023				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	8,292	9,752	5,033	892	23,969
Inter-segment net interest income/(expenses)	6,380	(3,468)	(2,912)	-	-
Net interest income	14,672	6,284	2,121	892	23,969
Net fee and commission income	1,946	468	511	27	2,952
Net trading gains	-	-	4,901	-	4,901
Net gains on financial investments	262	-	516	-	778
Other operating income	143	226	21	258	648
Operating income	17,023	6,978	8,070	1,177	33,248
Operating expenses	(5,055)	(2,617)	(1,597)	(386)	(9,655)
Expected credit losses	(5,739)	(4,338)	(3,737)	(401)	(14,215)
Total operating expenses	(10,794)	(6,955)	(5,334)	(787)	(23,870)
Profit before taxation	6,229	23	2,736	390	9,378
Segment assets	1,311,091	468,664	1,001,618	108,528	2,889,901
Unallocated assets					22,359
Total assets					2,912,260
Segment liabilities	(1,575,310)	(247,702)	(858,117)	(51,666)	(2,732,795)
Other segment information:					
Credit commitments and financial guarantee	751,940	15,705	-	365	768,010
Depreciation and amortisation	507	239	176	116	1,038
Capital expenditure	854	305	653	71	1,883

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2022/31 December 2022				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	8,470	9,443	4,536	788	23,237
Inter-segment net interest income/(expenses)	5,439	(3,096)	(2,343)	-	-
Net interest income	13,909	6,347	2,193	788	23,237
Net fee and commission income	1,795	447	374	16	2,632
Net trading gains	-	-	4,361	-	4,361
Net gains on financial investments	251	-	1,058	-	1,309
Other operating income	-	-	28	211	239
Operating income	15,955	6,794	8,014	1,015	31,778
Operating expenses	(4,137)	(1,913)	(1,549)	(389)	(7,988)
Expected credit losses	(4,156)	(4,861)	(5,955)	(329)	(15,301)
Total operating expenses	(8,293)	(6,774)	(7,504)	(718)	(23,289)
Profit before taxation	7,662	20	510	297	8,489
Segment assets	1,248,657	437,718	842,316	72,338	2,601,029
Unallocated assets					20,901
Total assets					2,621,930
Segment liabilities	(1,465,687)	(217,232)	(755,389)	(17,692)	(2,456,000)
Other segment information:					
Credit commitments and financial guarantee	708,646	13,674	-	766	723,086
Depreciation and amortisation	468	210	155	71	904
Capital expenditure	1,458	478	1,001	86	3,023



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

2 Regional division

The Group operates principally in mainland China, and also has a branch in Hong Kong, China. Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

“Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Shaoxing, Zhoushan, Shanghai, Nanjing, Suzhou, Hefei, Jinhua;

“Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;

“Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hong Kong, Fuzhou; and

“Midwestern China Region” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Guiyang, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha, Hohhot, Nanchang, Nanning, Taiyuan.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

2 Regional division (Continued)

	For the six months ended 30 June 2023/30 June 2023					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China Region	Elimination	Total
External net interest income	17,018	1,859	1,562	3,530	-	23,969
Inter-segment net interest (expenses)/ income	(4,539)	2,852	789	898	-	-
Net interest income	12,479	4,711	2,351	4,428	-	23,969
Net fee and commission income	560	850	645	897	-	2,952
Net trading gains	4,601	138	75	87	-	4,901
Net gains on financial investments	438	94	66	180	-	778
Other operating income	586	13	5	44	-	648
Operating income	18,664	5,806	3,142	5,636	-	33,248
Operating expenses	(5,783)	(1,415)	(867)	(1,590)	-	(9,655)
Expected credit losses	(8,577)	(1,012)	(1,945)	(2,681)	-	(14,215)
Total operating expenses	(14,360)	(2,427)	(2,812)	(4,271)	-	(23,870)
Profit before taxation	4,304	3,379	330	1,365	-	9,378
Segment assets	2,553,354	375,052	250,098	364,793	(653,396)	2,889,901
Unallocated assets						22,359
Total assets						2,912,260
Segment liabilities	(2,399,833)	(373,318)	(249,300)	(363,740)	653,396	(2,732,795)
Other segment information:						
Credit commitments and financial guarantee	345,253	155,032	81,077	186,648	-	768,010
Depreciation and amortisation	605	160	87	186	-	1,038
Capital expenditure	1,806	13	16	48	-	1,883



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

2 Regional division (Continued)

	For the six months ended 30 June 2022/31 December 2022					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China Region	Elimination	Total
External net interest income	14,949	2,221	2,092	3,975	-	23,237
Inter-segment net interest (expenses)/ income	(2,596)	2,116	105	375	-	-
Net interest income	12,353	4,337	2,197	4,350	-	23,237
Net fee and commission income	753	680	503	696	-	2,632
Net trading gains	4,176	73	39	73	-	4,361
Net gains on financial investments	922	141	50	196	-	1,309
Other operating income	156	27	7	49	-	239
Operating income	18,360	5,258	2,796	5,364	-	31,778
Operating expenses	(4,899)	(1,143)	(676)	(1,270)	-	(7,988)
Expected credit losses	(9,270)	(844)	(1,810)	(3,377)	-	(15,301)
Operating expenses	(14,169)	(1,987)	(2,486)	(4,647)	-	(23,289)
Profit before taxation	4,191	3,271	310	717	-	8,489
Segment assets	2,368,320	353,991	259,770	352,688	(733,740)	2,601,029
Unallocated assets						20,901
Total assets						2,621,930
Segment liabilities	(2,232,766)	(351,690)	(254,705)	(350,579)	733,740	(2,456,000)
Other segment information:						
Credit commitments and financial guarantee	325,737	154,084	77,988	165,277	-	723,086
Depreciation and amortisation	506	157	76	165	-	904
Capital expenditure	2,955	17	7	44	-	3,023

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES

1 Credit commitments and financial guarantee

Bank acceptances refer to the Group's commitment to honor bills issued by customers. Letter of credit and financial guarantee refer to guarantee of customers' performance the Group provides to third parties. Approved loan commitments, finance lease commitments and undrawn credit card limit refer to the Group's credit commitments. Receivables confirmation refer to the Group's commitment to receivables confirmation issued by customers.

The amount of bank acceptances, letter of credit, letter of guarantee, receivables confirmation and other financial guarantee contracts disclosed is the maximum potential loss amount that the Group will recognize at the balance sheet date if the counterparties fail to oblige. The amount of loan commitments, finance lease commitment and undrawn credit line of credit card are the maximum cash flow assuming fully issued. The Group expects that bank acceptances, letter of credit, letter of guarantee and receivables confirmation will be settled at the same time as the payment of customers. Loan commitments, finance lease commitments and undrawn credit card facility may not be used before maturity. Therefore, the contract amount mentioned below does not represent the expected cash outflow in the future.

	30 June 2023	31 December 2022
Bank acceptances issued	344,012	365,130
Letters of credit issued	215,648	185,821
Letters of guarantee issued		
– Financing letters of guarantee	36,090	30,847
– Non-financing letters of guarantee	10,943	9,473
Undrawn credit card facility	15,705	13,674
Loan commitments and finance lease commitments	5,959	3,637
Receivables confirmation and other financial guarantee contracts	139,653	114,504
Total	768,010	723,086



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES *(Continued)*

2 Capital expenditure commitments

At the balance sheet date, the Group's capital expenditure commitments are as follows:

	30 June 2023	31 December 2022
Contracted but not yet incurred	4,835	2,550
Authorized but not contracted	4,350	1,494
Total	9,185	4,044

3 Bond underwriting and redemption commitments

- (1) At 30 June 2023, the Group has outstanding bond underwriting commitments with an amount of RMB5,150 million (31 December 2022: RMB1,920 million).
- (2) As a member of the saving bonds underwriting syndicate of the Central Government, the Group is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds deducting commissions for early redeemed, plus any interest accrued up to the redemption date. The interest accrued shall be calculated in accordance with the relevant rules of the Ministry of Finance (the "MOF") and the PBOC.

At 30 June 2023, the Group had underwritten bonds with an accumulated amount of RMB1,226 million (31 December 2022: RMB1,201 million) to the general public, and these government bonds have not yet matured nor been redeemed. The Group expects that the amount of redemption of these government bonds through the Group prior to maturity will not be material.

4 Outstanding litigations and arbitrations

At the balance sheet date, the Group was involved in certain legal proceedings in the ordinary course of business. Management expects that such pending litigations will not materially affect the Group's financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VII FIDUCIARY BUSINESS

1 Entrusted loan business

Entrusted loan business means that under the entrusted loan arrangement, the Group acts as an intermediary to provide loans to borrowers based on the instructions of the principal. The Group is responsible for assisting in supervising the use and the recovery of the loan, and charging commissions for the services provided. As the Group does not assume the economic risks and rewards arising from the entrusted loans, the entrusted loans will not be recognized as assets and liabilities of the Group.

