



威海市商业银行

WEIHAI CITY COMMERCIAL BANK

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

Stock Short Name: Weihai Bank Stock Code: 9677

2024

INTERIM REPORT



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CHAPTER 1 IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Bank warrant that there are no false representations, misleading statements or material omissions contained in the 2024 interim report (the "Report"), and they jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the information contained in the Report.
2. The Report and the interim results announcement of the Bank were approved unanimously at the seventeenth meeting of the eighth session of the Board of the Bank held on August 28, 2024, which was considered and approved by way of valid voting. 15 directors were eligible to attend the meeting, and 15 directors attended such meeting in person. Supervisors of the Bank attended the meeting.
3. The 2024 interim financial report prepared in accordance with the International Financial Reporting Standards has been reviewed by BDO Limited. The Board and the Audit Committee under the Board have reviewed and approved the Report.
4. TAN Xianguo, the Chairman, MENG Dongxiao, the President, TAO Zunjian, the Vice President and Chief Accountant, and WU Wei, the Head of the Finance Department of the Bank, warrant the truthfulness, accuracy and completeness of the financial report in the Report.
5. Forward-looking statements, including future plans, contained in the Report do not constitute any actual commitments of the Bank to investors. Investors and related persons are advised to maintain sufficient risk awareness and understand the difference between plans, forecasts and commitments.
6. During the Reporting Period, the Bank was not aware of any major risks that would adversely affect the Bank's future development strategies and business objectives. The principal risks exposed by the Bank in its operation and management as well as the corresponding measures adopted by the Bank are detailed in the Report. For details, please refer to "Risk Management" and "Future Prospects" in the section headed "Management Discussion and Analysis" of the Report.
7. For the financial data and indicators set out in the Report, save as stated otherwise, the monetary unit is denominated in RMB. Certain amounts and percentage figures set out in the Report are subject to rounding adjustments. Any discrepancy between the totals and sum of the amounts in any tables is due to such rounding.
8. The Report has been prepared in both Chinese and English. In the event of any discrepancy, the Chinese version shall prevail.

CHAPTER 2 DEFINITIONS

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

“Articles of Association”	the Bank’s existing Articles of Association of Weihai City Commercial Bank Co., Ltd.
“Bank”, “our Bank” or “Weihai City Commercial Bank”	Weihai City Commercial Bank Co., Ltd., a joint stock limited company established in the PRC in July 1997 in accordance with the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
“Central Bank” or “PBOC”	the People’s Bank of China
“Company Law”	The Company Law of the People’s Republic of China (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time
“Corporate Governance Code”	Corporate Governance Code under Appendix C1 to the Listing Rules
“Group”, “our Group”, “we” or “us”	the Bank and its subsidiary and, where the context requires, includes its predecessors, branches and sub-branches
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, International Accounting Standards, the related standards, amendments and explanatory announcement, as issued by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“NFRA” or “CBIRC”	National Financial Regulatory Administration (國家金融監督管理總局), former China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“Reporting Period”	the six months ended June 30, 2024
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shandong Hi-Speed”	Shandong Hi-Speed Company Limited (山東高速股份有限公司)
“Shandong Hi-Speed Group Company”	Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)
“Shandong SASAC”	State-owned Assets Supervision and Administration Commission of Shandong Provincial People’s Government (山東省人民政府國有資產監督管理委員會)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tongda Financial Leasing”	Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)

CHAPTER 3 CORPORATE INFORMATION

BASIC INFORMATION

Legal Chinese Name

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

Legal English Name

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

Legal Representative

TAN Xianguo (譚先國)

Secretary to the Board

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

Joint Company Secretaries

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

Registered Capital

RMB5,980,058,344

Registered Address and Office Address

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

Principal Place of Business in Hong Kong

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

H Share Registrar

Computershare Hong Kong Investor Services Limited

Unified Social Credit Code

913700002671339534

Financial License Institution Number

B0176H337100001

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

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

Interim Reports Available at:

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

Legal Adviser

Mainland China

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

Hong Kong, China

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

Auditor

Mainland China Auditor

Zhongxinghua Certified Public Accountants LLP
19th Floor, Building B, Lize SOHO, Lize Road,
Fengtai District, Beijing, China

International Auditor

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

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

COMPANY PROFILE

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

Our quality services and good performance have been highly recognized and well received by all sectors of the society. The Bank has been awarded the “Top 10 City Commercial Banks in China” (Chinese Financial Institution Gold Medal List – Golden Dragon Prize), “Most Competitive Small and Medium Banks”, “Top 10 Mobile Banking Innovation in China” (“全國十佳手機銀行創新獎”), “Leader” (“領跑者”) of Corporate Standards in Bank Outlet Service in China, Star Prize for “Brand Innovation Achievements of Enterprise Party Building in China” (“全國企業黨建品牌創新成果”), Star Prize for “Excellent Cases of Brand Enterprises in China” (全國品牌強企優秀案例), “Demonstration Unit for Corporate Culture Construction in China’s Financial Industry” (“中國金融行業企業文化建設示範單位”), “Socially Responsible Enterprise of Shandong” (“山東社會責任企業”), “ESG Level A Company in Shandong Banking industry” (“山東省銀行業ESG A類單位”) and “First Batch of A-Grade Taxpaying Financial Institutions in Shandong Province” (“山東省首批A級納稅金融單位”). The brand reputation and social influence were significantly improved.

CHAPTER 4 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Unit: RMB million (except percentages)

	January to June 2024	January to June 2023	Current period compared to the same period last year
Operating results			Change (%)
Net interest income	3,463.3	3,291.7	5.21
Net fee and commission income	259.0	343.9	(24.69)
Net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses	833.7	713.4	16.86
Operating income	4,556.0	4,349.0	4.76
Operating expenses	(970.5)	(868.3)	11.77
Impairment losses on assets	(2,169.6)	(2,192.2)	(1.03)
Profit before tax	1,415.9	1,288.5	9.89
Net profit	1,188.2	1,154.7	2.90
Including: Net profit attributable to equity shareholders of the Bank	1,074.5	1,047.5	2.58
Per share (RMB/share)			
Earnings per share attributable to equity shareholders of the Bank	0.18	0.18	0.00

	June 30, 2024	December 31, 2023	As at the end of current period compared to the end of previous year
Key indicators of assets and liabilities			Change (%)
Total assets	422,864.1	391,876.8	7.91
Including: Total loans	205,424.9	189,965.2	8.14
Add: Interests accrued	1,751.8	1,612.1	8.67
Less: Impairment allowances for loans and advances to customers measured at amortised costs	4,548.4	4,172.6	9.01
Loans and advances to customers	202,628.3	187,404.7	8.12
Total liabilities	393,541.6	363,868.9	8.15
Including: Total deposits	281,735.6	266,596.2	5.68
Add: Interests accrued	7,870.9	7,382.3	6.62
Deposits from customers	289,606.5	273,978.5	5.70
Total equity	29,322.5	28,007.9	4.69
Share capital	5,980.1	5,980.1	0.00
Total equity attributable to equity shareholders of the Bank	23,416.6	22,140.8	5.76
Per share (RMB/share)			
Net assets per share attributable to equity shareholders of the Bank	3.92	3.70	5.95

Chapter 4 Summary of Accounting Data and Financial Indicators

	January to June 2024	January to June 2023	Current period compared to the same period last year
Profitability indicators (%)			Change
Return on average total assets ⁽¹⁾	0.59	0.65	(0.06)
Weighted average return on net assets ⁽²⁾	9.49	10.20	(0.71)
Net interest spread ⁽³⁾	1.66	1.81	(0.15)
Net interest margin ⁽⁴⁾	1.80	1.95	(0.15)
Net fee and commission income to operating income ratio	5.69	7.91	(2.22)
Cost-to-income ratio ⁽⁵⁾	20.21	19.03	1.18

	June 30, 2024	December 31, 2023	As at the end of current period compared to the end of previous year
Asset quality indicators (%)			Change
Non-performing loan ratio ⁽⁶⁾	1.45	1.45	0.00
Provision coverage ratio ⁽⁷⁾	154.08	152.12	1.96
Allowance-to-borrowing ratio ⁽⁸⁾	2.23	2.21	0.02
Capital adequacy indicators (%)			
Core tier-one capital adequacy ratio	8.97	8.77	0.20
Tier-one capital adequacy ratio	10.54	10.41	0.13
Capital adequacy ratio	13.55	13.38	0.17
Total equity to total assets ratio	6.93	7.15	(0.22)
Other indicators (%)			
Liquidity ratio	97.06	86.52	10.54
Loan-to-deposit ratio ⁽⁹⁾	72.91	71.26	1.65

Notes:

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

CHAPTER 5 MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

In the first half of 2024, the international environment was complex with increasing uncertainty and instability factors. The global economic growth momentum was weak, and the economic growth of major economies was differentiated. In response to the complex and volatile situation, China adhered to the principles of seeking progress while maintaining stability, promoting stability through progress, and building a solid foundation before changing. In addition, China intensified the implementation of macro policies and continuously fostered and enhanced new productive forces, thereby propelling the economy towards effective qualitative upgrading and proper quantitative growth. Based on the preliminary calculation by the National Bureau of Statistics, China recorded its GDP of RMB61,683.6 billion for the first half of the year, representing a year-on-year increase of 5.0% in terms of constant prices, and remained a crucial engine and stabilizing force for global economic growth. The economic operation of Shandong Province kept steady in general, showing a favorable trend of steady improvement. The growth rates of major economic indicators surpassed the national average level, with continuous enhancements in the quality and efficiency of development, and the developmental momentum.

In the first half of 2024, China appropriately strengthened its proactive fiscal policy to improve the quality and effectiveness, gave play to a variety of policy tools including special bonds, treasury bonds, tax and fee cuts and fiscal subsidies, and prudently expanded the scale of fiscal expenditures, so as to facilitate the continued recovery of the economy. China pursued a prudent monetary policy in a more flexible, appropriate, precise and effective way, strengthened counter-cyclical adjustments, and comprehensively used policy tools such as interest rates, reserves, and re-loan, so as to unleash the effectiveness of reforms in loan prime rate and the market adjustment mechanism for deposit rates, and maintain steady with a slight decline in the financing costs of the real economy. China continued to deepen the structural reform on the financial supply side, built a system and mechanism to effectively give financial support to the real economy, and guided banking institutions on five major areas: technology finance, green finance, inclusive finance, pension finance, and digital finance, and increased support for major strategies, key fields, and weak links, so as to create a favourable financial environment for the economy's recovery.

II. SUMMARY OF OVERALL OPERATIONS

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

Steady expansion of business scale. The total assets amounted to RMB422,864 million, representing an increase of RMB30,987 million or 7.91% compared to the end of 2023; total deposits increased by RMB15,140 million or 5.68% as compared to the end of 2023; and total loans grew by RMB15,460 million or 8.14% as compared to the end of 2023.

II. SUMMARY OF OVERALL OPERATIONS (CONT'D)

Steady improvement in quality. Non-performing loan ratio was 1.45%, remaining unchanged as compared to the end of 2023, the capital adequacy ratio was 13.55% and the provision coverage ratio was 154.08%, with continuous compliance with all regulatory indicators.

Constantly increasing efficiency. Net profit for the first half of the year amounted to RMB1,188 million, representing an increase of RMB34 million or 2.90% as compared to the same period last year.

Steadily strengthened compliance. We carried out the “Year of Resolute Struggle for Compliance” campaign in depth, further defined the goal of “Three Zeroes and One Enhancement”, and organized activities such as on-site compliance inspections, compliance lectures given by the chief person, the rules and regulations month, and advice and suggestions on compliance, with an aim to continuously foster a culture of compliance and build a “Compliance Community” among all staff members.

Enabling steady transformation. Pursuant to the three concepts of “data standardization, online standardization and online intelligence”, we solidly implemented and achieved results in digital transformation projects and study the deepening plan for the next phase, so as to empower business growth through transformation.

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

Stable structural adjustment. Focusing on the principle approach of “transiting to retail business, inclusive business and featured business”, we optimised the business structure and accelerated the business transformation. Our savings business saw significant growth, resulting in a more robust customer base. The inclusive business achieved its “two increases” target, leading to an increase in service volume. The balance of the Bank’s green loan amounted to RMB33,589 million, representing an increase of RMB7,568 million or 29.08% as compared to the end of 2023.

Our strategy remained stable and played a guiding role. We established six management committees covering green finance, technology finance, inclusive finance, pension finance, digital finance and compliance management to serve the real economy. In order to ensure the implementation of all economic and financial policies from a strategic perspective, we formulated a “Three-Year Action” implementation plan, and carried out a series of yearly activities in depth, such as the “Year of Green Finance Branding” and the “Year of Inclusive Finance Growth Breakthrough”, respectively.

III. ANALYSIS OF INCOME STATEMENT

3.1 Financial Highlights

During the Reporting Period, our operating income amounted to RMB4,556 million, representing an increase of RMB207 million or 4.76% as compared to the same period last year; profit before tax amounted to RMB1,416 million, representing an increase of RMB127 million or 9.89% as compared to the same period last year; net profit amounted to RMB1,188 million, representing an increase of RMB34 million or 2.90% as compared to the same period last year, mainly due to the continuing development of corporate and retail banking businesses, resulting in increases in net interest income as compared to the same period last year.