At the balance sheet dates, the entrusted business assets and liabilities of the Group are as follows:

	30 June 2023	31 December 2022
Entrusted loans	20,813	24,733
Entrusted loan funds	20,813	24,733

2 Entrusted investments business

Entrusted investment refers to the fact that the Group accepts the entrustment of a single or multiple clients based on the principal-agent relationship to engage in investment services such as asset operation, investment management, investment consultancy and so on. The investment risk of entrusted investment shall be borne by the client.

At the balance sheet dates, the entrusted business assets of the Group are as follows:

	30 June 2023	31 December 2022
Entrusted investments	581	695

3 Wealth management services

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with agreements. The Group receives fee incomes, such as custodian fees, sale fees and investment management fees, in return for its services provided under the agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's balance sheet.

At balance sheet date, please refer to Note IV.2 (3) for information about wealth management services.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VIII COLLATERAL INFORMATION

1 Assets pledged as security

The book value of the Group's secured liabilities related to the assets as collateral on the balance sheet dates are presented as due to the central bank, financial assets sold under repurchase agreements and customer deposits. At the balance sheet date, the secured liabilities (interest accrued excluded) of the Group were as follows:

	30 June 2023	31 December 2022
Due to the central bank	72,303	96,923
Financial assets sold under repurchase agreements	41,823	6,047
Customer deposits	64,386	42,018
Total	178,512	144,988

The secured liabilities analyzed by collateral type were as follows:

	30 June 2023	31 December 2022
Bond investments	188,676	131,482
Bills	20,144	18,426
Total	208,820	149,908

In addition, the Group provides collateral for the securities borrowed through the security lending and swap business. At 30 June 2023, the assets as collateral under the security lending and swap business of the Group were RMB101 million (31 December 2022: RMB101 million).

2 Assets received as collateral

At 30 June 2023, the Group received securities amounting to RMB100 million (31 December 2022: RMB100 million) as collateral for financial assets purchased under resale agreements, the Group could sell or repledge the collateral in the absence of default by the owner of the collateral. The Group has an obligation to return the collateral to the owner on the date of resale, at the balance sheet date, none of the collateral is re-sold or re-pledged. Details of collateral related information in loans and advances to customers and financial investments that are credit-impaired could be referred to in Note X.1 (10).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1 Major shareholders

At 30 June 2023, the shareholding of major shareholder units directly or indirectly holding more than 5% of the Bank's shares are as follows:

	Number of shares held (in million shares)	Shareholding Percentage
Zhejiang Provincial Financial Holdings Co., Ltd.	3,452	13.23%
Zhejiang Provincial Energy Group Co., Ltd. and its group members, Zheneng Capital Investment (Hong Kong) Limited and Zhejiang Energy International Co., Ltd.	1,739	6.66%
Zhejiang Hengyi Group Co., Ltd. and its group members Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd.	1,616	6.19%
Hengdian Group Holdings Limited	1,616	6.19%

At 31 December 2022, the shareholding of major shareholder units directly or indirectly holding more than 5% of the Bank's shares are as follows:

	Number of shares held (in million shares)	Shareholding Percentage
Zhejiang Provincial Financial Holdings Co., Ltd.	2,655	12.49%
Zhejiang Provincial Energy Group Co., Ltd. and its group members, Zheneng Capital Investment (Hong Kong) Limited and Zhejiang Energy International Co., Ltd.	1,487	6.99%
Traveller Automobile Group Co., Ltd.	1,347	6.33%
Zhejiang Hengyi Group Co., Ltd. and its group members Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd.	1,243	5.84%
Hengdian Group Holdings Limited	1,243	5.84%



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

2 Related party transactions

The amount of major transactions between the Group and related parties and the balance of major current accounts at the balance sheet date are as follows:

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengdian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/ balance of related similar transactions
The amount of significant transactions from 1 January 2023 to 30 June 2023 is as follows:							
Interest income	-	1	159	-	1	161	0.16%
Interest expense	(41)	(2)	-	(2)	(37)	(82)	0.15%
Fee and commission income	1	-	12	-	-	13	0.24%
Net trading gains	42	-	-	89	-	131	2.11%
At 30 June 2023, the balance of major current accounts is as follows:							
Loans and advances to customers	65	250	2,128	78	8	2,529	0.17%
Financial investments measured at FVTPL	2,788	-	-	4,893	-	7,681	4.06%
Financial investments measured at AC	-	-	1,500	-	-	1,500	0.41%
Customer deposits	(2,146)	(399)	(1)	(688)	(3,841)	(6,775)	0.40%
The major off balance sheet items at 30 June 2023 are as follows:							
Credit commitments and financial guarantee	69	492	1,670	41	2	2,274	0.30%
Loan balance guaranteed by related parties	9,690	250	1,279	37	-	11,256	0.76%



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

2 Related party transactions (Continued)

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Group Co., Ltd. and its subsidiaries	Traveller Automobile Group Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengdian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/balance of related similar transactions
The amount of significant transactions from 1 January 2022 to 30 June 2022 is as follows:								
Interest income	1	-	-	50	1	57	109	0.22%
Interest expense	(109)	(2)	-	(4)	-	(5)	(120)	0.45%
Fee and commission income	-	-	-	14	-	-	14	0.47%
Net trading gains	20	-	-	-	47	-	67	1.54%
At 31 December 2022, the balance of major current accounts is as follows:								
Loans and advances to customers	10	317	-	1,230	-	59	1,616	0.11%
Financial investments measured at FVTPL	2,066	-	-	-	3,589	-	5,655	2.99%
Financial investments measured at AC	-	-	-	1,500	-	-	1,500	0.41%
Customer deposits	(4,365)	(3,528)	-	(96)	(191)	(210)	(8,390)	0.50%
The major off balance sheet items at 31 December 2022 are as follows:								
Credit commitments and financial guarantee	-	412	-	1,724	74	-	2,210	0.31%
Loan balance guaranteed by related parties	6,546	250	-	300	8	-	7,104	0.48%

The Bank disclosed related party transactions in accordance with *Measures for the Administration of Affiliated Transactions of Banking and Insurance Institutions*. For major related party transactions, please refer to the Bank's announcement on the Shanghai Stock Exchange, and for general related party transactions, please refer to the Investor Services column on the Bank's website.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

3 Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. The Group enters into banking transactions with key management personnel in the normal course of business. For the reporting period, the Group had no material banking transactions and balances with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended 30 June	
	2023	2022
Fees	1	1
Salaries and allowances and benefits	3	4
Discretionary bonuses	2	2
Contribution to pension	1	1
Total	7	8

The total compensation packages (before tax) for directors and key management personnel have not been finalised. The total compensation packages will be further disclosed when determined.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

4 Transactions between the Bank and the subsidiary

The transactions between the Bank and its subsidiary are mainly subject to general business terms and carried out in accordance with normal business procedures or in accordance with the contractual agreements of the Bank, and shall be approved by the corresponding decision-making authority depending on the nature and the amount of the transaction. The amount of major transactions between the Bank and its subsidiary and the balance of major current accounts at the balance sheet date are as follows:

	For the six months ended 30 June	
	2023	2022
Interest income	35	46
Interest expense	(3)	(1)
Fee and commission income	–	16
Fee and commission expense	–	(45)
Net gains on financial investments	116	92
Other operating income	–	4

	30 June	31 December
	2023	2022
Placements with banks and other financial institutions	3,002	3,002
Other assets	117	20
Deposits from banks and other financial institutions	(478)	(114)
Other liabilities	(4)	(4)
Credit commitments and financial guarantee	17	–

5 Plan and transaction of annuity

Except for normal contributions, there were no other related party transactions in the annuity funds established by the Group and the Bank during the reporting period.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks arising from its operating activities. The Group analyzes, evaluates, accepts and manages those risks or risk portfolios of a certain degree. Managing those risks is critical to the financial industry, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The board of directors takes the ultimate responsibility for comprehensive risk management, the board of supervisors is responsible for supervising comprehensive risk management, and the senior management is responsible for implementing comprehensive risk management. The position of chief risk officer has been established in place, the senior management has established special committees including risk management and internal control committee, asset and liability management committee, credit extension committee, asset risk classification review committee and business continuity management committee.

The risk management department at the head office is the coordination department for comprehensive risk management and the leading executive department for management of credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at the head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at the head office is the leading executive department for operational risk and compliance risk management. The comprehensive office at the head office is the leading executive department for reputational risk management. The development and planning department at the head office is the leading executive department for strategic risk management.

The primary financial risks to which the Group is exposed to when using financial instruments are credit risk, market risk (including interest rate risk, foreign exchange risk) and liquidity risk.

1 Credit Risk

The Group is exposed to credit risk, which is the risk of loss arising from a client or counterparty's failure to discharge its contractual obligations. Exposure to credit risk mainly arises from interbank transactions, corporate and retail loans, as well as loan commitments from lending activities. It can also be derived from credit enhancement provided by the Group, such as credit derivatives (credit default swaps), letters of credit, financial guarantees and acceptances. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department at the head office and reported to the Bank's senior management in a timely manner.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement

Loans and advances to customers, credit commitments and financial guarantee

Based on changes in external business environment, internal business conditions and risk profile, the Group has formulated basic credit policies, and specified the policy orientation in respect of customer structure, industry structure, regional structure and key business areas of the Group's credit business. In addition, the Group regularly adjusts its credit policy on the basis of continuous tracking of macro and industry economic development trends. The Group shall continue to improve the credit system construction, the unified credit extension management system for corporate and institutional customers, group customer identification and unified credit extension management, the overall management and unified control of the total credits of corporate and institutional customers, and the standardized credit approval process, group customer management. The Bank shall also establish a differentiated authorization system, and timely adjust the credit policy and take effective measures to guard against credit risks.

The Group has established the credit risk limit framework system, credit risk limit management plans and methods, and specified management mechanisms in respect of setting, adjusting, monitoring and processing quota indicators to effectively transmit risk preferences. Financial assets are written off when the Group is unable to recover the whole or a part of them even after taking necessary measures and implementing necessary procedures, and when the write-off conditions set by the Ministry of Finance and the Group are met.

Bond investment

The Group manages investment in bonds and other instruments based on the internal credit rating and credit rating of external rating agencies. Except for immediate approval to government bonds, local government debts, central bank bills and policy bank financial bonds, all other bonds are subject to credit approval processes and credit rating requirements. At the same time, the Group continues to focus on the credit rating, business development and industry changes, to perform continuous evaluation and management of credit risk.

Non-bond debt investment

Non-bond debt investment includes trust schemes and asset management plans and debt financing plans. The Group implements rating assessment system for cooperative trust companies and securities companies, and sets credit lines for the ultimate financing party of the trust income and targeted asset management plans and debt financing plans, and conducts follow-up review of risk management on a regular basis.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement *(Continued)*

Interbank business

Credit risk of financial institutions is reviewed and managed on a regularly basis. Credit lines are set for banks or other financial institutions that engage in financial transactions with the Group.

(2) Risk limits and mitigation measures

The Group has established policies and procedures for credit risk limits management. Credit risk limits are set based on specific customers, industries and the quality of assets, and a working mechanism is established regarding credit risk limits management, including limits setting, adjustment, monitoring, reporting and processing.

The Group transfers or mitigates its credit risk exposure by way of guarantee, collateral (pledge), net settlement and credit derivatives. Other specific management and mitigation measures include:

Collaterals and pledged assets

The Group has formulated a series of policies to mitigate credit risks through various measures. The acquisition of collateral and margins and obtaining corporate or individual guarantees is an important means for the Group to control credit risk. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties
- Business assets such as commercial properties, inventories and accounts receivables
- Financial instruments such as debt securities and stocks

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(2) Risk limits and mitigation measures (Continued)

Collaterals and pledged assets (Continued)

The fair value of collaterals and pledges are assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan amount to fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and the maximum loan-to-value ratio for corporate and retail loans are as follows:

Type of collaterals and pledged assets	Maximum loan to value ratio
Time deposits	100%
PRC treasury bonds	90%
Financial bonds	80%
Residential properties and commercial properties	70%
Land use rights	70%
Vehicles	60%
General equipment	50%

For loans guaranteed by a third-party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

Derivative financial instruments

The Group imposes strict restrictions on the trading of derivative financial instruments. The Group controls the credit risks associated with derivative financial instruments by collecting margins or grant credits from/to counterparties.

Deposits of credit commitments and financial guarantee

The main purpose of credit commitments and financial guarantee is to ensure that customers can receive the funds needed. The letter of guarantee and the letter of credit represent the Group's irrevocable undertaking, that is, the Group will perform the payment obligations on behalf of its customers who fail to meet their payment obligations to third parties, and the Group bears the same credit risk as the case of loans. In the event that the amount of credit commitments and financial guarantee requested by the customer exceeds its original credit limit, the Group will collect deposit to reduce the credit risk involved in providing the service.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs

The ECL model is used for the measurement of the allowance for ECLs for financial assets measured at AC, financial assets measured at FVOCI and credit commitments and financial guarantee.

The ECL model is developed in accordance with the accounting standards. Based on credit risk characteristics such as product type, customer type, customer industry, the Group has conducted a risk subgroup on financial assets and established different models for corporate business, retail business, etc. The Group has established a regression model of risk parameters and macroeconomic indicators such as GDP, etc. The Group applies the ECL model to calculate credit losses under multiple scenarios to regularly predict three macro scenarios, including optimistic, neutral and pessimistic. The Group uses judgments, assumptions and estimates in measuring the ECLs in accordance with the accounting standards, including:

- Grouping of risks
- Classification of stages
- Models and parameters
- Forward-looking information, other adjustments and sensitivity analysis

Grouping of risks

Credit exposures are grouped based on credit risk characteristics including type of product, type of customer, industry where the client operates and markets. The non-retail business exposure risk group covers financial institution, public administration and social organization, manufacturing companies, wholesale and retail trade companies, etc. The retail business exposure risk group covers personal business loans, personal consumer loans, residential mortgage loans, credit cards, etc.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Classification of stages

The Group classifies financial instruments into three stages and makes provisions for ECLs accordingly, depending on whether the credit risk of a financial instrument has increased significantly or whether the financial instrument is credit-impaired since initial recognition. The three risk stages are defined as follows:

Stage 1: Credit risk has not increased significantly since initial recognition. A 12-month ECL is recognized.

Stage 2: Credit risk has increased significantly since initial recognition but there is no objective evidence of impairment of the financial instrument. A lifetime ECL is recognized.

Stage 3: When there is objective evidence of impairment of the financial assets at the balance sheet date. A lifetime ECL is recognized.

The Group's staging criteria has taken into consideration the internal credit rating, probability of default, overdue days, credit risk rating, etc.

Definition of significant increase in credit risk

At each balance sheet date, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since initial recognition. The Group fully considers all reasonable information with solid evidence, including forward-looking information that reflects significant changes in its credit risk. The main considerations are regulatory and operating environment, internal and external credit rating, solvency, operating capacity, loan contract terms, and repayment behavior. The Group determines the changes in credit risk over the expected lifetime of the financial instruments by comparing the credit risk of the financial instruments at the balance sheet date with that at the date of initial recognition.

The Group determines whether the credit risk of financial instruments has changed significantly since initial recognition by setting quantitative and qualitative criteria. The judgment criteria mainly include more than 30 days overdue, special mention for five-category classification, changes in probability of default and other cases that indicate a significant change in credit risk.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Definition of credit-impaired financial assets

Generally, financial assets are considered to be credit-impaired if:

- The borrower is more than 90 days overdue after the contractual payment date;
- The internal credit rating of the borrower is default level;
- For economic or contractual reasons related to the financial difficulties of the borrower, concessions which normally are not available are being made to the borrower;
- The borrower is experiencing significant financial difficulties;
- The borrower is likely to enter bankruptcy or other financial restructuring; and
- The active market for the financial assets disappears as a result of the financial difficulties of the issuer or debtor.

An impairment of financial assets may be caused by the combined effect of multiple events, and may not be the result of a separately identifiable events.

The above criteria apply to all financial assets and credit commitments and financial guarantee of the Group. The definition of credit-impaired financial assets is consistently applied to the calculation of ECLs of the Group and when considering about historical statistics and forward-looking information.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Models and parameters

Except for the credit-impaired financial instruments, depending on whether there is a significant increase in credit risk and whether the assets are credit-impaired, the Group recognizes allowance for different financial instruments with expected credit losses over 12 months or the lifetime of the instrument, respectively. Allowance for ECLs is the result of multiplication of probability of default (PD), loss given default (LGD) and exposure at default (EAD) and discount factor. Related definitions are as follows:

- Probability of default (PD) refers to the possibility that the debtor will not be able to fulfil its obligations in the next 12 months or throughout the life of the asset. The Group's PD is calculated based on the results of the Internal Rating-Based Approach. The PD of the entire duration is calculated based on the 12-month probability of default;
- Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty, the way of recourse and priority and the availability of collateral or other credit support. The LGD varies by financial assets; and
- Exposure at default (EAD) refers to the amount that the Group should pay when the default occurs in the next 12 months or throughout the life of the asset. The Group's exposure at default is determined by the expected repayment arrangements, and it varies depending on the types of products. For installments payment and lump sum repayment, the Group determines the exposure at default according to the repayment plan stipulated in the contract.