Unit: RMB million (except percentages)

	January to June 2024	January to June 2023	Change	Rate of change (%)
Net interest income	3,463.3	3,291.7	171.6	5.21
Interest income	8,153.6	7,678.8	474.8	6.18
Interest expenses	(4,690.3)	(4,387.1)	(303.2)	6.91
Net fee and commission income	259.0	343.9	(84.9)	(24.69)
Fee and commission income	299.7	384.9	(85.2)	(22.14)
Fee and commission expenses	(40.7)	(41.0)	0.3	(0.73)
Net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses	833.7	713.4	120.3	16.86
Operating income	4,556.0	4,349.0	207.0	4.76
Operating expenses	(970.5)	(868.3)	(102.2)	11.77
Impairment losses on assets	(2,169.6)	(2,192.2)	22.6	(1.03)
Profit before tax	1,415.9	1,288.5	127.4	9.89
Income tax expense	(227.7)	(133.8)	(93.9)	70.18
Net profit	1,188.2	1,154.7	33.5	2.90
Including: Net profit attributable to equity shareholders of the Bank	1,074.5	1,047.5	27.0	2.58
Net profit attributable to non-controlling interests	113.7	107.2	6.5	6.06

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income

Net interest income was the largest component of our operating income, representing 75.69% and 76.02% of our operating income in the first half of 2023 and 2024, respectively. Our net interest income amounted to RMB3,463 million during the Reporting Period, representing an increase of RMB172 million or 5.21% as compared to the same period last year, mainly attributable to the larger scale of our business. The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, related interest income or expense and the average yields on related assets or the average costs of related liabilities for the periods indicated.

Unit: RMB million (except percentages)

	January to June 2024			January to June 2023		
	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost (%) ⁽¹⁾
Interest-earning assets						
Loans and advances to customers	195,213.0	4,868.2	5.01	169,333.7	4,506.5	5.37
Financial investments	136,387.5	2,244.9	3.31	121,545.7	2,201.6	3.65
Deposits with the central bank ⁽²⁾	24,017.0	153.2	1.28	23,613.8	158.2	1.35
Deposits with banks and other financial institutions	716.9	2.4	0.67	1,198.7	1.7	0.29
Placements with banks	5,430.0	104.0	3.85	3,944.5	78.1	3.99
Finance leases	23,894.6	761.6	6.41	20,915.2	729.1	7.03
Financial assets held under resale agreements	1,969.0	19.3	1.97	324.5	3.6	2.24
Total interest-earning assets	387,628.0	8,153.6	4.23	340,876.1	7,678.8	4.54
Interest-bearing liabilities						
Deposits from customers	268,197.6	3,352.2	2.51	237,679.5	3,184.1	2.68
Deposits from banks	7,450.1	94.9	2.56	5,408.7	67.9	2.53
Placements from banks and other financial institutions	25,537.9	442.2	3.48	21,141.4	414.9	3.96
Borrowings from the central bank	10,711.0	104.8	1.97	10,701.7	107.5	2.03
Financial assets sold under repurchase agreements	11,551.0	101.5	1.77	10,889.1	93.0	1.72
Discounted bills	655.3	7.6	2.33	189.3	2.1	2.24
Debt securities issued ⁽³⁾	42,866.3	587.1	2.75	38,504.5	517.6	2.71
Total interest-bearing liabilities	366,969.2	4,690.3	2.57	324,514.2	4,387.1	2.73
Net interest income		3,463.3			3,291.7	
Net interest spread			1.66			1.81
Net interest margin			1.80			1.95

Notes:

(1) Calculated as interest income (expense)/average balance.

(2) Consisted primarily of statutory deposit reserves and surplus deposit reserves.

(3) Consisted of certificates of interbank deposits, financial bonds and tier-two capital bonds issued by us.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.2 Net Interest Income (Cont'd)

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

Unit: RMB million (except percentages)

	January to June 2024 vs January to June 2023 Increase/(decrease) due to		
	Volume ⁽¹⁾	Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Assets			
Loans and advances to customers	645.4	(283.7)	361.7
Financial investments	244.3	(200.9)	43.4
Deposits with the central bank	2.6	(7.6)	(5.0)
Deposits with banks and other financial institutions	(1.6)	2.3	0.7
Placements with banks	28.5	(2.6)	25.9
Finance leases	95.0	(62.5)	32.5
Financial assets held under resale agreements	16.1	(0.4)	15.7
Changes in interest income	1,030.3	(555.4)	474.9
Liabilities			
Deposits from customers	381.4	(213.2)	168.2
Deposits from banks	26.0	1.0	27.0
Placements from banks and other financial institutions	76.1	(48.8)	27.3
Borrowings from the central bank	0.1	(2.8)	(2.7)
Financial assets sold under repurchase agreements	5.8	2.7	8.5
Discounted bills	5.4	0.1	5.5
Debt securities issued	59.7	9.8	69.5
Changes in interest expenses	554.5	(251.2)	303.3
Changes in net interest income	475.8	(304.2)	171.6

Notes:

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

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.3 Interest Income

During the Reporting Period, our interest income increased by RMB475 million or 6.18% to RMB8,154 million as compared to the same period last year, primarily due to an increase in the average balance of our interest-earning assets from RMB340,876 million in the first half of 2023 to RMB387,628 million in the first half of 2024. The increase in the average balance of interest-earning assets was primarily attributable to an increase in the scale of loans and advances to customers and financial investments. The following table sets forth a breakdown of our interest income for the periods indicated.

Unit: RMB million (except percentages)

	January to June 2024		January to June 2023	
	Amount	% of total	Amount	% of total
Interest income				
Loans and advances to customers	4,868.2	59.71	4,506.5	58.69
Financial investments	2,244.9	27.53	2,201.6	28.67
Deposits with banks and other financial institutions	2.4	0.03	1.7	0.02
Placements with banks	104.0	1.28	78.1	1.02
Financial assets held under resale agreements	19.3	0.24	3.6	0.05
Finance leases	761.6	9.33	729.1	9.49
Deposits with the central bank	153.2	1.88	158.2	2.06
Total interest income	8,153.6	100.00	7,678.8	100.00

Interest income from loans and advances to customers

Our interest income from loans and advances to customers represented 58.69% and 59.71% of our interest income in the first half of 2023 and 2024, respectively. During the Reporting Period, our interest income from loans and advances to customers amounted to RMB4,868 million, representing an increase of RMB362 million or 8.03% as compared with the same period last year, primarily due to our increased placements of loans to support the development of real economy, and the average balance of loans and advances to customers increased from RMB169,334 million in the first half of 2023 to RMB195,213 million in the first half of 2024; meanwhile, the average yield on loans and advances to customers declined from 5.37% in the first half of 2023 to 5.01% in the first half of 2024 under the impact of decline in market rate.

Interest income from financial investments

During the Reporting Period, our interest income from financial investments amounted to RMB2,245 million, representing an increase of RMB43 million or 1.97% as compared with the same period last year, primarily due to our steady expansion in the scale of investment business, the average balance of the financial investment business increased from RMB121,546 million in the first half of 2023 to RMB136,388 million in the first half of 2024.

Interest income from finance leases

During the Reporting Period, our interest income from finance leases was RMB762 million, representing an increase of RMB33 million or 4.46% as compared with the same period last year, primarily due to the continuing development of our financial leasing business, which resulted in the steady expansion in the scale of business.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses

During the Reporting Period, our interest expenses amounted to RMB4,690 million, representing an increase of RMB303 million or 6.91% as compared with the same period last year, primarily due to a year-on-year increase in the scale of interest-bearing liabilities. The following table sets forth a breakdown of our interest expenses for the periods indicated.

Unit: RMB million (except percentages)

	January to June 2024		January to June 2023	
	Amount	% of total	Amount	% of total
Interest expenses				
Deposits from customers	3,352.2	71.47	3,184.1	72.58
Deposits from banks	94.9	2.02	67.9	1.55
Placements from banks and other financial institutions	442.2	9.43	414.9	9.46
Borrowings from the central bank	104.8	2.23	107.5	2.45
Financial assets sold under repurchase agreements	101.5	2.16	93.0	2.12
Discounted bills	7.6	0.16	2.1	0.04
Debt securities issued	587.1	12.53	517.6	11.80
Total interest expenses	4,690.3	100.00	4,387.1	100.00

Interest expenses on deposits from customers

Deposits from customers were our primary source of funding. Interest expenses on deposits from customers represented 72.58% and 71.47% of our interest expenses in the first half of 2023 and 2024, respectively. Our interest expenses on deposits from customers increased by RMB168 million or 5.28% to RMB3,352 million in the first half of 2024 as compared with the same period last year, primarily due to the sustainable growth of the deposit business. Meanwhile, we continued to optimize the structure of our deposit business and dynamically adjusted deposit pricing. The average interest rate of deposits from customers declined over the same period last year.

Interest expenses on debt securities issued

Interest expenses on debt securities issued accounted for 11.80% and 12.53% of our interest expenses in the first half of 2023 and 2024, respectively. Our interest expenses on debt securities issued increased by RMB70 million or 13.43% to RMB587 million in the first half of 2024 as compared with the same period last year, primarily due to a year-on-year increase in the scale of debt securities issued as a result of the increase of the issuance of debt securities by the Bank.

Interest expenses on placements from banks and other financial institutions

Interest expenses on placements from banks and other financial institutions accounted for 9.46% and 9.43% of our interest expenses in the first half of 2023 and 2024, respectively. Interest expenses on placements from banks and other financial institutions amounted to RMB442 million in the first half of 2024, representing an increase of RMB27 million or 6.58% as compared with the same period last year, primarily due to more placements from banks and other financial institutions as a result of the continuing expansion in the scale of our finance leasing business.

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.4 Interest Expenses (Cont'd)

Interest expenses on borrowings from the central bank

Interest expenses on borrowings from the central bank represented 2.45% and 2.23% of our interest expenses in the first half of 2023 and 2024, respectively. Interest expenses on borrowings from the central bank amounted to RMB105 million in the first half of 2024, representing a decrease of RMB3 million or 2.51% as compared with the same period last year, primarily due to the decrease in the average interest rate of borrowings from the central bank compared to the same period last year.

3.5 Net Fee and Commission Income

During the Reporting Period, our net fee and commission income amounted to RMB259 million, representing a decrease of RMB85 million as compared with the same period last year, primarily due to a decrease in income from agency service fees as compared with the same period last year. The following table sets forth the principal components of our net fee and commission income for the periods indicated.

Unit: RMB million

	January to June 2024	January to June 2023
Fee and commission income		
Agency service fees	188.6	284.4
Settlement and clearing fees	33.3	45.5
Consultancy service fees	0.5	–
Bank card service fees	8.4	11.0
Acceptance and guarantee service fees	61.7	22.5
Others ⁽¹⁾	7.2	21.5
Sub-total	299.7	384.9
Fee and commission expenses		
Settlement and clearing fees	(31.9)	(36.3)
Bank card service fees	(4.1)	(4.2)
Others ⁽²⁾	(4.7)	(0.5)
Sub-total	(40.7)	(41.0)
Net fee and commission income	259.0	343.9

Notes:

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

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

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

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

During the Reporting Period, our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses amounted to RMB834 million, representing an increase of RMB120 million or 16.86% as compared with the same period last year, primarily due to the following reason: we seized the opportunity of market interest rate fluctuations in the first half of the year, resulting in a year-on-year increase in net gains and losses arising from investment securities. The following table sets forth the details of our net trading gains and losses, net gains and losses arising from investment securities and other net operating gains and losses for the periods indicated:

Unit: RMB million

	January to June 2024	January to June 2023
Net trading gains and losses	37.9	132.6
Net gains and losses arising from investment securities	680.3	558.3
Other net operating gains and losses	115.5	22.5
Total	833.7	713.4

3.7 Operating Expenses

During the Reporting Period, our operating expenses amounted to RMB971 million, representing an increase of RMB102 million or 11.77% as compared with the same period last year, primarily due to the following reasons: we strengthened the development of lease business since the second half of 2023, resulting in a year-on-year increase in the provision of operating lease asset depreciation, and an increase in our cost-to-income ratio from 19.03% in the first half of 2023 to 20.21% in the first half of 2024. The following table sets forth the principal components of our total operating expenses for the periods indicated.

Unit: RMB million

	January to June 2024	January to June 2023
Staff costs	510.3	481.1
Depreciation and amortisation	155.6	113.0
Taxes and surcharges	49.8	40.6
Rental and property management expenses	6.6	9.7
Interest expenses on lease liabilities	8.4	6.8
Other general and administrative expenses	239.8	217.1
Total operating expenses	970.5	868.3
Cost-to-income ratio	20.21%	19.03%

III. ANALYSIS OF INCOME STATEMENT (CONT'D)

3.8 Impairment Losses on Assets

During the Reporting Period, our impairment losses on assets amounted to RMB2,170 million, representing a decrease of RMB23 million as compared with the same period last year, primarily due to a decrease in impairment provision as we continued to optimize our loan structure and strengthen our credit risk control. The table below sets forth the principal components of our impairment losses on assets for the periods indicated.

Unit: RMB million

	January to June 2024	January to June 2023
Financial assets held under resale agreements	3.5	–
Loans and advances to customers	1,547.2	1,940.2
Financial investments	487.0	138.1
Finance lease receivables	52.4	83.8
Credit commitments	(1.7)	15.9
Others	81.2	14.2
Total	2,169.6	2,192.2

3.9 Income Tax Expense

During the Reporting Period, our income tax expense was RMB228 million, representing an increase of RMB94 million as compared with the same period last year, primarily due to an increase in profit before tax and a decrease in non-taxable business income. The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the periods indicated.