The Group determines the ECLs by forecasting the probability of default, loss given default and exposure at default of future individual debt. The Group multiplies the three parameters to calculate the ECLs for future periods, and then discount the results of each period to the report date in lump sum. The discount rate used in the calculation of expected credit loss is the initial effective interest rate or its approximate value.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) **Measurement of ECLs** *(Continued)*

Models and parameters (Continued)

The measurement of ECLs for credit-impaired corporate loans and advances to customers and investments applied cash flow discount method, if there is objective evidence that an financial asset is credit-impaired, the amount of the ECLs is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. In determining ECLs on an individual basis, the following factors are considered:

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

Forward-looking information, other adjustments and sensitivity analysis

The Group has established a forward-looking model and developed regression models for different macro-economic indicators such as Gross Domestic Product growth rate year-on-year (GDP). The Group uses forecasting results of macro-indicators to achieve "forward-looking" calculation of ECLs.

The Group has conducted forecasts regularly to establish three economic scenarios, optimistic, neutral and pessimistic along with adjustments from internal economy experts. Neutral scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than neutral scenario respectively. It can also be used as one of the sources of sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Forward-looking information, other adjustments and sensitivity analysis (Continued)

At 30 June 2023, the key macro-indicators the Group has applied include the GDP growth rate on year-on-year basis, the CPI growth rate on year-on-year basis, M2 money supply growth rate on year-on-year basis, etc. Among all, the forecasts of high weights macro-indicators are listed as follows:

Indicators	Predictive range
GDP growth rate on year-on-year basis	From 4.24% to 6.70%
CPI growth rate on year-on-year basis	From 0.13% to 1.90%
M2 money supply growth rate on year-on-year basis	From 8.90% to 13.57%

Through sensitivity analysis, when the weight of optimistic scenario increases by 10% and the weight of neutral scenario decreases by 10%, the allowance for ECLs will decrease by no more than 1.38%. When the weight of pessimistic scenario increases by 10% and the weight of neutral scenario decreases by 10%, the allowance for ECLs will increase by no more than 2.09%.

When managing ECL model, the Bank fully considered the impact of the potential factors of local government debt on credit risk exposure and makes allowance for ECLs prudently, thereby enhancing the Group's risk compensation capability.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(4) Maximum exposure to credit risk

The following table provides an analysis of the exposure to credit risk of financial instruments applicable to the measurement of ECLs. The carrying amount of the following financial assets is the maximum exposure to credit risk of the Group:

	30 June 2023	31 December 2022
Cash and balances with the central bank	151,235	185,625
Deposits with banks and other financial institutions	51,106	43,461
Placements with banks and other financial institutions	9,331	9,581
Financial assets purchased under resale agreements	33,624	15,886
Loans and advances to customers		
– measured at AC	1,273,063	1,163,019
– measured at FVOCI	338,259	323,272
Financial investments		
– measured at AC	384,052	368,792
– measured at FVOCI	225,554	192,724
Other financial assets	58,286	51,293
Total	2,524,510	2,353,653

At the balance sheet date, the Group's maximum exposure to credit risk in respect of off-balance-sheet credit commitments and financial guarantee contracts is disclosed in Note VI.1.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(5) Risk concentration

The credit risk usually increases if the counterparties are concentrated in a certain industry, region or based on certain economic characteristics. Meanwhile, the economic development is differentiated by the unique characteristics of industries and regions, so the credit risk varies from industry to industry and region to region.

Geographical segments

The gross amount of loans and advances to customers (fair value changes and interest accrued excluded) granted by the Group are listed as follows by region:

	30 June 2023		31 December 2022	
	Gross amount	Proportion	Gross amount	Proportion
Yangtze River Delta Region	886,809	53.90%	843,069	55.56%
Midwestern China Region	314,398	19.11%	281,109	18.53%
Bohai Rim Region	252,424	15.34%	222,300	14.65%
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	191,749	11.65%	170,856	11.26%
Total	1,645,380	100.00%	1,517,334	100.00%



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(5) Risk concentration *(Continued)*

Industry segments

The gross amount of loans and advances to customers (fair value changes and interest accrued excluded) granted by the Group are listed as follows by industry:

	30 June 2023		31 December 2022	
	Gross amount	Proportion	Gross amount	Proportion
Corporate loans and advances				
Leasing and commercial services	236,188	14.35%	209,367	13.80%
Manufacturing	231,159	14.06%	216,921	14.29%
Wholesale and retail trade	182,814	11.11%	167,816	11.06%
Real estate	173,076	10.52%	166,827	10.99%
Administration of water conservancy, environment and public facilities	66,060	4.01%	63,103	4.16%
Construction	58,614	3.56%	50,662	3.34%
Financing	18,519	1.13%	18,259	1.20%
Scientific research, technology services and geological exploration	17,363	1.06%	13,783	0.91%
Transportation, storage and postal service	15,366	0.93%	13,232	0.87%
Production and supply of electricity, heat, gas and water	14,427	0.88%	14,294	0.94%
Accommodation and catering	13,329	0.81%	12,074	0.80%
Mining	13,051	0.79%	8,483	0.56%
Agriculture, forestry, animal husbandry and fishery	12,503	0.76%	12,092	0.80%
Information transmission, computer services and software industry	11,364	0.69%	10,075	0.66%
Culture, sports and entertainment	5,781	0.35%	4,911	0.32%
Education	2,506	0.15%	1,792	0.12%
Household services and other services	2,316	0.14%	1,604	0.11%
Health, social security and social welfare	1,627	0.10%	1,771	0.12%
Public administration and social organization	13	0.00%	13	0.00%
Corporate loans and advances	1,076,076	65.40%	987,079	65.05%
Personal loans and advances	452,732	27.52%	417,881	27.54%
Discounted bills	116,572	7.08%	112,374	7.41%
Total	1,645,380	100.00%	1,517,334	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(6) Credit risk analysis of loans and advances to customers

At the balance sheet date, the stage, overdue information and allowance for ECLs of loans and advances to customers (fair value changes and interest accrued excluded) of the Group are listed as follows:

	Notes	30 June 2023	31 December 2022
Credit-impaired		26,515	26,280
Less: Allowance for ECLs	(a)	(14,980)	(15,217)
Subtotal		11,535	11,063
Overdue but not credit-impaired		6,565	8,197
Less: Allowance for ECLs	(b)	(1,500)	(2,608)
Subtotal		5,065	5,589
Neither overdue nor credit-impaired		1,612,300	1,482,857
Less: Allowance for ECLs	(c)	(25,285)	(20,914)
Subtotal		1,587,015	1,461,943
Total		1,603,615	1,478,595

(a) At 30 June 2023, the allowance for ECLs of the loans and advances to customers measured at FVOCI which were credit-impaired were RMB404 million (31 December 2022: RMB225 million). The allowance for ECLs are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

(b) At 30 June 2023, the allowance for ECLs of the loans and advances to customers measured at FVOCI which were overdue but not credit-impaired were RMB79 million (31 December 2022: RMB33 million). The allowance for ECLs are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

(c) At 30 June 2023, the allowance for ECLs of the loans and advances to customers measured at FVOCI which were neither overdue nor credit-impaired were RMB1,338 million (31 December 2022: RMB1,728 million). The allowance for ECLs are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(7) Credit risk analysis of the amounts due from banks and other financial institutions

Amounts due from banks and other financial institutions include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements. At the balance sheet date, the book balance (interest accrued excluded) of the Group's due from banks and other financial institutions classified by stage, overdue information and counterparties are analyzed as follows:

	30 June 2023	31 December 2022
Neither overdue nor credit-impaired		
– AAA1 to AAA6	7,079	15,644
– AA1 to AA6	26,306	17,243
– A1 to A3	26,217	6,597
– No rating	34,220	29,469
Less: Allowance for ECLs	(76)	(240)
Total	93,746	68,713

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(8) Credit risk analysis of debt instrument investments

The Group continuously monitors the credit risk profile of the debt instrument portfolios held. At the balance sheet date, the carrying amount (fair value changes and interest accrued excluded) of the debt instruments which are subjected to the measurement of ECLs is listed as follows:

	Notes	30 June 2023	31 December 2022
Credit-impaired		46,484	32,568
Less: Allowance for ECLs	(a)	(22,165)	(16,202)
Subtotal		24,319	16,366
Overdue but not credit-impaired		–	5,265
Less: Allowance for ECLs		–	(1,584)
Subtotal		–	3,681
Neither overdue nor credit-impaired			
– Government		277,794	234,840
– Policy banks		82,139	84,567
– Commercial banks		41,862	47,765
– Other financial institutions		12,185	8,131
– Others		166,551	163,144
Less: Allowance for ECLs	(b)	(3,404)	(3,263)
Subtotal		577,127	535,184
Total		601,446	555,231

(a) At 30 June 2023, the total allowance for ECLs of the debt investments measured at FVOCI which were credit-impaired, were RMB15 million (31 December 2022: Nil). The ECL allowance are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

(b) At 30 June 2023, the total allowance for ECLs of the debt investments measured at FVOCI which were neither overdue nor credit-impaired, were RMB322 million (31 December 2022: RMB391 million). The ECL allowance are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(9) Restructured loans

Restructured loans refer to loans where the borrower is in a deteriorating financial situation, unable to comply with the repayment schedule specified in the loan contract, overdue specified in the credit management policy, and the repayment has been abnormal. The Group has to revise the repayment conditions and make concession arrangements for the borrower. At 30 June 2023, the Group has restructured loans (allowance for ECLs excluded), which were classified as non-performing loans, amounted to RMB129 million (31 December 2022: RMB140 million).