Unit: RMB million

	January to June 2024	January to June 2023
Profit before tax	1,415.9	1,288.5
Income tax calculated at statutory tax rate	354.0	322.1
Non-deductible expenses	18.8	9.0
Non-taxable income ⁽¹⁾	(145.1)	(197.3)
Income tax expense	227.7	133.8

Note:

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

IV. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of the Reporting Period, our total assets amounted to RMB422,864 million, representing an increase of RMB30,987 million or 7.91% as compared to the end of 2023, primarily due to an increase of RMB15,224 million or 8.12% in loans and advances to customers as compared to the end of 2023, and an increase of RMB7,183 million or 4.92% in financial investments as compared to the end of 2023. The following table sets forth the composition of our total assets as of the dates indicated.

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Loans and advances to customers	202,628.3	47.92	187,404.7	47.82
Financial investments	153,076.3	36.20	145,892.9	37.23
Cash and deposits with the central bank	25,958.5	6.14	27,274.2	6.96
Financial assets held under resale agreements	3,855.9	0.91	–	–
Deposits with banks and other financial institutions	591.7	0.14	833.9	0.21
Placements with banks	–	–	56.6	0.01
Property and equipment	3,800.9	0.90	2,793.8	0.71
Right-of-use assets	397.7	0.09	370.7	0.09
Deferred income tax assets	2,707.1	0.64	2,585.4	0.66
Other assets ⁽¹⁾	29,847.7	7.06	24,664.6	6.31
Total assets	422,864.1	100.00	391,876.8	100.00

Note:

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

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers

As of the end of the Reporting Period, our total loans and advances to customers amounted to RMB205,425 million, representing an increase of RMB15,460 million or 8.14% as compared to the end of 2023. In particular, the balance of corporate loans amounted to RMB146,170 million, representing an increase of RMB11,471 million or 8.52% as compared to the end of 2023; the balance of personal loans amounted to RMB43,765 million, representing a decrease of RMB640 million or 1.44% as compared to the end of 2023; discounted bills amounted to RMB15,490 million, representing an increase of RMB4,629 million or 42.62% as compared to the end of 2023.

Loans by business type

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Corporate loans	146,170.0	71.15	134,698.7	70.91
Personal loans	43,764.7	21.31	44,405.2	23.38
Discounted bills	15,490.2	7.54	10,861.3	5.71
Total loans and advances to customers	205,424.9	100.00	189,965.2	100.00
Add: Interest accrued	1,751.8	–	1,612.1	–
Less: Provision for loans and advances to customers measured at amortised cost	4,548.4	–	4,172.6	–
Net loans and advances to customers	202,628.3	–	187,404.7	–

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by industry

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Industry:				
Leasing and business services	31,596.0	21.62	30,290.6	22.49
Water conservancy, environment and public facilities management	22,308.8	15.26	21,030.5	15.61
Manufacturing	20,656.9	14.13	18,676.9	13.87
Construction	19,295.1	13.20	18,921.1	14.05
Wholesale and retail	19,215.5	13.15	15,447.7	11.47
Electricity, heat, gas and water production and supply	7,847.3	5.37	6,881.2	5.11
Real estate	7,216.6	4.94	7,047.6	5.23
Agriculture, forestry, animal husbandry and fishery	3,476.7	2.38	2,936.2	2.18
Transportation, warehousing and postal services	2,587.1	1.77	3,441.1	2.55
Hygiene and social welfare	979.8	0.67	988.1	0.73
Culture, sports and entertainment	507.3	0.35	633.5	0.47
Others ⁽¹⁾	10,482.9	7.16	8,404.2	6.24
Total corporate loans	146,170.0	100.00	134,698.7	100.00

Note:

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

As of the end of the Reporting Period, the top five industries to which we distributed loans were leasing and business services, water conservancy, environment and public facilities management, manufacturing, construction and wholesale and retail; loans to customers in these five industries totaled RMB31,596 million, RMB22,309 million, RMB20,657 million, RMB19,295 million and RMB19,216 million, respectively, accounting for 21.62%, 15.26%, 14.13%, 13.20% and 13.15% of our total corporate loans, respectively.

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Corporate loans by product type

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Working capital loans	96,598.2	66.09	90,584.5	67.25
Fixed asset loans	40,984.5	28.04	37,696.7	27.99
Other loans ⁽¹⁾	8,587.3	5.87	6,417.5	4.76
Total corporate loans	146,170.0	100.00	134,698.7	100.00

Note:

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

Personal loans by product type

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Residential mortgage loans	15,058.5	34.41	15,539.3	34.99
Personal consumption loans	13,298.3	30.38	12,059.7	27.16
Personal business loans	15,407.9	35.21	16,806.2	37.85
Total personal loans	43,764.7	100.00	44,405.2	100.00

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

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Bank acceptance bills	14,131.2	91.23	9,455.6	87.06
Commercial acceptance bills	1,359.0	8.77	1,405.7	12.94
Total discounted bills	15,490.2	100.00	10,861.3	100.00

Distribution of loans and advances to customers by collateral

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Pledged loans	21,289.5	10.36	17,363.8	9.14
Collateralised loans	66,629.5	32.43	65,258.2	34.35
Guaranteed loans	72,194.9	35.14	69,487.2	36.58
Unsecured loans	29,820.8	14.53	26,994.7	14.21
Discounted bills	15,490.2	7.54	10,861.3	5.72
Gross loans and advances to customers	205,424.9	100.00	189,965.2	100.00

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

4.1 Assets (Cont'd)

4.1.1 Loans and advances to customers (Cont'd)

Distribution of loans and advances to customers by geographical region

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Weihai City	70,842.9	34.49	64,506.6	33.96
Outside Weihai City	134,582.0	65.51	125,458.6	66.04
Gross loans and advances to customers	205,424.9	100.00	189,965.2	100.00

4.1.2 Financial investments

As of the end of the Reporting Period, the carrying value of our financial investments was RMB153,076 million, representing an increase of RMB7,183 million or 4.92% as compared with the end of 2023. The following table sets forth the composition of our financial investment portfolio as of the dates indicated.

Classification of financial investments by business model and cash flow characteristics

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Financial investments measured at amortised cost	76,952.2	50.27	82,122.8	56.29
Financial investments measured at fair value through other comprehensive income	69,275.8	45.26	55,669.5	38.16
Financial investments measured at fair value through profit or loss	6,848.3	4.47	8,100.6	5.55
Total financial investments	153,076.3	100.00	145,892.9	100.00

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at amortised cost

As of the end of the Reporting Period, the carrying value of our financial investments measured at amortised cost amounted to RMB76,952 million, representing a decrease of RMB5,171 million or 6.30% as compared to the end of 2023. In the first half of 2024, the decrease in such assets was mainly due to the improvement of the structure of bond assets and enhancement of the management of their duration, which further increased the liquidity of bond assets. The following table sets forth the components of our financial investments measured at amortised cost as of the dates indicated.

Unit: RMB million

	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in Mainland China		
Central government	9,212.8	8,882.5
Policy banks	21,507.3	21,581.4
Banks and other financial institutions	900.0	900.0
Corporates	18,257.4	19,247.3
Government-backed institutions	359.6	359.4
Local governments	22,034.2	24,889.5
Interests accrued	1,308.6	1,506.7
Sub-total	73,579.9	77,366.8
Investment management products	4,507.7	5,824.1
Asset-backed securities	869.2	827.6
Less: Provision for impairment losses	(2,004.6)	(1,895.7)
Total	76,952.2	82,122.8

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at fair value through other comprehensive income

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through other comprehensive income amounted to RMB69,276 million, representing an increase of RMB13,606 million or 24.44% as compared with that of the end of 2023. Such increase was mainly due to an increase in holding of policy bank bonds and financial institutions bonds for both liquidity and efficiency. The following table sets forth the components of our financial investments measured at fair value through other comprehensive income as of the dates indicated.

Unit: RMB million

	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in Mainland China		
Central government	2,205.8	319.0
Policy banks	40,050.0	32,250.8
Banks and other financial institutions	9,814.8	6,862.2
Corporates	12,016.4	11,563.8
Government-backed institutions	0.0	252.7
Local governments	1,441.0	334.0
Interests accrued	892.6	960.2
Sub-total	66,420.6	52,542.7
Interbank deposits	2,301.5	2,631.7
Asset-backed securities	234.0	179.4
Equity investments	319.7	315.7
Total	69,275.8	55,669.5

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

4.1 Assets (Cont'd)

4.1.2 Financial investments (Cont'd)

Financial investments measured at fair value through profit or loss

As of the end of the Reporting Period, the carrying value of our financial investments measured at fair value through profit or loss amounted to RMB6,848 million, representing a decrease of RMB1,252 million or 15.46% as compared with that of the end of 2023. Such decrease was mainly due to the reduction in holding of certain public funds. The following table sets forth the components of our financial investments measured at fair value through profit or loss as of the dates indicated.

Unit: RMB million

	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in Mainland China		
Policy banks	–	–
Banks and other financial institutions	1,663.5	1,819.2
Corporates	20.7	20.3
Sub-total	1,684.2	1,839.5
Asset-backed securities	–	413.7
Investment funds	3,921.2	4,916.2
Investment management products	1,031.6	724.7
Equity investments	211.3	206.5
Total	6,848.3	8,100.6

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

4.2 Liabilities

As of the end of the Reporting Period, our total liabilities amounted to RMB393,542 million, representing an increase of RMB29,673 million or 8.15% as compared to the end of 2023, mainly due to a steady growth of deposits from customers and the scale of debt securities issued. The following table sets forth the composition of our total liabilities as of the dates indicated.

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Deposits from customers	289,606.5	73.59	273,978.5	75.30
Financial assets sold under repurchase agreements	9,799.7	2.49	11,351.2	3.12
Deposits from banks	5,152.4	1.31	5,519.0	1.52
Placements from banks and other financial institutions	26,849.0	6.82	22,579.5	6.21
Debt securities issued	48,260.9	12.26	37,446.2	10.29
Borrowings from the central bank	10,749.0	2.73	9,836.4	2.70
Income tax payable	203.6	0.05	125.2	0.03
Lease liabilities	396.3	0.10	349.9	0.10
Other liabilities ⁽¹⁾	2,524.2	0.65	2,683.0	0.73
Total liabilities	393,541.6	100.00	363,868.9	100.00

Note:

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

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

4.2 Liabilities (Cont'd)

4.2.1 Deposits from customers

Deposits from customers are our primary source of funding, accounting for 75.30% and 73.59% of our total liabilities as of the end of 2023 and the end of the Reporting Period, respectively. As of the end of the Reporting Period, our deposits from customers amounted to RMB289,607 million, representing an increase of RMB15,628 million or 5.70% as compared to the end of 2023, mainly due to the steady increases in our corporate deposits and personal deposits as we amplified our marketing campaign for deposits. The following table sets forth the composition of our deposits from customers as of the dates indicated.

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	58,843.1	20.89	48,611.8	18.23
Time deposits	88,647.0	31.46	91,296.0	34.25
Sub-total	147,490.1	52.35	139,907.8	52.48
Personal deposits				
Demand deposits	11,446.8	4.06	10,611.3	3.98
Time deposits	122,714.2	43.56	115,919.7	43.48
Sub-total	134,161.0	47.62	126,531.0	47.46
Inward and outward remittances	84.5	0.03	157.4	0.06
Total	281,735.6	100.00	266,596.2	100.00
Interests accrued	7,870.9		7,382.3	
Deposits from customers	289,606.5		273,978.5	

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

4.2 Liabilities (Cont'd)

4.2.2 Placements from banks and other financial institutions

As of the end of the Reporting Period, the balance of our placements from banks and other financial institutions amounted to RMB26,849 million, representing an increase of RMB4,270 million or 18.91% as compared to the end of 2023, mainly due to the continued increase in the scale of our finance lease business and the corresponding increase in the amount of placements from banks and other financial institutions.

4.2.3 Debt securities issued

Debt securities issued consisted primarily of certificates of interbank deposits, financial bonds specialized for small and micro enterprises, green financial bonds and tier-two capital bonds issued by us. As of the end of the Reporting Period, the balance of our debt securities issued amounted to RMB48,261 million, representing an increase of RMB10,815 million or 28.88% as compared to the end of 2023, mainly due to the adjustment of our liability business structure, our successful issuance of financial bonds specialized for small and micro enterprises of RMB4,000 million, and an appropriate increase in the issue scale of interbank deposits according to market conditions in the first half of the year.

4.3. Shareholders' Equity

As of the end of the Reporting Period, our total shareholders' equity amounted to RMB29,323 million, representing an increase of RMB1,315 million or 4.69% as compared to the end of 2023; our total equity attributable to shareholders amounted to RMB23,417 million, representing an increase of RMB1,276 million or 5.76% as compared to the end of 2023. The following table sets forth the composition of our shareholders' equity as of the dates indicated.

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Share capital	5,980.1	20.39	5,980.1	21.35
Capital reserve	4,925.5	16.80	4,925.5	17.59
Surplus reserve	1,720.6	5.87	1,720.6	6.14
General reserve	4,144.8	14.14	3,690.6	13.18
Fair value reserve	1,007.1	3.43	211.1	0.75
Impairment reserve	37.2	0.13	33.8	0.12
Retained earnings	5,601.3	19.10	5,579.1	19.92
Total equity attributable to equity shareholders of the Bank	23,416.6	79.86	22,140.8	79.05
Perpetual bonds	4,099.2	13.98	4,099.2	14.64
Non-controlling interests	1,806.7	6.16	1,767.9	6.31
Total equity	29,322.5	100.00	28,007.9	100.00

V. OFF-BALANCE SHEET ITEMS

Our off-balance sheet items particularly include credit commitment and capital commitment, etc. Credit commitment is the most important component, and as of the end of the Reporting Period, the balance of credit commitment amounted to RMB67,786 million. For details, please refer to Note 42 to the financial statements in the Report.

For details of pledges as collateral for liabilities, please refer to Note 24(a) to the financial statements in the Report.

VI. ANALYSIS OF LOAN QUALITY

During the Reporting Period, we strengthened the management and control of the quality of credit assets. While the credit assets grew steadily, the quality of credit assets remained stable. As of the end of the Reporting Period, our total loans (excluding interests accrued) amounted to RMB205,425 million, representing an increase of RMB15,460 million or 8.14% as compared with the end of 2023; and total non-performing loans amounted to RMB2,974 million, representing an increase of RMB214 million or 7.74% as compared with the end of 2023.

6.1 Distribution of Loans by Five-category Classification

Unit: RMB million (except percentages)

	June 30, 2024		December 31, 2023	
	Amount	% of total	Amount	% of total
Normal loans	196,355.7	95.58	182,855.1	96.26
Special-mentioned loans	6,095.5	2.97	4,350.1	2.29
Sub-total of normal loans	202,451.2	98.55	187,205.2	98.55
Substandard loans	1,887.9	0.92	1,543.8	0.81
Doubtful loans	940.5	0.46	1,136.6	0.60
Loss loans	145.3	0.07	79.6	0.04
Sub-total of non-performing loans	2,973.7	1.45	2,760.0	1.45

Under the five-category loan regulatory system, our non-performing loans include substandard, doubtful and loss loans. As of the end of the Reporting Period, our non-performing loan ratio remained the same with the end of 2023, i.e. 1.45%. In particular, the proportion of substandard loans increased by 0.11 percentage point from the end of 2023 to 0.92%, the proportion of doubtful loans decreased by 0.14 percentage point from the end of 2023 to 0.46%, and the proportion of loss loans increased by 0.03 percentage point from the end of 2023 to 0.07%.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.2 Distribution of Non-performing Corporate Loans by Industry

Unit: RMB million (except percentages)

	June 30, 2024			December 31, 2023		
	Amount of non-performing loans	% of total ⁽¹⁾	Non-performing loan ratio (%)	Amount of non-performing loans	% of total	Non-performing loan ratio (%)
Real estate	401.2	37.21	5.56	277.5	23.01	3.94
Wholesale and retail	251.1	23.29	1.31	231.1	19.16	1.50
Manufacturing	217.3	20.15	1.05	242.6	20.12	1.30
Agriculture, forestry, animal husbandry and fishery	57.7	5.35	1.66	27.0	2.24	0.92
Hygiene and social welfare	56.6	5.25	5.78	–	–	–
Construction	38.9	3.61	0.2	220.0	18.24	1.16
Culture, sports and entertainment	0.2	0.02	0.04	90.0	7.46	14.20
Electricity, heat, gas and water production and supply	1.5	0.14	0.02	81.4	6.75	1.18
Others ⁽¹⁾	53.6	4.98	0.09	36.4	3.02	0.06
Total	1,078.1	100.00	0.74	1,206.0	100.00	0.90

Note:

- (1) Consist primarily of transportation, warehousing and postal services; mining; leasing and business services; water conservancy, environment and public facilities management; education; resident services, maintenance and other services; scientific research and technology services; information transmission, software and information technology services; accommodation and catering.

VI. ANALYSIS OF LOAN QUALITY (CONT'D)

6.3 Distribution of Non-performing Loans by Geographical Region

Unit: RMB million (except percentages)

	June 30, 2024			December 31, 2023		
	Amount	% of total	Non-performing loan ratio (%)	Amount	% of total	Non-performing loan ratio (%)
Weihai City	622.3	20.93	0.88	243.1	8.81	0.38
Outside Weihai City	2,351.4	79.07	1.75	2,516.9	91.19	2.01
Total non-performing loans	2,973.7	100.00	1.45	2,760.0	100.00	1.45

6.4 Concentration of Borrowers

Pursuant to the Administrative Measures for the Large Risk Exposure of Commercial Banks and the Core Indicators for Risk Supervision of Commercial Banks (Provisional), loans to a single borrower by a commercial bank shall not exceed 10% of its net capital. As of the end of the Reporting Period, the amount of loans to our largest single customer accounted for 5.42% of our net capital, which was in compliance with regulatory requirements.

Loans to the top ten single borrowers

Unit: RMB million (except percentages)

	Industry	Loan amount as of the end of the Reporting Period	% of total loans	% of net capital	Five category classification
Borrower A	Leasing and business services	1,968.8	0.96	5.42	Normal
Borrower B	Water conservancy, environment and public facilities management	1,942.4	0.94	5.34	Normal
Borrower C	Construction	1,845.1	0.90	5.07	Normal
Borrower D	Manufacturing	1,744.0	0.85	4.80	Normal
Borrower E	Real estate	1,700.0	0.83	4.68	Normal
Borrower F	Water conservancy, environment and public facilities management	1,513.1	0.73	4.16	Normal
Borrower G	Leasing and business services	1,395.0	0.68	3.84	Normal
Borrower H	Water conservancy, environment and public facilities management	1,330.0	0.65	3.66	Normal
Borrower I	Leasing and business services	1,234.0	0.60	3.39	Normal
Borrower J	Wholesale and retail	1,193.3	0.58	3.28	Normal
Total		15,865.7	7.72	43.64	

VII. SEGMENT REPORTING

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

Unit: RMB million (except percentages)

	January to June 2024		January to June 2023	
	Operating income of the segment	% of total	Operating income of the segment	% of total
Corporate banking	2,744.0	60.23	2,522.8	58.01
Retail banking	986.7	21.66	983.4	22.61
Financial market business	825.7	18.12	839.3	19.30
Others	(0.4)	(0.01)	3.5	0.08
Total	4,556.0	100.00	4,349.0	100.00

Unit: RMB million (except percentages)

	January to June 2024		January to June 2023	
	Profit before tax of the segment	% of total	Profit before tax of the segment	% of total
Corporate banking	778.9	55.01	612.7	47.55
Retail banking	349.8	24.71	351.4	27.27
Financial market business	302.8	21.39	333.8	25.91
Others	(15.6)	(1.11)	(9.4)	(0.73)
Total	1,415.9	100.00	1,288.5	100.00

VIII. BUSINESS DEVELOPMENT

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

8.1 Corporate Banking

The Bank's corporate banking business fully relied on the advantages of its shareholders, business scale and network, improved comprehensive service capability, focused on local characteristic industries, fully integrated with the local regional development plan, always adhered to the market positioning of "serving the urban and rural residents, small and medium enterprises and local economy", and always adhered to the path of differentiation, retailing and integrated innovative characteristic development to form a characteristic operation. Focusing on profit centers, we have strengthened our team and customer base, achieving improvement in scale efficiency, business transformation, and system empowerment. The Bank implemented the visitor system, strengthened the coordinated marketing mechanism, and strengthened the interaction between lines and lines and the overall synergy, so as to improve the accuracy and efficiency of docking to the real economy, and to provide strong financial support for the development of the regional economy. During the Reporting Period, the operating income from our corporate banking business amounted to RMB2,744 million, accounting for 60.23% of our total operating income.

(1) Corporate customers

The Bank has established a vast and stable corporate banking customer base in Shandong Province and Tianjin Municipality. The corporate banking customers of the Bank primarily comprise the governmental agencies, state-owned enterprises, business units, and industrial and commercial enterprises in Shandong Province and Tianjin Municipality. As of the end of the Reporting Period, there were 68,822 corporate customers, representing an increase of 1,841 customers as compared with that as of the end of last year. The marketing focus of the Bank's corporate customers was firstly, to expand the scale and speed advantages of the Bank, and form a group of high quality customers in the livelihood, green finance, technology and trade finance categories with platform building and selected customers as the starting point; secondly, the Bank carried out chain marketing, relied on core customers, integrated core customer resources, made full use of supply chain products, explored upstream and downstream industrial chains, marketed high-quality supply chain financial customers, gained in-depth linkage and explored the potential of customer resources.

(2) Corporate deposits

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

As of the end of the Reporting Period, the balance of corporate deposits amounted to RMB147,490 million, representing an increase of RMB7,582 million or 5.42% as compared with the end of 2023, accounting for 52.35% of total deposits. In particular, corporate demand deposits amounted to RMB58,843 million, accounting for 39.90% of corporate deposits; and corporate time deposits amounted to RMB88,647 million, accounting for 60.10% of corporate deposits.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(3) *Corporate loans*

As of the end of the Reporting Period, the balance of corporate loans was RMB146,170 million, representing an increase of RMB11,471 million or 8.52% as compared with the end of 2023, of which the balance of working capital loans was RMB96,598 million, accounting for 66.09% of total corporate loans; the balance of fixed asset loans was RMB40,985 million, accounting for 28.04% of total corporate loans; and the balance of other loans was RMB8,587 million, accounting for 5.87% of total corporate loans.

Loans to large and medium enterprises

During the Reporting Period, the Bank actively implemented the national policy orientation and regulatory requirements, actively supported the development of the real economy, attached great importance to shifting credit resources to green finance, inclusive finance, specialized and sophisticated enterprises that produce new and unique products, strategic emerging industries and advanced manufacturing, supply chain and industrial chain industries, private enterprises, rural revitalization, and people's livelihood industries and the industrial upgrading, technological transformation, energy conservation and environmental protection projects of traditional enterprises, continued to optimize the credit business environment and improved credit services. As of the end of the Reporting Period, the balance of loans to large enterprises was RMB22,238 million, and the balance of loans to medium enterprises was RMB37,018 million.

Loans to small and micro enterprises

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

The Bank designated 2024 as the "Year of Breakthrough in the Growth of Inclusive Finance", established the Inclusive Finance Management Committee, and formulated the "Three-Year Action Plan for High-Quality Development of Inclusive Finance" to reinforce the strategic orientation of inclusive finance. The Bank continued to increase inclusive SME loans by focusing on existing customers, attracting new customers by visiting, scenario creating, and digital empowerment. As of the end of the Reporting Period, the balance of the Bank's inclusive small and micro loans (including loans to small and micro enterprises with credit lines for single account less than RMB10 million (inclusive), loans to individual industrial and commercial households, and loans to owners of small and micro enterprises, exclusive of discount) amounted to RMB31,672 million, representing an increase of RMB1,985 million or 6.69% as compared with the end of 2023. The average loan interest rate for inclusive small and micro enterprises was 4.56%, and the number of customers of inclusive small and micro-enterprise loans was 73,300. The Bank effectively supported the capital demands from inclusive small and micro enterprises.

During the Reporting Period, capitalizing on favorable policies, the Bank proactively applied for re-loans for supporting small and medium enterprises from the People's Bank of China, on-lending capitals from the China Development Bank and The Export-Import Bank of China, made full use of inclusive SME loans supporting tools of the People's Bank of China, and successfully issued financial bonds specialized for small and micro enterprises of RMB4,000 million, thereby further increasing its financing support for inclusive small and micro enterprises.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(4) *Green finance*

The Bank fully implemented the principles of the 20th CPC National Congress and the Central Financial Work Conference, actively responded to the major decisions and arrangements of carbon peaking and carbon neutrality, and strived to develop the green finance business. In addition, the Bank designated 2024 as the “Year of Green Finance Branding” based on the “Green Power Year” in 2023. The Bank fully took advantage of the legal person bank, and assisted in the application for construction of the Pioneer Zone of Green, Low-Carbon and High-Quality Development in Shandong Province and the Pilot Zone of National Green Financial Reform and Innovation in Weihai City, so as to bring vitality to the green development of the real economy. First, the Green Finance Management Committee was established, led by the Chairman as the director, so as to enhance strategic planning and decision-making through improving the organizational leadership mechanism for green finance. Secondly, the top-level design was reinforced to strengthen linkage and collaboration across business lines, and the Three-Year Action Plan for Green Finance, the Programme of Activities for the “Year of Green Finance Branding”, and the Implementation Plan for Improving Green Finance were formulated for providing overarching guidance for the Bank’s green finance development. Thirdly, the Bank continued to improve the green credit product system, focusing on the brand of “Golden the Green” in the five directions of “marine economy, blue sky and white clouds, exquisite cities, travel in Shandong and low-carbon manufacturing”, and established innovative green credit product system of “1+3+5+N”. Led by innovation, the Bank sought opportunities in the green sector, carefully designed green financial products and continuously increased the supply of green credits to meet the needs of the green economy. Fourthly, the Bank continuously facilitated the innovation of green credit products. The Bank pioneered breakthroughs in business models, security guarantees, customer access and other elements based on the regional economies and industrial features. The Bank made innovation in the “Green Agricultural Loan” green credit products actively exploring the integrative development of green finance and inclusive finance, actively explored the effective connection of green finance and blue finance, and innovatively launched and completed “Marine Sustainable Development Performance Target Linked Loan”, and actively explored financing operations with all kinds of environmental rights and interests as pledges, thereby successively launching the pledge loans for the expected earning right of marine carbon sink, the pledge loans for the earning right of forestry carbon sink, and the pledge loan for carbon emission right, and increasing the financing channels for enterprises. Fifthly, the Bank constantly improved the construction of green branches, formulated the “Proposals Relating to Green Branch Improvement”, and further defined the priorities in organization construction, staffing, performance assessment of green finance, ESG and climate risk management, green credit management processes, and green and low-carbon operation of green branches. The Bank was listed as one of the first batch of green branches in Weihai in June 2024, indicating the leading role of green branches. Sixthly, the Bank specified its focuses, closely followed the requirements of green transformation and high-quality development, analyzed the green industry landscape, optimized industry credit guidelines, and increased businesses in key green areas, such as blue economy, ecological protection, urban green development, green transport, green low-carbon manufacturing, and green consumption. As of the end of the Reporting Period, the Bank’s balance of green loan amounted to RMB33.589 billion, representing an increase of RMB7,568 million or 29.08% as compared with the beginning of the year.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.1 Corporate Banking (Cont'd)

(5) Trade finance business

During the Reporting Period, the Bank focused on key fields and customers in foreign trade and domestic trade, and strengthened the expansion of services such as cross-border settlement, foreign exchange settlement and sale, trade financing and letters of guarantee to provide customers with all-round service support; continued to promote RMB internationalization, effectively implemented the policy of cross-border RMB facilitation, and reduced enterprises' exchange rate risk in cross-border transactions by providing RMB cross-border payment, clearing, settlement and other services. As of the end of the Reporting Period, the Bank had 23 branches and sub-branches providing international settlement services and has established agency relationship with over 200 banks, covering countries (regions) including Mainland China, Hong Kong, Germany and the United States, etc.. During the Reporting Period, the trading and financial services transaction volume amounted to US\$4,193 million.