(10) Collaterals and other credit enhancement

The Group closely monitors the collaterals corresponding to credit-impaired financial assets, as compared with other collaterals, the Group is more likely to confiscate these collaterals to reduce potential credit losses. At the balance sheet date, the Group's credit-impaired loans and advances to customers and financial investments (fair value changes and interest accrued excluded) and the value of collateral held to reduce its potential losses are listed as follows:

	30 June 2023			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	19,366	(10,523)	8,843	22,696
– Personal loans and advances	7,136	(4,457)	2,679	3,073
– Discounted bills	13	–	13	–
Financial investments				
– Financial assets measured at AC	46,443	(22,165)	24,278	24,176
– Financial assets measured at FVOCI	41	–	41	–
Total	72,999	(37,145)	35,854	49,945

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(10) Collaterals and other credit enhancement (Continued)

	31 December 2022			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	19,693	(10,867)	8,826	17,743
– Personal loans and advances	6,556	(4,350)	2,206	2,640
– Discounted bills	31	–	31	–
Financial investments				
– Financial assets measured at AC	32,568	(16,202)	16,366	15,208
Total	58,848	(31,419)	27,429	35,591

The fair value of the above collateral is determined by the Group on the basis of the latest available external evaluation value according to the collateral disposal experience and market conditions.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk

Market risk refers to the risk of losses of on-balance sheet and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. The Group's exposures to market risk arise from the trading and non-trading businesses.

The Group's market risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, risk management department, capital operation center, FinTech department, audit department, other departments, as well as branches, subbranches and the subsidiary. Senior management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite, as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Group can effectively identify, measure, monitor and control a series of market risks assumed by various businesses.

The market risk measurement methods adopted by the Group include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Group to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Group has established a market risk management system pursuant to the relevant measures and guidelines of the original CBIRC. The Group has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be assumed by the Group.

The Group updates its market risk appetite and limit management system on a regular basis, further improves the market risk management systems and market risk measurement systems. The Group conducts market risk measurement, monitoring and routine management by using the independent market risk management system. The Group performs daily valuation of trading book positions, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gains of the banking book arising from adverse changes in interest rate levels and term structure, mainly including gap risk, benchmark risk and optional risk.

The objective of the Group's interest rate risk management is to control the interest rate risk of banking book within an acceptable and reasonable range and reduce the fluctuation of net interest income of banking book as well as economic value thereby maximizing the comprehensive income bank-wide.

The Group's interest rate risk management system of banking book consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), capital operation center, audit department and other operation and management departments at the head office, as well as branches, sub-branches and subsidiaries. Senior management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Group measures and evaluates the interest rate risk of banking book mainly through repricing gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. and builds the interest rate risk of banking book management strategy by comprehensive consideration of its risk preference, risk status, macroeconomic and market changes. During the reporting period, the Group pays close attention to external environment and internal situation of interest rate risk of banking book and adjusts the structure of assets and liabilities flexibly. At the balance sheet date, the interest rate risk of banking book of the Group is within the target limit and the risk is under control as a whole.

Due to fluctuations in market interest rates, the Group's interest margin may increase, or may decrease or even incur losses due to unexpected changes. The Group operates its business in accordance with the deposit and loan interest rate policies of the PBOC.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

The following tables indicate the financial assets and financial liabilities of the Group at the balance sheet date by the expected next repricing date or by maturity date, whichever is earlier.

	30 June 2023					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	727	150,508	-	-	-	151,235
Deposits with banks and other financial institutions	117	44,193	6,640	156	-	51,106
Placements with banks and other financial institutions	191	5,947	3,193	-	-	9,331
Derivative financial assets	25,265	-	-	-	-	25,265
Financial assets purchased under resale agreements	7	33,617	-	-	-	33,624
Loans and advances to customers	6,207	285,669	766,639	434,876	117,931	1,611,322
Financial investments						
- measured at FVTPL	128,535	32,069	45,672	32,466	60,642	299,384
- measured at AC	7,620	38,395	66,118	222,155	49,764	384,052
- measured at FVOCI	3,298	11,060	48,915	125,976	37,628	226,877
Other financial assets	5,980	6,076	16,152	28,390	1,688	58,286
Total financial assets	177,947	607,534	953,329	844,019	267,653	2,850,482
Financial liabilities						
Due to the central bank	(613)	(32,667)	(39,636)	-	-	(72,916)
Deposits from banks and other financial institutions	(2,089)	(123,711)	(185,607)	(5,599)	-	(317,006)
Placements from banks and other financial institutions	(494)	(31,121)	(44,117)	(2,818)	-	(78,550)
Financial liabilities at fair value through profit or loss	(1,069)	(9,696)	-	-	-	(10,765)
Derivative financial liabilities	(26,503)	-	-	-	-	(26,503)
Financial assets sold under repurchase agreements	(76)	(39,875)	(1,948)	-	-	(41,899)
Customer deposits	(23,680)	(1,049,116)	(294,938)	(455,251)	-	(1,822,985)
Debt securities issued	(979)	(79,684)	(164,328)	(67,900)	(20,000)	(332,891)
Lease liabilities	-	(159)	(609)	(1,970)	(564)	(3,302)
Other financial liabilities	(11,587)	(108)	(1,431)	-	-	(13,126)
Total financial liabilities	(67,090)	(1,366,137)	(732,614)	(533,538)	(20,564)	(2,719,943)
Interest rate exposure	110,857	(758,603)	220,715	310,481	247,089	130,539

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

(1) Interest rate risk (Continued)

	31 December 2022					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	630	184,995	-	-	-	185,625
Deposits with banks and other financial institutions	93	37,661	5,707	-	-	43,461
Placements with banks and other financial institutions	121	1,922	7,538	-	-	9,581
Derivative financial assets	14,179	-	-	-	-	14,179
Financial assets purchased under resale agreements	1	15,885	-	-	-	15,886
Loans and advances to customers	5,091	284,458	565,394	397,818	233,530	1,486,291
Financial investments						
- measured at FVTPL	133,364	6,651	25,183	20,186	3,636	189,020
- measured at AC	7,275	36,702	81,732	196,396	46,687	368,792
- measured at FVOCI	3,245	4,809	52,944	105,695	27,344	194,037
Other financial assets	4,875	5,742	25,730	14,408	538	51,293
Total financial assets	168,874	578,825	764,228	734,503	311,735	2,558,165
Financial liabilities						
Due to the central bank	(247)	(59,113)	(37,810)	-	-	(97,170)
Deposits from banks and other financial institutions	(1,276)	(128,104)	(104,734)	(7,700)	-	(241,814)
Placements from banks and other financial institutions	(409)	(25,733)	(36,706)	(1,307)	-	(64,155)
Financial liabilities at fair value through profit or loss	(55)	-	-	-	-	(55)
Derivative financial liabilities	(14,462)	-	-	-	-	(14,462)
Financial assets sold under repurchase agreements	(19)	(4,886)	(1,161)	-	-	(6,066)
Customer deposits	(23,093)	(942,099)	(342,882)	(373,369)	-	(1,681,443)
Debt securities issued	(1,550)	(74,792)	(170,316)	(61,375)	(15,000)	(323,033)
Lease liabilities	-	(223)	(528)	(2,035)	(532)	(3,318)
Other financial liabilities	(9,018)	(450)	(853)	-	-	(10,321)
Total financial liabilities	(50,129)	(1,235,400)	(694,990)	(445,786)	(15,532)	(2,441,837)
Interest rate exposure	118,745	(656,575)	69,238	288,717	296,203	116,328



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

The Group measures the potential effect of change in interest rates on the Group's net interest income and other comprehensive income by the sensitivity analysis method. The following table sets forth the effect on the Group's net interest income and other comprehensive income from possible and reasonable interest rate fluctuations with all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the year and whose interest rate are expected to be repriced within one year. The effect on other comprehensive income refers to the effect of certain interest rate changes on the fair value change generated by debt investments measured at FVOCI that are held at the end of the year. The following table sets forth the effect on the Group's net interest income and other comprehensive income from interest rate fluctuations with other variables held constant (income tax expense included):

	30 June 2023		31 December 2022	
	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase
Change in interest rate				
Increase by 100 basis points	(4,358)	(5,343)	(4,145)	(9,038)
Decrease by 100 basis points	4,358	5,623	4,145	9,539

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining commercial conditions and financial parameters:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) all assets and liabilities that are repriced or due within one year are assumed to be repriced or due at the beginning of the respective periods;
- (iii) same fluctuations in interest rates of different interest-bearing assets and interest-bearing liabilities are the same;
- (iv) yield curves move in parallel with change in interest rates;
- (v) there are no other changes in the assets or liabilities portfolio;
- (vi) no consideration of impact on customer behavior, market price and off-balance sheet business resulting from interest rate changes; and
- (vii) no consideration of actions taken by the Group in response to interest rate changes.