8.2 Retail Business

During the Reporting Period, under the general environment of "digital" transformation, the Bank clarified the strategic positioning of "focusing on retail", and achieved high-quality and rapid development of its retail business by strengthening technology investment and improving online product functions and service. During the Reporting Period, the operating income from retail banking business amounted to RMB987 million, accounting for 21.66% of total operating income.

(1) Retail customers

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

The Bank has a wide range of retail banking customers in Shandong Province and Tianjin. As of the end of the Reporting Period, the assets retained by retail customers in the Bank amounted to RMB173,328 million, representing an increase of 5.23% as compared with the end of 2023. As the wealth management of the Bank gradually improves, the number of mid- to high-end customers continues to grow. As of the end of the Reporting Period, the financial assets retained in the Bank by customers with personal financial assets of over RMB200,000 amounted to RMB146,735 million, accounting for 84.66% of the Bank's personal financial assets.

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

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

(2) *Personal deposit business*

During the Reporting Period, the Bank's total personal deposits increased significantly. As of the end of the Reporting Period, the balance of the Bank's personal deposits reached RMB134,161 million, representing an increase of RMB7,630 million or 6.03% as compared with the end of 2023.

(3) *Personal loan business*

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

Personal consumption loans

The Bank vigorously promoted a series of personal consumption loans under the brand name of "Happy Consumption Loan" and featured revolving online personal loan product "Quick e-Loan" to meet personal and family consumption needs. During the Reporting Period, under the premise of effective risk management and control, the Bank actively explored the online process of its personal consumption loan business to stably increase the scale of consumption loans. As of the end of the Reporting Period, the balance of personal consumption loans of the Bank amounted to RMB13,298 million, representing an increase of RMB1,239 million or 10.27% as compared with the end of 2023.

Residential mortgage loans

During the Reporting Period, the Bank adhered to the positioning of "houses are for living in, not for speculation" and implemented differentiated housing credit policies to support residents' reasonable housing needs and steadily developed individual residential mortgage loans. The Bank also introduced a retail rating model to assist in approval and decision-making, strengthened the risk prevention and control of mortgage business, and focused on marketing high-quality developers, high-quality properties and high-quality customers to promote the steady growth of residential mortgage business. As of the end of the Reporting Period, the balance of our residential mortgage loans amounted to RMB15,059 million.

Personal business loans

The Bank continued to promote the building of its inclusive financial service platform, successfully launched online operations for inclusive products, and made all efforts to promote the application of the platform by focusing on digital and online inclusive business, so as to improve customer experience by quickly finishing the processes in the platform, such as online identity authentication, loan applications, progress queries, and online repayments. Meanwhile, the Bank remained committed to market-oriented development, actively exploring batch customer acquisition modes for specialized markets. By replicating and promoting regionally tailored financial products for agriculture, rural areas, and rural residents, such as "greenhouse loans", "farming loans", "apple loans", and "warehouse receipt pledge loans", the Bank aimed to increase the convenience and accessibility of inclusive agriculture-related services.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.2 Retail Business (Cont'd)

(4) *Personal wealth management business*

During the Reporting Period, the Bank provided customers with a series of products including “Steady Growth (穩健成長)” and “Happy Share of Earnings (快樂享盈)”. As of the end of the Reporting Period, the scale of the Bank’s personal wealth management business reached RMB34,009 million, all of which were net-worth wealth management.

(5) *Bank card business*

Debit card business: During the Reporting Period, the Bank further enriched the rights and interests of cardholders and improved the user experience. The number of debit cards issued achieved steady growth. As of the end of the Reporting Period, the Bank issued a total of approximately 4,941,800 debit cards, representing an increase of approximately 94,600 cards, or 1.95%, as compared with the end of 2023; during the Reporting Period, the total transaction volume of consumption through the Bank’s debit cards was RMB2,431 million.

Credit card business: The Bank provides different services to various target customer groups and provides three types of credit cards, namely, general cards, gold cards and platinum cards, based on the credit rating of the applicants. The holder of each type of credit card is entitled to receive and enjoy specific services and benefits tailored for the corresponding type of credit card. The Bank’s credit cards provide cardholders with a variety of installment products and convenient installment repayment services, including the purchase of automobiles and consumer products in addition to the ordinary functions of other credit cards. Under the premise of strict risk management, the Bank actively expanded the market, and the credit card business formed a good trend of stable development, deep exploration of potential and strong management, and realized the simultaneous improvement of business scale and quality. As of the end of the Reporting Period, the Bank issued a total of 186,300 credit cards.

8.3 Financial Market Business

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

(1) *Proprietary investment*

The Bank continued to optimize investment structure, reduced the proportion of investment and SPV investment, improved asset liquidity and supported the development of the real economy. As of the end of the Reporting Period, the Bank had financial investments with a carrying amount of RMB153,076 million, representing an increase of RMB7,183 million or 4.92% as compared to the end of 2023. The increase in such assets in 2024 was mainly due to the increase in holding of policy bank bonds and financial institution bonds for both liquidity and efficiency.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.3 Financial Market Business(Cont'd)

(2) *Interbank business*

The Bank actively utilized different types of interbank liabilities and reasonably matched their maturity structure, which effectively reduced the cost of interbank liabilities and also met the Bank's needs for liquidity management. Meanwhile, the Bank responded to regulatory guidance, paid attention to market movements and actively participated in market transactions. During the Reporting Period, the Bank's transaction volume in the national interbank market reached RMB2.81 trillion.

(3) *Investment banking business*

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

(4) *Wealth management*

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

During the Reporting Period, proceeds of RMB27,779 million were raised from the wealth management business (all of which were open-end products), and no products expired. The balance of the wealth management products as of the end of the Reporting Period was RMB35,551 million.

8.4 Internet Finance Business

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

(1) *Self-service banking*

The Bank's self-service banking facilities include ATMs, self-service deposit and withdrawal machines, smart teller machines, smart terminals (智能终端), smart self-service receipt machines (智能回單機) and automatic inquiry machines. These facilities provide customers with convenient banking services while allowing the Bank to reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, self-service card activation and self-service receipt printing. As of the end of the Reporting Period, the Bank had 485 self-service banking facilities.

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

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance Business (Cont'd)

(2) *Electronic banking channels*

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

Online banking

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

As of the end of the Reporting Period, the Bank had a total of approximately 674,800 online banking customers, comprising approximately 61,600 corporate banking customers and approximately 613,200 retail banking customers. During the Reporting Period, an aggregate transaction volume of RMB592,676 million was processed through the Bank's online banking platform.

Mobile banking

The Bank began offering mobile banking services through its client terminal in 2014. A variety of services are offered through its mobile banking application, including account inquiry and management, money transfer, wealth management products and bill payment. In April 2022, we launched a new version of smart banking application to promote business scenarios and intelligence through financial technology, continuing to create multiple values for users and providing personalised, specialised, intelligent and open mobile financial services. To better secure the transactions of our customers, we provide the customers with short message services (SMS) notification service, whereby we send them SMS notifications relating to bank account transactions, account safety verification, and risk alerts. As of the end of the Reporting Period, the Bank had approximately 3,514,800 mobile banking users. During the Reporting Period, an aggregate transaction volume of RMB106,381 million was processed through the Bank's mobile banking platform.

In addition, the Bank opened its official WeChat account (service account) in 2014, which serves as an important hub for our communications with the customers. By following this account, the Bank's customers can enjoy a variety of services, including checking bank account information, conversion of time and demand deposits, wealth management products, payment of public utility bills, application for personal loans, application for credit cards, management of credit cards, outlet inquiry and appointment for opening accounts. As of the end of the Reporting Period, the Bank's official WeChat account (service account) had approximately 449,900 subscribers.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.4 Internet Finance Business (Cont'd)

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

Video banking

During the Reporting Period, the Bank continuously enhanced its remote service capabilities through video banking so as to improve customer experience. By utilizing internet text-based online customer service channels, video banking knowledge Q&A has been provided to customers, leading to video banking consultations triggered through smart text-based online channels over 33,000 times. Promotional messages on video banking have been incorporated into the waiting audio of the customer service hotline, further increasing the exposure of video banking services. Business training was organized within the Bank, encouraging staff to recommend customers to experience video banking. Customers are guided to use video banking for handling their business through customer service hotline and text-based online customer service. New scenarios are actively developed to further increase the usage of video banking. In the first half of the year, the total number of incoming calls within the video banking centralized operation scenarios reached 31,892, representing a year-on-year growth of 10.23%.

Online loans

In order to improve the convenience of services, the Bank launched the online “Quick e-Loan (快e贷)” product by using technology means. The product focuses on the establishment of full life-cycle and full-scenario online financial system, comprehensive digital risk control system and comprehensive business operation management system with complete autonomy and control, covering three major fields, namely government affairs and peoples’ livelihood, consumer retail and supply chain. It realised scenario-based layout through accurate marketing, online and offline connectivity, and innovative breakthroughs in scenario-based ecological finance. The achievement of “one second for scanning code, one minute for customer input and one minute for system approval” has significantly promoted business process standardisation and enhanced customers’ financial service experience. As of the end of the Reporting Period, the balance of “Quick e-Loan” was RMB11,102 million.

8.5 Digital Development

During the Reporting Period, the Bank closely followed the strategic digital transformation principle of “data standardization, standardized online services and online intellectualization”, paid close attention to financial policies, focused on the development of financial technology, adhered to a “data + technology” dual-wheel drive model, and continuously strengthened its data foundation, so as to support the high-quality development of its business and promote the construction of an intelligent and digital bank.

Data drive was enhanced steadily. The Bank constantly enhanced its data governance, data foundation, data services and built a data-intelligence operation management system, and promoted its business analysis, customer acquisition by marketing, and risk prevention and control by data, thereby improving its operation efficiency, customer experience, comprehensively strengthening its operation management capabilities and enhancing the operation performance of the data assets.

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.5 Digital Development (Cont'd)

Technological empowerment continued to improve efficiency. The mid-office service-oriented application system, which contains the business mid-platform, data mid-platform, technology mid-platform and the financial cloud platform, continued to function, greatly enhancing the financial technology service level, innovation capabilities, operation and maintenance management, and security control capabilities. The Bank continuously improved its agility technology development and organization model, boosted the overall delivery efficiency and development quality and fostered innovation, achieving technological empowerment in financial services.

The integration of industry and technology was accelerating. The Bank optimized cross-line collaboration, offered end-to-end technology services oriented by business requirements, and established a synergy mechanism between technology lines and business lines, and effectively extended digitalization concept across all lines and branches, so as to provide technology services that focused more on enhancing business value and management quality and efficiency by a specialized, streamlined, and agile technology team mode, and promote deep integration of industry and technology.

8.6 Customer Service Management

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

VIII. BUSINESS DEVELOPMENT (CONT'D)

8.7 Analysis of Subsidiary

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

As of the end of the Reporting Period, the registered capital of Tongda Financial Leasing was RMB1,650 million and it was registered in Jinan, Shandong. We held 54.55% equity interest in Tongda Financial Leasing, which is principally engaged in the provision of financial leasing solutions to customers, including direct lease and sale-and-leaseback. During the Reporting Period, the operating income of Tongda Financial Leasing was RMB476 million, representing an increase of 7.31% as compared to the same period of last year; net profit amounted to RMB250 million, representing an increase of RMB14 million as compared to the same period of last year, accounting for 21.06% of our consolidated net profit.

IX. CAPITAL MANAGEMENT

9.1 Capital Adequacy Ratio

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

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

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

The following table sets forth, as of the dates indicated, information relating to our capital adequacy ratios calculated in accordance with the Administrative Measures on the Capital of Commercial Banks (《商業銀行資本管理辦法》) and PRC GAAP.

Unit: RMB million (except percentages)

Basis of the Group	June 30, 2024	December 31, 2023
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,925.5	4,925.5
Surplus reserve	1,720.6	1,720.6
General reserve	4,144.8	3,690.6
Other comprehensive income	1,044.3	244.9
Retained earnings	5,601.3	5,579.1
Qualifying portions of non-controlling interests	1,019.4	882.2
Total core tier-one capital	24,436.0	23,023.0
Core tier-one capital deductions	(376.3)	(395.6)
Net core tier-one capital	24,059.7	22,627.4
Other tier-one capital	4,235.1	4,216.8
Net tier-one capital	28,294.8	26,844.2
Tier-two capital	8,061.5	7,664.6
Total capital, net	36,356.3	34,508.8
Total risk-weighted assets	268,363.4	257,975.7
Including: Total credit risk-weighted assets	252,794.3	242,695.7
Total market risk-weighted assets	1,508.2	1,219.1
Total operational risk-weighted assets	14,060.9	14,060.9
Core tier-one capital adequacy ratio	8.97%	8.77%
Tier-one capital adequacy ratio	10.54%	10.41%
Capital adequacy ratio	13.55%	13.38%

IX. CAPITAL MANAGEMENT (CONT'D)

9.1 Capital Adequacy Ratio (Cont'd)

Unit: RMB million (except percentages)

Basis of the Bank	June 30, 2024	December 31, 2023
Core tier-one capital		
Share capital	5,980.1	5,980.1
Qualifying portion of capital reserve	4,955.2	4,955.2
Surplus reserve	1,720.6	1,720.6
General reserve	3,934.3	3,496.2
Other comprehensive income	1,044.3	244.9
Retained earnings	4,661.6	4,669.8
Qualifying portions of non-controlling interests	N/A	N/A
Total core tier-one capital	22,296.1	21,066.8
Core tier-one capital deductions	(1,586.8)	(1,592.2)
Net core tier-one capital	20,709.3	19,474.6
Other tier-one capital	4,099.2	4,099.2
Net tier-one capital	24,808.5	23,573.8
Tier-two capital	7,307.9	7,138.2
Total capital, net	32,116.4	30,712.0
Total risk-weighted assets	240,276.3	234,052.0
Including: Total credit risk-weighted assets	226,305.7	220,370.5
Total market risk-weighted assets	1,508.2	1,219.1
Total operational risk-weighted assets	12,462.4	12,462.4
Core tier-one capital adequacy ratio	8.62%	8.32%
Tier-one capital adequacy ratio	10.32%	10.07%
Capital adequacy ratio	13.37%	13.12%

IX. CAPITAL MANAGEMENT (CONT'D)

9.2 Leverage Ratio Analysis

Pursuant to the requirements of the Administrative Measures on the Capital of Commercial Banks (《商業銀行資本管理辦法》) effective on January 1, 2024, a minimum leverage ratio of 4% is required for commercial banks. As of the end of the Reporting Period, our leverage ratio was 5.89%, which was higher than the regulatory requirements. The following table sets forth the relevant leverage ratios as of the dates indicated.

Unit: RMB million (except percentages)

	June 30, 2024	December 31, 2023	September 30, 2023	June 30, 2023
Leverage ratio	5.89%	6.03%	6.07%	6.12%
Net tier-one capital	28,294.8	26,844.2	26,447.7	26,174.0
Balance of on- and off-balance sheet assets after adjustment	480,659.0	444,898.1	435,420.7	428,014.2

X. RISK MANAGEMENT

10.1 Organizational Structure and Management Functions of Risk Management System

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

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

During the Reporting Period, there was no change in the organizational structure and management functions of the Bank's risk management system, objectives and processes of various risk management, which was consistent with the disclosure in the 2023 annual report of the Bank.

X. RISK MANAGEMENT (CONT'D)

10.2 Credit Risk

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

During the Reporting Period, the Bank established a scientific and applicable credit risk management system with clear categorization and comprehensive coverage, to consolidate the foundation for sound development. The Bank also established a series of policies on credit authorization, industries, regions, customers, and products, etc., which were in line with the credit risk policy and management system in terms of the Bank's development strategies and risk preferences. In addition, the Bank developed credit risk management systems and measures on areas including credit approval, limit management, internal rating, credit authorization, credit management, collateral management, post-loan management, and disposal and written-off, so as to ensure that all risk management activities are traceable. The Bank continued to streamline and improve the specific management measures and operation specifications of each business, product, customer operation from each department and business line, so as to ensure the credit risk management policies and systems are thoroughly implemented. Specific risk management and control measures included: firstly, the Bank continued to improve its differentiated credit access policy, established a long-term management mechanism for orderly entry and exit, and strengthened the rigid constraints of the system; secondly, the Bank strengthened its efforts in early risk warning and monitoring, improved the standardized closed-loop management mechanism for early warning, optimized the management of the whole process from early warning report, response, handling to tracking, and effectively implemented the management requirements of "early detection, early warning, and early treatment"; thirdly, leveraging digital transformation, the Bank improved technology empowerment, enhanced the systems to manage the whole process of credit risk management and control and established dual defense lines controlled by human and machine, so as to continuously improve the quality and efficiency of the risk management and control.

10.3 Market Risk

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

During the Reporting Period, the Bank mainly adopted the following measures to strengthen market risk management: firstly, it continuously improved the market risk management policy, system and workflow, and continuously enhanced the construction of market risk management system. Secondly, it continuously identified, measured, monitored and controlled market risks, fully considered factors such as regulatory dynamics, macro-environment and business development status, set up limit on risks, and continuously monitored the implementation of the limits as well as market risk public opinion. As of the end of the Reporting Period, the Bank's relevant indicators did not exceed the market risk limits for 2024 as determined by the Board, so that the market risk assumed by the Bank was controlled within a tolerable and reasonable range.

X. RISK MANAGEMENT (CONT'D)

10.4 Operational Risk

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

During the Reporting Period, the Bank fully implemented the regulatory requirements on operational risk prevention and improved the operational risk management system to ensure safe and stable operations. Firstly, the Bank strengthened the monitoring, analysis and assessment of operational risk. The Bank paid attention to the dynamic changes in key risk indicators, and conducted monitoring, analysis and assessment and reporting of operational risk in a timely manner. The Bank identified and analyzed the vulnerabilities in the management of operational risk, and made timely rectification and optimization. Secondly, the Bank intensified the prevention and control of operational risk in key areas. The Bank actively carried out a series of special inspections including operational risk inspection and quarterly case prevention and control inspection, which fully inspected key management indicators, key operation steps and key risk points, and strictly implemented rectification and enforced accountability thereafter. Thirdly, the Bank continuously improved its capabilities in the management and control of operational risk. The Bank organized monthly tests on case prevention knowledge to promote learning through examination and enhancing professional capabilities through learning, strengthened the management of case prevention, defined the responsibilities of case prevention. In order to strengthen the management of employee behavior, the Bank carried out case risk warnings and reports of case prevention on a regular basis, and organized a series of trainings to enhance the risk awareness of employees, so as to create a sound cultural environment for operational risk management. During the Reporting Period, the Bank had no material operational risk loss event.

X. RISK MANAGEMENT (CONT'D)

10.5 Liquidity Risk

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

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

X. RISK MANAGEMENT (CONT'D)

10.6 Bank Account Interest Rate Risk

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

During the Reporting Period, the Bank mainly adopted the following measures to enhance bank account interest rate risk management: Firstly, the Bank strengthened limit management continuously. On the basis of integrated analysis of business structure and interest rate risk, the Bank set the limit indicators for bank account interest rate risk in 2024 and monitored the implementation of limits regularly. Secondly, the Bank regularly measured and analysed the bank account interest rate risk by means of interest rate sensitivity analysis, stress test and others, put forward management recommendations and business adjustment strategies according to analysis and test results, which are used as guidelines for its business development. In the process of sensitivity analysis, it is assumed that there is a parallel shift in the overall market interest rate, while the risk management activities that may be taken to reduce interest rate risks are not considered.

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

Unit: RMB million

	June 30, 2024		December 31, 2023	
	Net profit	Equity	Net profit	Equity
Increased by 100 basis points	137.0	163.6	166.3	209.9
Decreased by 100 basis points	(137.0)	(163.6)	(166.3)	(209.9)

10.7 Information Technology Risk

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

During the Reporting Period, the Bank continued to strengthen information technology risk management and improve its information technology risk prevention and control capabilities. Firstly, the Bank intensified the maintenance, updating, and monitoring of its information systems, continuously optimized the performance of information systems, improved systems' service capabilities, and strengthened support for operation and maintenance to ensure the safe and stable operation of all systems of the Bank. Secondly, the Bank consolidated its risk identification capabilities by conducting in-depth investigations into scientific and technological information risks, thereby safeguarding against potential information technology risks. Thirdly, the Bank continued to enhance its emergency response system and investment in resources, and organized and carried out emergency drills across various business lines in scientific ways, so as to improve its emergency response plans, scenarios and measures and enhance the Bank's capabilities to respond effectively to emergencies. Fourthly, the Bank carried out in-depth assessment and improvement of business continuity management and information technology outsourcing risk management, and further improved the risk resistance capacity of the Bank's important information systems, ensuring the safe and stable operation of the Bank's various businesses.

X. RISK MANAGEMENT (CONT'D)

10.8 Strategic Risk

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

During the Reporting Period, the Bank summarised and evaluated the implementation of 2023 strategies, and drew up an assessment report on development strategies, which was reviewed and approved by the Board. The Bank constantly followed the changes in the external operating environment, dynamically monitored the execution of development strategies, carefully identified and evaluated potential strategic risks, regularly reported the management of strategic risks, and timely adjusted and optimized strategies and measures to ensure the effective implementation of the Bank's development strategies.

10.9 Reputational Risk

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

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

10.10 Concentration Risk

Concentration risk refers to the risk exposure that arises directly or indirectly from the same or similar risk exceeding a certain percentage of net capital.

The Bank has established a concentration risk management system and process based on the scale and complexity of its business to effectively identify, measure, monitor and report concentration risks. During the Reporting Period, the Bank conducted stress tests on concentration risks to effectively identify and address potential risks; continuously managed and controlled limits for concentration risks and ensured that concentration limits were followed effectively by formulating annual risk appetite, adjusting entry and exit criteria and implementing list-based management. During the Reporting Period, the indicators related to concentration risk management and large risk exposure management of the Bank all complied with regulatory requirements.

X. RISK MANAGEMENT (CONT'D)

10.11 Compliance Risk

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

The Bank attached great importance to building compliance culture, and continued to improve the mechanism for compliance risk management to enhance its compliance risk management. During the Reporting Period, the Bank continued to strengthen compliance construction by organizing and carrying out the “Year of Resolute Struggle for Compliance” campaign, and making every effort to correct violations and build a “compliance community”. Firstly, the Bank mobilized all staff to promote compliance, organized activities such as compliance lectures presented by the chief person, leaders at headquarters, branches and sub-branches of the Bank taking the lead in giving lectures on compliance, learning the regulations, duties, processes and standards, so as to ingrain the concept of compliance culture in the Bank. In addition, the Bank carried out an “Advice and Suggestions on Compliance” activity to encourage employees to actively offer suggestions on compliance, and optimized the response and selection process for proposals on compliance to ensure that each suggestion was genuinely addressed, implemented, and improved. Secondly, the Bank stimulated the vitality of the rules and regulations and revised the “zero-tolerance” and “zero-occurrence” problem lists in due time based on the inspections of each business line and compliance inspections in the first half of the year, so as to create a virtuous cycle of compliance management with continuous improvement and dynamic optimization. The Bank also carried out “Serial Months” activities on rules and regulations to strengthen the “full life-cycle” management of the rules and regulations and foster a culture of “learning, respecting and enforcing the rules and regulations” in the Bank. Thirdly, the Bank enhanced its implementation efforts by organizing graded and classified inspections and maintaining high pressure on various types of non-compliance, focused on rectifying and implementing solutions for the problems identified during inspections, rigidly implemented the evaluation and accountability mechanism, ensured the quality of these inspections, and continuously strengthened the inspection and supervision mechanism.

10.12 Money Laundering and Terrorist Financing Risk

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

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

X. RISK MANAGEMENT (CONT'D)

10.13 Legal Risk

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

During the Reporting Period, the Bank strictly managed the legal work in accordance with rules and regulations, and continued to improve the quality of legal work. Firstly, the Bank strengthened the identification, analysis and evaluation of and response to legal risks, and the prevention and control of legal risks. Secondly, the Bank achieved online review of legal documents, improved the legal risk management framework system and enhanced the quality and efficiency of legal services. Thirdly, the Bank strengthened the supervision and assessment of services provided by law firms and standardized the management of legal affairs. Fourthly, the Bank provided employees with special training on new laws and regulations to broaden their legal knowledge. The Bank has always followed the principle of legal efficiency, unified standardization, division of work and cooperation, and hierarchical responsibility, integrated the management and prevention of legal risks with other risk management activities, improved the legal risk prevention and control mechanism, and promoted legal operation.

XI. FUTURE PROSPECTS

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

Looking ahead to the second half of the year, the international environment is still complex and challenging with rising uncertainties and instabilities. The world economy is recovering mildly, and the World Bank has increased its forecast for global economic growth in 2024 from 2.4% to 2.6%. China is in a crucial period of economic recovery and transformation, with various factors restricting high-quality development to varying degrees. However, the favorable conditions for economic development are stronger than the unfavorable factors, and the trend of China's steady and long-term economic growth will not change. As for policy support, the effects of policies on large-scale equipment renewal and trade-in consumer goods are spreading. The policy effectiveness of the special bonds and ultra-long-term special treasury bonds has been further exercised. Strengthening policy coordination and comprehensively implementing policies will form policy synergy, promoting the steady development of the economy. The Third Plenary Session of the 20th Party Central Committee produced a forward-looking, systematic top-level design for the reform of the financial system to lead the economy and finance into a virtuous circle and healthy development.

In the second half of the year, Shandong Province will have rare opportunities and favorable conditions for development. The policy effects are rapidly spreading, and the prying effects of large-scale equipment renewal and trade-in consumer goods are also rapidly spreading. The development of digital economy, marine economy, and low-altitude economy and other new driving forces and advantages will enhance the momentum and vitality of economic development. Reform measures on the security of the industrial chain and supply chain, the efficiency of factor allocation, the development of private enterprises and state-owned enterprises and others are being introduced, which will release more development vitality and create a favorable environment for the sustainable and sound development of the financial industry.

XI. FUTURE PROSPECTS (CONT'D)

11.2 Major Work Measures for the Second Half of the Year

In the second half of the year and some time to come, we will keep abreast of situations and changes, implement policies, and focus on the following “Ten Major Enhancements”.