Therefore, the actual results on net interest income and other comprehensive income due to the increase or decrease in interest rates may differ from the analysis based on such assumptions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

(2) Foreign exchange risk

The Group's business mainly operates in China and settles in RMB. The tables below show the Group's exposure to currency risk at the balance sheet date with the book values of various financial assets and liabilities converted into RMB.

	30 June 2023				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	145,389	5,804	34	8	151,235
Deposits with banks and other financial institutions	45,635	3,883	214	1,374	51,106
Placement with banks and other financial institutions	8,247	945	139	–	9,331
Derivative financial assets	22,702	2,125	345	93	25,265
Financial assets purchased under resale agreements	31,081	2,543	–	–	33,624
Loans and advances to customers	1,569,801	25,120	10,646	5,755	1,611,322
Financial investments					
– measured at FVTPL	288,913	10,471	–	–	299,384
– measured at AC	365,334	17,356	–	1,362	384,052
– measured at FVOCI	181,862	40,217	1,728	3,070	226,877
Other financial assets	56,418	1,857	–	11	58,286
Total financial assets	2,715,382	110,321	13,106	11,673	2,850,482
Financial liabilities					
Due to the central bank	(72,916)	–	–	–	(72,916)
Deposits from banks and other financial institutions	(304,357)	(10,203)	(2,435)	(11)	(317,006)
Placements from banks and other financial institutions	(62,699)	(15,033)	(738)	(80)	(78,550)
Financial liabilities at fair value through profit or loss	(10,765)	–	–	–	(10,765)
Derivative financial liabilities	(23,862)	(1,994)	(551)	(96)	(26,503)
Financial assets sold under repurchase agreements	(29,204)	(12,319)	–	(376)	(41,899)
Customer deposits	(1,760,900)	(51,410)	(1,406)	(9,269)	(1,822,985)
Debt securities issued	(327,497)	(5,394)	–	–	(332,891)
Lease liabilities	(3,264)	–	(38)	–	(3,302)
Other financial liabilities	(13,054)	(57)	(2)	(13)	(13,126)
Total financial liabilities	(2,608,518)	(96,410)	(5,170)	(9,845)	(2,719,943)
Net amount	106,864	13,911	7,936	1,828	130,539
Credit commitments and financial guarantee	727,907	30,854	2,722	6,527	768,010

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk *(Continued)*

	31 December 2022				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	181,118	4,475	26	6	185,625
Deposits with banks and other financial institutions	35,525	5,190	1,130	1,616	43,461
Placement with banks and other financial institutions	9,079	279	223	–	9,581
Derivative financial assets	12,934	1,162	68	15	14,179
Financial assets purchased under resale agreements	15,886	–	–	–	15,886
Loans and advances to customers	1,447,189	26,764	8,201	4,137	1,486,291
Financial investments					
– measured at FVTPL	177,418	11,602	–	–	189,020
– measured at AC	350,378	16,721	–	1,693	368,792
– measured at FVOCI	156,041	33,554	1,750	2,692	194,037
Other financial assets	46,932	3,277	1,061	23	51,293
Total financial assets	2,432,500	103,024	12,459	10,182	2,558,165
Financial liabilities					
Due to the central bank	(97,170)	–	–	–	(97,170)
Deposits from banks and other financial institutions	(233,762)	(5,596)	(2,436)	(20)	(241,814)
Placements from banks and other financial institutions	(49,128)	(14,565)	–	(462)	(64,155)
Financial liabilities at fair value through profit or loss	(55)	–	–	–	(55)
Derivative financial liabilities	(13,300)	(922)	(226)	(14)	(14,462)
Financial assets sold under repurchase agreements	–	(6,066)	–	–	(6,066)
Customer deposits	(1,622,653)	(49,282)	(964)	(8,544)	(1,681,443)
Debt securities issued	(318,129)	(4,904)	–	–	(323,033)
Lease liabilities	(3,266)	–	(52)	–	(3,318)
Other financial liabilities	(10,288)	(26)	(1)	(6)	(10,321)
Total financial liabilities	(2,347,751)	(81,361)	(3,679)	(9,046)	(2,441,837)
Net amount	84,749	21,663	8,780	1,136	116,328
Credit commitments and financial guarantee	684,100	32,393	2,543	4,050	723,086

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk (Continued)

The Group measures the potential effect of changes in foreign exchange rates on the Group's net profit and equity by the sensitivity analysis method. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with other variables held constant (income tax expense included):

	Sensitivity of net profit and equity	
	30 June 2023 Increase/ (Decrease)	31 December 2022 Increase/ (Decrease)
Change in USD exchange rate		
Appreciation against RMB by 100 bps	121	172
Depreciation against RMB by 100 bps	(121)	(172)
Change in HKD exchange rate		
Appreciation against RMB by 100 bps	35	66
Depreciation against RMB by 100 bps	(35)	(66)

The sensitivity analysis is based on the following assumptions:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) the foreign exchange rate sensitivity is the gains or losses recognized as a result of a 100-basis point fluctuation in the absolute value of foreign exchange rates against the closing price (middle price) of RMB at the balance sheet date;
- (iii) the fluctuation of exchange rates by 100 basis points at the balance sheet date is based on the assumption of exchange rates movement over the next 12 months;
- (iv) when calculating the foreign exchange exposure, spot and forward from foreign exchange exposure and swaps are included;
- (v) other variables (including interest rates) remain unchanged;



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk *(Continued)*

- (vi) no consideration of impact on customers' behavior and market price resulting from exchange rate changes; and
- (vii) the assets and liabilities have a static exchange rate risk structure and no consideration is given to the measures that the Group may take to eliminate the adverse impact of foreign exchange exposure on net profit and equity.

Therefore, the actual results of net profit and equity due to changes in foreign currency exchange rates may differ from the analysis based on such assumptions.

3 Liquidity Risk

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial situation, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The objective of the Group's liquidity management is to ensure that the Group's liquidity needs can be met in a timely manner and at a reasonable cost thereby controlling the liquidity risk within an acceptable and reasonable range.

The Group's liquidity risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), capital operation center, audit department, other operation and management departments of the head office, as well as branches, subbranches and subsidiaries. Senior management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

The Group manages the liquidity risk in a centralized manner. By establishing a scientific and completed liquidity risk management system, the Group can effectively identify, measure, monitor, control and report its liquidity risk. The Group strengthens its liquidity risk management ability by continuously improving the perspectiveness and initiative of liquidity risk management. Specific measures for liquidity risk management include: paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting the asset and liability management strategies in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the construction of diversified of financing channels and actively expanding financing channels while maintaining good relationships with major financing counterparties; strengthening the management of high-quality liquid assets, ensuring the fitness of the retention scale of high-quality liquid assets and the potential financing needs to enhance the liquidity risk mitigation capability; strengthening the early-warning monitoring and management of liquidity, optimizing the emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a quarterly basis, identifying weak points in respect of the Group's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies if necessary, and modifying the liquidity risk management measures in a timely manner to improve liquidity risk management mechanism.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

	30 June 2023						Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets							
Cash and balances with the central bank	-	151,235	-	-	-	-	151,235
Deposits with banks and other financial institutions	-	37,434	6,775	6,788	171	-	51,168
Placements with banks and other financial institutions	-	-	6,177	3,299	-	-	9,476
Financial assets purchased under resale agreements	-	-	33,629	-	-	-	33,629
Loans and advances to customers	13,280	-	261,287	667,910	510,418	312,850	1,765,745
Financial investments							
- measured at FVTPL	13	128,535	32,773	48,446	41,604	68,769	320,140
- measured at AC	21,464	-	24,260	77,282	240,988	55,681	419,675
- measured at FVOCI	-	1,323	12,157	53,779	138,212	44,958	250,429
Other financial assets	731	5,592	6,067	17,868	30,895	1,997	63,150
Total financial assets	35,488	324,119	383,125	875,372	962,288	484,255	3,064,647



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	30 June 2023					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities						
Due to the central bank	-	-	(32,896)	(40,563)	-	(73,459)
Deposits from banks and other financial institutions	-	(49,016)	(76,053)	(189,394)	(5,672)	(320,135)
Placements from banks and other financial institutions	-	-	(31,585)	(44,837)	(2,987)	(79,409)
Financial liabilities at fair value through profit or loss	-	(1,069)	(9,696)	-	-	(10,765)
Financial assets sold under repurchase agreements	-	-	(40,111)	(1,995)	-	(42,106)
Customer deposits	-	(908,156)	(169,212)	(328,897)	(459,624)	(1,865,889)
Debt securities issued	-	-	(80,507)	(168,613)	(73,938)	(23,470)
Lease liabilities	-	-	(162)	(628)	(2,218)	(3,726)
Other financial liabilities	-	(11,004)	(153)	(1,969)	-	(13,126)
Total financial liabilities	-	(969,245)	(440,375)	(776,896)	(544,439)	(24,188)
Net amount	35,488	(645,126)	(57,250)	98,476	417,849	460,067
						309,504



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	31 December 2022					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial assets						
Cash and balances with the central bank	-	185,625	-	-	-	185,625
Deposits with banks and other financial institutions	-	28,962	8,788	5,826	-	43,576
Placements with banks and other financial institutions	-	-	1,977	7,820	-	9,797
Financial assets purchased under resale agreements	-	-	15,889	-	-	15,889
Loans and advances to customers	12,296	-	298,920	595,992	450,918	1,627,451
Financial investments						
- measured at FVTPL	-	131,509	7,664	25,166	31,065	199,272
- measured at AC	12,528	-	29,349	100,870	244,919	437,756
- measured at FVOCI	-	1,313	6,747	57,812	121,098	215,793
Other financial assets	843	4,541	5,703	16,227	26,369	55,439
Total financial assets	25,667	351,950	375,037	809,713	874,369	2,790,598



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	31 December 2022					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities						
Due to the central bank	-	-	(59,192)	(38,670)	-	(97,862)
Deposits from banks and other financial institutions	-	(65,976)	(63,093)	(106,816)	(7,980)	(243,865)
Placements from banks and other financial institutions	-	-	(26,162)	(37,518)	(1,410)	(65,090)
Financial liabilities at fair value through profit or loss	-	(55)	-	-	-	(55)
Financial Assets Sold Under Repurchase Agreements	-	-	(4,976)	(1,217)	-	(6,193)
Customer deposits	-	(797,698)	(178,583)	(359,813)	(382,412)	(1,718,506)
Debt securities issued	-	-	(75,955)	(174,214)	(67,593)	(333,482)
Lease liabilities	-	-	(225)	(547)	(2,298)	(3,756)
Other financial liabilities	-	(8,500)	(575)	(1,260)	-	(10,335)
Total financial liabilities	-	(872,229)	(408,761)	(720,055)	(461,693)	(16,406) (2,479,144)
Net amount	25,667	(520,279)	(33,724)	89,658	412,676	337,456 311,454



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

The Group's derivatives settled on a net basis mainly include interest rate derivatives. The table below analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a net basis by remaining contractual maturities from the balance sheet date to the contractual maturity date.

	30 June 2023					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Cash inflow/(outflow)	38	591	(868)	16	-	(223)

	31 December 2022					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Cash outflow	(801)	(174)	(39)	(19)	-	(1,033)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments (Continued)

The Group's derivative settled on a gross basis mainly include foreign exchange derivatives. The following table analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a gross basis by remaining contractual maturities from the balance sheet date to the contractual maturity date:

	30 June 2023					
	After 1 month but within 3 months		After 3 months but within 1 year		After 1 year but within 5 years	
	1 month	3 months	1 year	5 years	After 5 years	Total
Cash outflow	(66,482)	(52,670)	(138,502)	(17,923)	–	(275,577)
Cash inflow	66,598	51,662	139,163	17,758	–	275,181
Net inflow/(outflow)	116	(1,008)	661	(165)	–	(396)

	31 December 2022					
	After 1 month but within 3 months		After 3 months but within 1 year		After 1 year but within 5 years	
	1 month	3 months	1 year	5 years	After 5 years	Total
Cash outflow	(49,749)	(55,154)	(124,828)	(20,416)	–	(250,147)
Cash inflow	50,097	55,112	123,798	20,240	–	249,247
Net inflow/(outflow)	348	(42)	(1,030)	(176)	–	(900)



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(3) Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items include bank acceptances, letters of credit, letters of guarantee, undrawn credit card limit, corporate loan commitments and finance lease commitments, receivables confirmation and other financial guarantee contracts. The table below shows the liquidity analysis of the Group's off-balance sheet items:

	30 June 2023			
	Within 1 year	After 1 year		Total
		but within 5 years	After 5 years	
Bank acceptances issued	344,012	–	–	344,012
Letters of credit issued	215,480	168	–	215,648
Letters of guarantee issued	21,696	25,301	36	47,033
Undrawn credit card facility	15,705	–	–	15,705
Loan commitments and finance lease commitments	5,948	11	–	5,959
Receivables confirmation and other financial guarantee contracts	128,667	10,986	–	139,653
Total	731,508	36,466	36	768,010

	31 December 2022			
	Within 1 year	After 1 year		Total
		but within 5 years	After 5 years	
Bank acceptances issued	365,130	–	–	365,130
Letters of credit issued	185,615	206	–	185,821
Letters of guarantee issued	19,266	20,949	105	40,320
Undrawn credit card facility	13,674	–	–	13,674
Loan commitments and finance lease commitments	3,637	–	–	3,637
Receivables confirmation and other financial guarantee contracts	105,101	9,403	–	114,504
Total	692,423	30,558	105	723,086

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XI CAPITAL MANAGEMENT

The core of the Group's capital management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management. The Group prudently determines the objective of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives.

The Group's business has maintained stable growth in recent years and the assets have become increasingly capital intensive. In order to ensure that the capital adequacy ratio meets the regulatory requirements and to maximize the returns to shareholders with the risks under control, the Group has actively expanded the capital replenishment channels from external sources, while continuing to improve the self-generating function in operations, so as to replenish capital from internal sources.

Since 1 January 2013, the Group has calculated and disclosed capital adequacy ratio in accordance with the *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* issued by the former CBRC on 7 June 2012 and other relevant regulations.

Core tier 1 capital includes paid-in capital, capital reserve, surplus reserve, statutory general reserve, retained earnings, and the portion of non-controlling shareholders' capital that may be included in core tier 1 capital. Other tier 1 capital includes other tier 1 capital instruments and their premiums, and the portion of non-controlling shareholders' capital that may be included in other tier 1 capital. Tier 2 capital includes tier 2 capital instruments and their premium, and the portion of excessive allowance for loan losses that may be included, and the portion of non-controlling shareholders' capital that may be included in tier 2 capital.

The core tier 1 capital adequacy ratio, the tier 1 capital adequacy ratio, and the capital adequacy ratios calculated in accordance with *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* and relevant requirements are listed as below:

	30 June 2023	31 December 2022
Net core tier 1 capital	148,534	135,925
Net tier 1 capital	173,821	161,178
Net capital	214,847	195,871
Risk-weighted assets	1,816,330	1,689,148
Core tier 1 capital adequacy ratio	8.18%	8.05%
Tier 1 capital adequacy ratio	9.57%	9.54%
Capital adequacy ratio	11.83%	11.60%



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS

1 Fair values of financial assets and liabilities

(1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy of the Group's assets and liabilities which are measured at fair value at the balance sheet date on a recurring basis. The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities; and

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

The tables below analyzes financial instruments, measured at fair value at the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	30 June 2023			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	-	25,265	-	25,265
Loans and advances to customers	-	314,972	23,287	338,259
Financial investments				
- measured at FVTPL	32,356	261,312	5,716	299,384
- measured at FVOCI	-	225,554	1,323	226,877
Total assets measured at fair value on a recurring basis	32,356	827,103	30,326	889,785
Placements from banks and other financial institutions	-	(22,090)	-	(22,090)
Financial liabilities at fair value through profit or loss	(756)	(10,009)	-	(10,765)
Derivative financial liabilities	-	(26,503)	-	(26,503)
Total liabilities measured at fair value on a recurring basis	(756)	(58,602)	-	(59,358)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(1) Fair value hierarchy *(Continued)*

	31 December 2022			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	-	14,179	-	14,179
Loans and advances to customers	-	283,192	40,080	323,272
Financial investments				
– measured at FVTPL	39,130	144,368	5,522	189,020
– measured at FVOCI	-	192,724	1,313	194,037
Total assets measured at fair value on a recurring basis	39,130	634,463	46,915	720,508
Placements from banks and other financial institutions	-	(12,300)	-	(12,300)
Financial liabilities at fair value through profit or loss	-	(55)	-	(55)
Derivative financial liabilities	-	(14,462)	-	(14,462)
Total liabilities measured at fair value on a recurring basis	-	(26,817)	-	(26,817)

(2) Level 1 fair value measurement

For financial instruments with unadjusted quoted prices in active markets that are observable for identical assets or liabilities, the Group takes the unadjusted quoted price as the best evidence of fair value when determining the fair value of financial instruments. The financial instruments defined as level 1 by the Group mainly include open-end funds, open-end wealth management products and unrestricted equity investments in listed companies.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(3) Level 2 fair value measurement

If the main parameters used in the valuation are observable and available from the active open market, the relevant financial instruments are defined as level 2 fair value measurement. The Group's level 2 financial instruments mainly include bond and ABS investments, term-ended funds, discounted bills, trade finance, restricted equity investments in listed companies, precious metal leasing of placements from banks and other financial institutions, interest rate derivatives, foreign exchange derivatives, precious metal and other derivatives.