To continuously enhance the guiding of Party building. The Bank will fulfill the general requirements for Party building in this new era, utilize the guiding of Party building, and foster its high-quality development with high-quality Party building.

To continuously enhance ideological empowerment. Emancipating the mind will penetrate through the development. The Bank aims to continuously raise awareness, change ideas, improve cohesion, and promote development by emancipating the mind.

To continuously enhance and develop spirits. The Bank will carry forward “Seven Spirits” – spirits of learning, dedication, innovation, fighting, truth-seeking, speed, and professionalism, draw strength from carrying forward these spirits and promote the development of the Bank.

To continuously enhance the professionalism of the team. With a focus on “professionalism” for team building, the Bank will adhere to the principle of “professionalization, knowledge and young” to cultivate “professional, expert and innovative” talent team.

To continuously enhance performance growth. The Bank will adapt to policy changes, seize development opportunities, benchmark against outstanding peers, and accelerate the transformation of its business model, so as to achieve sustainable and high-quality growth.

To continuously enhance our efforts in making breakthroughs. On the one hand, the Bank will reinforce its efforts in strategic targets such as savings business, mobile banking, supply chain and green finance, so as to enhance its core competitiveness. On the other hand, the Bank will reinforce efforts in risk control and effectively prevent and control risks.

To continuously enhance model transformation. Adhering to the concept of “respecting growth and efficiency”, the Group will promote the transformation of the “three major models” – digital model, management and control model and business model, and empower business growth with precise transformation.

To continuously enhance the quality of activities. The Group will carry out “Serial Years” activities, such as the “Year of Resolute Struggle for Compliance”, the “Year of Green Finance Branding” and the “Year of Breakthrough in the Growth of Inclusive Finance” to improve its capacity of management and control and development potential.

To continuously enhance the guidance of assessment. The Group will take the assessment as a baton, dynamically improve the assessment system, make the rewards and punishments in a precise way, and continuously invigorated the overall entrepreneurship.

To continuously enhance the indexes of employees (customers). Adhering to the concept of “development by and for employees”, and the mission of “making employees pleasant, making customers satisfied, creating value for shareholders and fulfilling the social responsibility”, the Bank will continuously improve the satisfaction index, happiness index and contribution index of its employees (customers).

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

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

	June 30, 2024		Changes during the Reporting Period Number of shares (Shares)	December 31, 2023	
	Number of shares (Shares)	Percentage of total shares (%)		Number of shares (Shares)	Percentage of total shares (%)
Domestic state shares	919,671,509	15.38	–	919,671,509	15.38
Domestic state-owned legal person shares	3,182,125,352	53.21	19,884,200	3,162,241,152	52.88
Domestic social legal person shares	790,435,183	13.22	(19,884,200)	810,319,383	13.55
Domestic natural person shares	78,965,300	1.32	–	78,965,300	1.32
H Shares	1,008,861,000	16.87	–	1,008,861,000	16.87
Total number of Shares	5,980,058,344	100.00	–	5,980,058,344	100.00

II. INFORMATION ON SHAREHOLDERS

2.1 Total Number of Holders of Domestic Shares

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

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

2.2 Particulars of the Top Ten Shareholders of Domestic Shares

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

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

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

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

Name of shareholders	Class of shares	Nature of interest	Number of shares directly or indirectly held (Shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of shares of the Bank (%)
Shandong Hi-Speed Group Company ⁽¹⁾	Domestic shares	Beneficial owner and interest in controlled corporation	2,820,195,515	Long position	47.16	56.73
Weihai Municipal Finance Bureau	Domestic shares	Beneficial owner	919,671,509	Long position	15.38	18.50
Shandong Hi-Speed ⁽¹⁾	Domestic shares	Beneficial owner	693,957,987	Long position	11.60	13.96
China Hongqiao Group Limited	H shares	Beneficial owner	276,045,000	Long position	4.62	27.36
Shenzhen Shengqiu Investment Co., Ltd.	H shares	Beneficial owner	137,305,000	Long position	2.30	13.61
TEDA Investment Holding Co., Ltd.	H shares	Beneficial owner	113,940,000	Long position	1.91	11.29
Tianjin TEDA Industrial Group Co., Ltd. (天津泰達實業集團有限公司) ⁽²⁾	H shares	Interest in controlled corporation	113,940,000	Long position	1.91	11.29
Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海國有資產經營管理有限公司) ⁽²⁾	H shares	Interest in controlled corporation	113,940,000	Long position	1.91	11.29
Tsinlien Group Company Limited (津聯集團有限公司) ⁽²⁾	H shares	Beneficial owner	113,940,000	Long position	1.91	11.29
Jinan Licheng Holdings Group Co., Ltd.	H shares	Beneficial owner	111,852,000	Long position	1.87	11.09
TRAFIGURA PTE LTD	H shares	Beneficial owner	74,581,000	Long position	1.25	7.39
Shandong Lulong Construction Co., Ltd. ⁽³⁾	H shares	Beneficial owner	71,003,000	Long position	1.19	7.04
YANG Shulan ⁽³⁾	H shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Xindu Group Limited ⁽³⁾	H shares	Interest in controlled corporation	71,003,000	Long position	1.19	7.04
Shandong Zhaojin Group Financial Company Limited ⁽⁴⁾	H shares	Beneficial owner	68,712,000	Long position	1.15	6.81
Shandong Zhaojin Group Company Limited ⁽⁴⁾	H shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
Zhaojin Mining Industry Company Limited ⁽⁴⁾	H shares	Interest in controlled corporation	68,712,000	Long position	1.15	6.81
Tianjin Guangcheng Investment Group Co., Ltd. ⁽⁵⁾	H shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. ⁽⁵⁾	H shares	Beneficial owner	67,040,000	Long position	1.12	6.65

Chapter 6 Changes in Share Capital and Information on Shareholders

II. INFORMATION ON SHAREHOLDERS (CONT'D)

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

Name of shareholders	Class of shares	Nature of interest	Number of shares directly or indirectly held (Shares)	Long position/ short position	Approximate % of interest in the Bank (%)	Approximate % of the relevant class of shares of the Bank (%)
Tianjin Jizhou Xincheng Construction Investment Co., Ltd. ⁽⁵⁾	H shares	Interest in controlled corporation	67,040,000	Long position	1.12	6.65
Heze City Investment Holdings Group Co., Ltd. ⁽⁶⁾	H shares	Interest in controlled corporation	65,359,000	Long position	1.09	6.48
Heze City Investment Holdings Hong Kong International Co., Limited ⁽⁶⁾	H shares	Beneficial owner	65,359,000	Long position	1.09	6.48

Notes:

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

Shandong Hi-Speed is owned by Shandong Hi-Speed Group Company as to approximately 70.31%. Therefore, Shandong Hi-Speed Group Company is deemed to be interested in all the shares held by Shandong Hi-Speed for the purpose of the SFO.

- (2) Tianjin TEDA Industrial Group Co., Ltd. wholly owns Tsinlien Group Company Limited through its wholly-owned subsidiary, Tianjin Bohai State-owned Assets Management Co., Ltd.. Therefore, Tianjin TEDA Industrial Group Co., Ltd. and Tianjin Bohai State-owned Assets Management Co., Ltd. are deemed to be interested in the 113,940,000 H shares held by Tsinlien Group Company Limited for the purpose of the SFO.
- (3) Xindu Group Limited indirectly holds 71,003,000 H shares through its subsidiary, Shandong Lulong Construction Co., Ltd.. Ms. YANG Shulan holds approximately 56.00% of the interests in Xindu Group Limited. Accordingly, Xindu Group Limited and Ms. YANG Shulan are deemed to be interested in 71,003,000 H shares for the purpose of the SFO.
- (4) Zhaojin Mining Industry Company Limited owns 51.00% of the interests in Shandong Zhaojin Group Financial Company Limited. Shandong Zhaojin Group Company Limited directly owns 40.00% of the interests in Shandong Zhaojin Group Financial Company Limited, and indirectly holds 60.00% of the interests in Shandong Zhaojin Group Financial Company Limited through Zhaojin Mining Industry Company Limited and Shandong Zhaojin Group Zhaoyuan Gold Smelting Company Limited. Accordingly, Zhaojin Mining Industry Company Limited and Shandong Zhaojin Group Company Limited are deemed to be interested in the 68,712,000 H shares held by Shandong Zhaojin Group Financial Company Limited for the purpose of the SFO.
- (5) Tianjin Guangcheng Investment Group Co., Ltd. wholly owns Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. through its wholly-owned subsidiary, Tianjin Jizhou Xincheng Construction Investment Co., Ltd.. Accordingly, Tianjin Guangcheng Investment Group Co., Ltd. and Tianjin Jizhou Xincheng Construction Investment Co., Ltd. are deemed to be interested in the 67,040,000 H shares held by Tianjin Jizhou Xincheng Agricultural Development Co., Ltd. for the purpose of the SFO.
- (6) Heze City Investment Holdings Group Co., Ltd. wholly owns Heze City Investment Holdings Hong Kong International Co., Limited. Accordingly, Heze City Investment Holdings Group Co., Ltd. is deemed to be interested in the 65,359,000 H shares held by Heze City Investment Holdings Hong Kong International Co., Limited for the purpose of the SFO.

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

III. MAJOR SHAREHOLDERS DURING THE REPORTING PERIOD

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

3.1 Shareholders Holding 5% or More of the Shares

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

3.2 Other Major Shareholders

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

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

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

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

IV. NOMINATION OF DIRECTORS AND SUPERVISORS BY SHAREHOLDERS

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

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

During the Reporting Period, neither the Bank nor any of its subsidiary had purchased, sold or redeemed any of the Bank's listed securities (including sale of treasury shares, if any).

CHAPTER 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1.1 Directors

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

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. TAN Xianguo	57	Executive Director and Chairman	September 2004
Mr. MENG Dongxiao	52	Executive Director and President	April 2016
Mr. ZHANG Wenbin	41	Executive Director and Vice President	August 2021
Ms. TAO Zunjian	54	Executive Director, Vice President and Chief Accountant	January 2019
Mr. LU Jiliang	34	Executive Director and Vice President	August 2021
Mr. SONG Bin	51	Non-executive Director	August 2021
Mr. YIN Lin	49	Non-executive Director	August 2021
Mr. ZHAO Bing	57	Non-executive Director	August 2021
Mr. YI Jijun	59	Non-executive Director	June 2015
Ms. LI Jie	52	Non-executive Director	November 2022
Mr. FAN Chi Chiu	39	Independent Non-executive Director	June 2020
Mr. WANG Yong	50	Independent Non-executive Director	November 2022
Mr. WANG Shaohong	61	Independent Non-executive Director	August 2021
Ms. SUN Zuying	62	Independent Non-executive Director	August 2021
Mr. YANG Yunhong	53	Independent Non-executive Director	October 2023

Note:

- (1) The date of appointment of Directors refers to the date on which the relevant Director obtained the qualification approval from National Financial Regulatory Administration Shandong Office, and the term of office of re-elected Directors shall commence from the date of first appointment.

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

1.2 Supervisors

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

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. ZHANG Renzhao	53	Chairman of the Board of Supervisors and Employees' Representative Supervisor	June 2021
Ms. ZHAO Lijie	50	Shareholders' Representative Supervisor	May 2011
Mr. ZHOU Hao	44	Shareholders' Representative Supervisor	May 2011
Mr. FENG Yongdong	59	Shareholders' Representative Supervisor	April 2015
Ms. WANG Wenjing	38	Employees' Representative Supervisor	June 2024
Mr. ZHANG Chuanzheng	57	Employees' Representative Supervisor	June 2021
Mr. PENG Feng	46	External Supervisor	May 2022
Ms. ZHU Yingwei	50	External Supervisor	June 2021

Note:

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

1.3 Senior Management

Name	Age	Position	Date of appointment ⁽¹⁾
Mr. MENG Dongxiao	52	President	February 2018
Mr. ZHANG Wenbin	41	Vice President	August 2021
Ms. TAO Zunjian	54	Vice President	August 2021
		Chief Accountant	November 2018
Mr. LU Jiliang	34	Vice President	February 2021
Mr. JIANG Yi	43	Vice President	October 2023
Mr. ZHANG Xiaodong	55	Chief Risk Officer	June 2021
Mr. ZHANG Jia'en	49	Secretary to the Board	September 2022

Note:

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

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

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

2.1 Changes in Directors

There were no changes in Directors during the Reporting Period.

2.2 Changes in Supervisors

On June 20, 2024, Mr. WANG Xifeng, the employees' representative supervisor of the Bank, resigned from his position as an employees' representative supervisor and a member of the Nomination Committee under the Board of Supervisors due to work adjustment. On the same day, Ms. WANG Wenjing was elected as an employees' representative Supervisor at an employees' representative meeting. For details of the changes, please refer to the announcement of the Bank dated June 21, 2024.