For the fair value of RMB bond and ABS investments, the Group adopts the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Co., Ltd. according to the bond market. For the fair value of foreign currency bonds, the Group adopts Bloomberg results. For discounted bills and trade finance, the Group adopts discounted cash flow model for valuation which based on SHIBOR and yield curves issued by Shanghai Commercial Paper Exchange Co. and China Central Depository & Clearing Co., the Group constructs the interest rate curve by five-category loan classification and product type. For restricted equity investments in listed companies, liquidity discounts is considered based on the closing price.

For non-derivative financial instruments and some derivative financial instruments including forwards and swaps of precious metal and foreign exchange and interest rate swaps, etc. that could not be quoted from the active market, the Group adopts discounted cash flow analysis. The main parameters used include the recent transaction price, relevant yield curve, exchange rate and counterparty risk. For the valuation of option derivatives, the Group adopts Black-Scholes model with main parameters of relevant yield curve, exchange rate, volatility, and counterparty risk.

The fair value of shares held by other parties rather than the Group and liabilities of consolidated structured entities is measured based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value. Quantitative information of level 3 fair value measurement is as follows:

	Fair value at 30 June 2023	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	714	Discounted cash flow method	Risk-adjusted discount rate
– Trust schemes and asset management plans	352	Net assets analysis	Net assets, Liquidity discount
– Bonds and assets-backed securities	2,056	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	2,295	Net assets analysis	Net assets
– Equity investments	299	Market multiplier method	Liquidity discount
Financial investments measured at FVOCI			
– Equity investments	1,323	Net assets analysis	Net assets, Liquidity discount
Loans and advances to customers	23,287	Discounted cash flow method	Risk-adjusted discount rate



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement (Continued)

	Fair value at 31 December 2022	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	714	Discounted cash flow method	Risk-adjusted discount rate
– Trust schemes and asset management plans	355	Net assets analysis	Net assets, Liquidity discount
– Bonds and assets-backed securities	2,015	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	2,111	Net assets analysis	Net assets
– Equity investments	327	Market multiplier method	Liquidity discount
Financial investments measured at FVOCI			
– Equity investments	1,313	Net assets analysis	Net assets, Liquidity discount
Loans and advances to customers	40,080	Discounted cash flow method	Risk-adjusted discount rate

At the balance sheet date, replacing the original unobservable assumptions with other reasonable unobservable assumptions has no significant impact on the measurement results of fair value. The above assumptions and methods provide a unified basis for the calculation of the fair value of the Group's assets and liabilities. However, due to the different methods and assumptions that may be used by other institutions, the fair values disclosed by different financial institutions may not be completely comparable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement (Continued)

Reconciliation of the opening and closing balance for financial assets of level 3 fair value on a recurring basis is as follows:

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Loans and advances to customers	Total
At 1 January 2023	5,522	1,313	40,080	46,915
Total gains recognized in profit or loss	102	–	851	953
Total gains recognized in other comprehensive income	–	10	(794)	(784)
Increase	116	–	–	116
Disposals and settlements	(24)	–	(16,850)	(16,874)
At 30 June 2023	5,716	1,323	23,287	30,326
Total unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	90	–	(6)	84

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement (Continued)

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Loans and advances to customers	Total
At 1 January 2022	5,637	1,262	–	6,899
Total gains recognized in profit or loss	76	8	1,048	1,132
Total gains recognized in other comprehensive income	–	51	1,893	1,944
Increase	425	–	41,065	41,490
Disposals and settlements	(616)	(8)	(3,926)	(4,550)
At 31 December 2022	5,522	1,313	40,080	46,915
Total unrealized gains or losses for the period included in profit or loss for assets held at the end of the reporting period	51	–	(344)	(293)

2 Transfers between items measured at different levels of fair value

During the reporting period, there were no transfers, between Level 1, Level 2 and Level 3, of the Group's above assets and liabilities which are measured at fair value.

3 Change in valuation techniques and the rationale

During the reporting period, there were no changes in the valuation techniques adopted by the Group for fair value measurement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

4 Financial assets and liabilities not measured at fair value

All financial instruments of the Group are carried at amounts not materially different from their fair value at the balance sheet date except as follows:

	30 June 2023				Carrying amount
	Level 1	Level 2	Level 3	Fair Value	
Financial assets					
Financial investments measured at AC	–	285,851	98,536	384,387	384,052
Financial liabilities					
Debt securities issued	–	333,390	–	333,390	332,891

	31 December 2022				Carrying amount
	Level 1	Level 2	Level 3	Fair Value	
Financial assets					
Financial investments measured at AC	–	261,790	106,425	368,215	368,792
Financial liabilities					
Debt securities issued	–	324,221	–	324,221	323,033

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

The fair value of financial investments measured at AC and debt securities issued are quoted in the valuation system of relevant registration and settlement institutions that employs observable inputs that reflect the market in the formation of quotations. For those quotations not available in relevant institutions, the fair value shall be estimated by discounted cash flow method.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XIII SUBSEQUENT EVENTS

1 Issuance Businesses Financial Bonds

On 24 July 2023, the Bank issued a financial bond of RMB30 billion with a maturity of 3 years and a fixed coupon rate of 2.62%.

2 H Share Rights Issue

On 28 July 2023, the Bank received the proceeds raised from the H share Rights Issue. The net proceeds from the A share Rights Issue amounted to RMB2,754 million, of which RMB1,366 million was credited to share capital and RMB1,388 million was credited to capital reserve.

XIV COMPARATIVE FIGURES

For the purpose of the presentation of these financial statements, the Group reclassified certain comparative figures.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

I ILLUSTRATION OF DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRSS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

There are no differences between the profit attributable to shareholders of the Bank under IFRSs and PRC GAAP for the six months ended 30 June 2023 (for the six months ended 30 June 2022: no differences). There are no differences between the equity attributable to shareholders of the Bank under IFRSs and PRC GAAP at 30 June 2023 (31 December 2022: no differences).

II LIQUIDITY COVERAGE RATIO

	30 June 2023	31 December 2022
Liquidity Coverage Ratio	147.21%	148.11%

The liquidity coverage ratio is calculated in accordance with the relevant requirements of the original CBIRC.

III INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. International claims are local claims in foreign currencies and cross-border claims.

International claims include balances with the central bank, due from banks and other financial institutions, placements with banks and other financial institutions, loans and advances to customers, financial assets at fair value through profit or loss, financial assets measured at amortised cost and financial assets at fair value through other comprehensive income.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

III INTERNATIONAL CLAIMS *(Continued)*

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is 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.

		Non-bank		
	Bank	Official sector	private sector	Total
At 30 June 2023				
Local claims in foreign currencies	3,690	8,120	52,220	64,030
Asia Pacific excluding Mainland China	49,424	1,476	20,282	71,182
– of which attributed to Hong Kong	22,851	1,476	19,540	43,867
Europe	8,160	–	21,909	30,069
North America	2,433	12,632	447	15,512
Oceania	6,273	–	–	6,273
Total	69,980	22,228	94,858	187,066

		Non-bank		
	Bank	Official sector	private sector	Total
At 31 December 2022				
Local claims in foreign currencies	2,724	6,429	44,243	53,396
Asia Pacific excluding Mainland China	4,387	1,342	44,193	49,922
– of which attributed to Hong Kong	3,722	1,342	43,315	48,379
Europe	2,398	–	2,271	4,669
North America	3,862	7,971	41	11,874
Oceania	149	–	–	149
Total	13,520	15,742	90,748	120,010

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

IV CURRENCY CONCENTRATIONS

	RMB Equivalent			Total
	USD	HKD	Others	
At 30 June 2023				
Spot assets	110,321	13,106	11,673	135,100
Spot liabilities	(96,410)	(5,170)	(9,845)	(111,425)
Forward purchases	452,967	487	36,519	489,973
Forward sales	(443,887)	(10,955)	(37,856)	(492,698)
Net options position	(5,928)	(9,174)	(3)	(15,105)
Net long/(short) position	17,063	(11,706)	488	5,845

	RMB Equivalent			Total
	USD	HKD	Others	
At 31 December 2022				
Spot assets	103,024	12,459	10,182	125,665
Spot liabilities	(81,361)	(3,679)	(9,046)	(94,086)
Forward purchases	342,556	1,866	36,402	380,824
Forward sales	(337,073)	(9,976)	(29,966)	(377,015)
Net options position	(3,986)	(8,039)	(1,164)	(13,189)
Net long/(short) position	23,160	(7,369)	6,408	22,199

V NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business conducted in Mainland China. At 30 June 2023, the Group's non-bank exposures are substantially arising from businesses with Mainland China corporates and individuals.

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