2.3 Changes in Senior Management

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

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

1. Since May 2024, Mr. ZHAO Bing has ceased to serve as an accredited external director (專職外部董事) at Weihai Cultural and Tourism Development Group Co., Ltd. (威海文旅發展集團有限公司), Weihai Public Transportation Group Co., Ltd. (威海公共交通集團有限公司), Weihai City Construction Group Co., Ltd. (威海城建集團有限公司), Weihai Municipal Gas Group Co., Ltd. (威海城市燃氣集團有限公司), Weihai Dongshan Hotel Co., Ltd. (威海市東山賓館有限公司), Weihai Transportation Development Investment Co., Ltd. (威海市交通發展投資有限公司), Weihai State-Owned Assets Management (Group) Co., Ltd. (威海國有資產經營(集團)有限公司), Weihai City Investment Group Co., Ltd. (威海城市投資集團有限公司) and Weihai Grain and Oil Development Co., Ltd. (威海糧油發展有限公司). Since May 2024, Mr. ZHAO Bing has served as an accredited external director at Weihai Taocun-Weihai Railway Co., Ltd. (威海桃威鐵路有限公司). Since August 2024, Mr. ZHAO Bing has served as the legal representative and director of the Weihai State-Owned Enterprise Finance Directors Talent Management Center (威海市國有企業財務總監人才管理中心).
2. Mr. WANG Yong has been the director (主任) of the Digital Economy Research Centre of the School of Social Sciences, Tsinghua University (清華大學社會科學學院數字經濟研究中心) since January 2024 and has ceased to be the executive associate director (常務副所長) for Institute Economics of the School of Social Sciences, Tsinghua University (清華大學社會科學學院經濟學研究所) since July 2024.
3. Mr. ZHANG Renzhao has ceased to serve as the chairman of the board of directors and the secretary to the party committee of Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司) since May 2024.

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

III. CHANGES IN JOINT COMPANY SECRETARIES

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

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

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

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

Notes:

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

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

V. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix C3 to the Listing Rules as its code of conduct regarding securities transactions by the Directors, Supervisors and relevant employees of the Bank. Having made enquiry with all Directors and Supervisors, the Bank confirmed that they had complied with the Model Code during the Reporting Period. The Bank is not aware of any violations of the above code by the employees concerned.

VI. STAFF AND HUMAN RESOURCE MANAGEMENT

6.1 Number of employees

As of the end of the Reporting Period, the total number of our regular employees reached 3,320, of which 55.9% were female, 22.4% were employees aged 30 or below, and 96.1% were employees with bachelor’s degree or above. An excellent team of professionals helps to cultivate a corporate culture of active innovation and strengthen the ability to respond to market changes and seize market opportunities.

6.2 Remuneration policy

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

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

6.2 Remuneration policy (Cont'd)

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

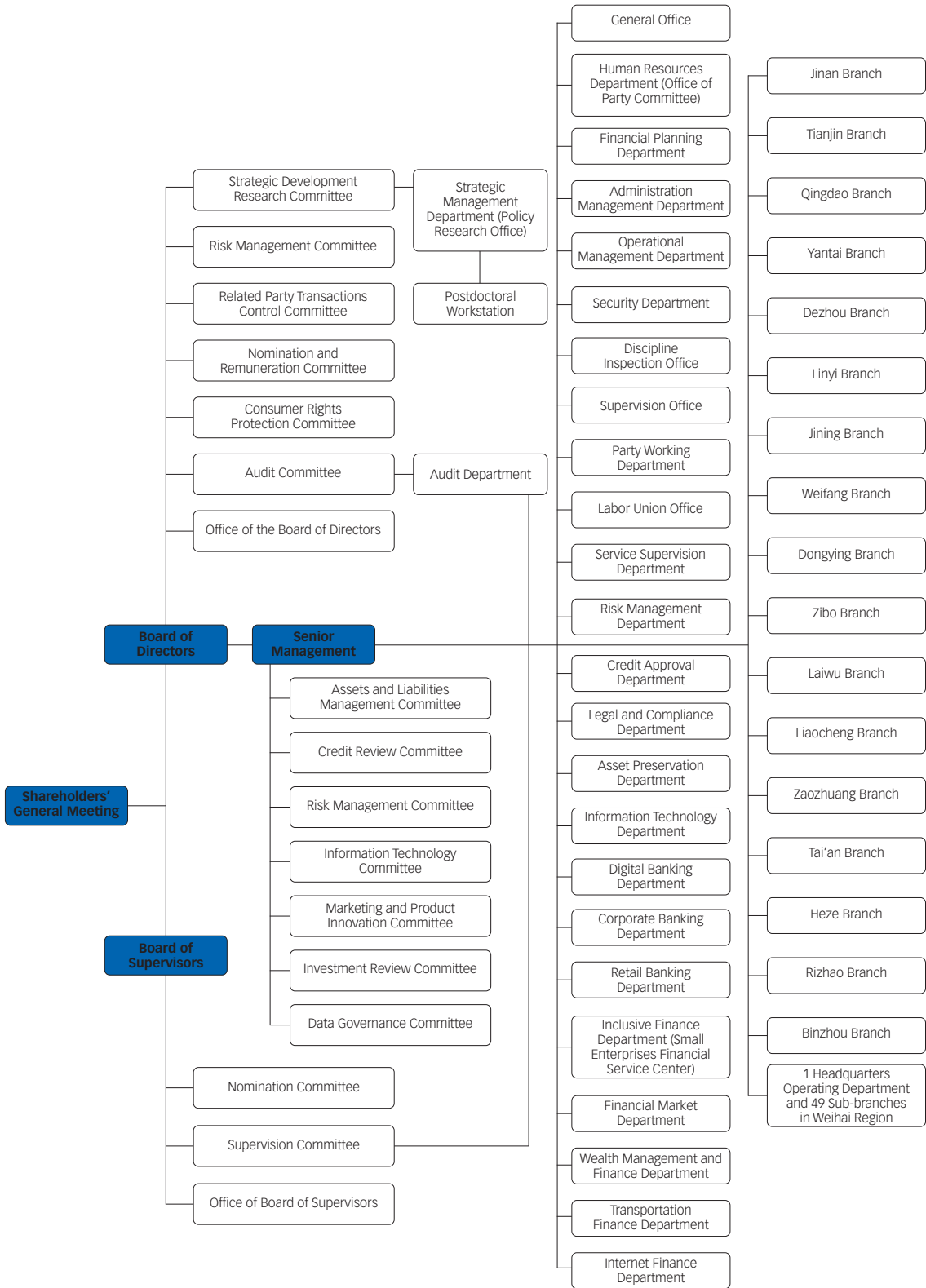
6.3 Training scheme

The Bank attaches great importance to talent cultivation, and takes talent selection and employment as the foundation of the Bank's development, and has established a professional team with good execution ability. During the Reporting Period, the Bank organized and carried out a series of training sessions, such as the "pursuing the goals by good faith" professional certificates, the "growth and development" for the cultivating of outstanding young employees, and the "Loyalty and Commitment" of newly-appointed leaders, and the "Craftsmanship Inheritance" for the selection of internal trainers, effectively enhancing the professional quality of the team. Meanwhile, the Bank also organized and carried out professional training for business lines, including enterprises, retail, risk and operation business lines. The Bank aims to enhance the core competitiveness of its leader team, and provide talent guarantee for the development of the Bank by conducting training at different specialties, categories and levels.

6.4 Share scheme

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

VII. ORGANIZATIONAL STRUCTURE CHART



CHAPTER 8 CORPORATE GOVERNANCE

I. GENERAL INFORMATION ON CORPORATE GOVERNANCE

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

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

The Bank has adopted the Corporate Governance Code, met the requirements of the administrative measures and corporate governance for domestic commercial banks, and established a sound corporate governance system. During the Reporting Period, the Bank has complied with code provisions set out in Part 2 of Appendix C1 to the Listing Rules.

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

II. SHAREHOLDERS' GENERAL MEETING

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

On April 30, 2024, the Bank held the 2023 annual general meeting in Weihai City, and a total of 19 Shareholders and valid proxies, representing 4,811,198,888 voting Shares in aggregate, representing approximately 80.45% of total issued Shares with voting rights at the 2023 annual general meeting, attended and voted at the meeting. 15 resolutions were considered and approved, including Final Accounts Report for 2023, Financial Budget for 2024, Profit Distribution Plan for 2023, Amendments to the Articles of Association.

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

III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

The main duties of the Board include convening general meetings, reporting to the general meetings and executing the resolutions of the general meetings, deciding on the Bank's development strategies, business plans and investment plans, formulating annual financial budget proposals, final account reports, profit distribution plans and loss recovery proposals, formulating proposals for the merger, demerger, dissolution and change of form of the Bank, formulating amendments to the Articles of Association and formulating the fundamental management system of the Bank. During the Reporting Period, the Board held 2 meetings, at which 41 resolutions were considered and approved. The special committees under the Board held 10 meetings in total, including 3 meetings convened by the Audit Committee, 1 meeting convened by the Strategic Development Research Committee, 1 meeting convened by the Nomination and Remuneration Committee, 2 meetings convened by the Risk Management Committee, 1 meeting convened by the Consumer Rights Protection Committee, and 2 meetings convened by the Related Party Transactions Control Committee.

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

The main responsibilities of the Board of Supervisors include overseeing the performance of the Board and senior management, the financial operations, internal control and risk management of the Bank. The Board of Supervisors conducts special investigations and attends important meetings in specific areas to understand the Bank's operations and management and to provide supervisory advice. During the Reporting Period, the Board of Supervisors held 2 meetings, at which 22 resolutions were considered and approved and 30 resolutions were heard. The special committees under the Board of Supervisors held 3 meetings, including 1 meeting convened by the Nomination Committee under the Board of Supervisors, and 2 meetings convened by the Supervision Committee under the Board of Supervisors.

V. PERFORMANCE OF DUTIES OF INDEPENDENT DIRECTORS

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

VI. PERFORMANCE OF DUTIES OF EXTERNAL SUPERVISORS

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

VII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Period, in consideration of the upcoming change of company's domicile of the Bank and in accordance with the electronic dissemination rules under the expanded paperless listing regime of Hong Kong Listing Rules as well as in light of the actual conditions of the Bank, the Articles of Association were further amended. The amendments were approved at the 2023 annual general meeting of the Bank held on April 30, 2024 and will take effect upon the approval of National Financial Regulatory Administration Shandong Office. For details of the amendments, please refer to the Bank's circular dated March 28, 2024 and announcements dated March 22, 2024 and April 30, 2024, respectively.

VIII. IMPLEMENTATION OF DIVIDEND DISTRIBUTIONS

In accordance with the resolution of the 2023 annual general meeting of the Bank convened on April 30, 2024, 2023 annual dividend was distributed in cash with the amount of RMB598 million (tax inclusive), being a cash dividend of RMB10 (tax inclusive) per 100 shares distributed to the ordinary shareholders whose names appeared on the register of members on the record date for equity distribution. The final dividend was distributed to Shareholders on May 31, 2024.

The Bank does not declare the 2024 interim dividend.

IX. EXTERNAL AUDITORS

Pursuant to the announcement dated March 22, 2024 and the circular dated March 28, 2024 by the Bank, the Board of Directors of the Bank has resolved that it will not re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the domestic auditor of the Bank at the 2023 annual general meeting and propose to engage Zhongxinghua Certified Public Accountants LLP (中興華會計師事務所(特殊普通合夥)) as the domestic auditor of the Bank for 2024. Pursuant to the 2023 annual general meeting of the Bank convened on April 30, 2024, the appointment of Zhongxinghua Certified Public Accountants LLP and the re-appointment of BDO Limited were approved as domestic and international auditors of the Bank for 2024, respectively, with the term of office until the next annual general meeting of the Bank.

X. RISK MANAGEMENT AND INTERNAL CONTROL

10.1 Risk Management

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

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

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

10.1 Risk Management (Cont'd)

The Bank continuously improves its “technology capability in risk management work”, strengthens the application of internal and external data and risk models in fields such as business access, risk alert and differentiated risk management strategies, and improves its capability of conducting detail-oriented risk management work. Risk management systems such as the post-loan management platform, related party transaction platform, investment business credit risk management and control system, risk control platform, model monitoring platform and new generation credit mid-office have been established, so as to build a digitalized risk management system that covers the entire work stream. During the Reporting Period, the Bank continuously optimized the functions of various systems and tools and improved the role of risk tools in risk identification, measurement and monitoring in conjunction with the adjustment of management strategies, effectively improving its overall risk management capability.

10.2 Internal Control

The Bank has established an internal control organizational structure comprising the Board of Directors, the Board of Supervisors, senior management, the Legal and Compliance Department, the Audit Department, business departments and branches with rational division of functions, clearly defined responsibilities and clear reporting relationships. It has established a comprehensive and systematic system covering all types of business of the Bank, major risk points and risk prevention measures, thereby forming a mechanism of segregation of duties, horizontal and vertical supervision and control, and forging a distinctive risk management and compliance culture. Our internal control adapts to management mode, business scale, product complexity and risk profile.

The Bank adheres to the prudent business principle of “priorities on internal control, system first” and continuously improves its system management framework to establish an internal control structure with the participation of all staff. During the Reporting Period, the Bank timely tracked the changes in regulatory policies, and revised and improved relevant management systems as and when appropriate according to the needs of the Bank’s operations and management, so as to ensure that all business operations were carried out steadily in accordance with the law and regulations. The Bank also conducted the “Year of Resolute Struggle for Compliance” campaign to carry forward fighting spirit, reinforce its efforts in fighting, and carry out “combative rectification” on violations. Furthermore, the Bank strengthened its inspection and correction mechanism, and conducted major inspections on “Rules and Regulations, Supervision, Inspection, Assessment and Rectification”, quarterly compliance inspections, quarterly case prevention and control investigations, and various special risk investigations, so as to create an internal control compliance atmosphere of “behavior led by culture and priorities on strict internal control, acting by the system and strict institutional constraints, penetration of the system into the process and all-the-way compliance in a strict manner”.

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

10.2 Internal Control (Cont'd)

The Bank's Audit Department supervised the adequacy and effectiveness of internal controls and organized and implemented the internal control evaluation throughout the Bank to improve the risk management level of each organization and protect assets.

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

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

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

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

CHAPTER 9 IMPORTANT EVENTS

ISSUE OF BONDS

During the Reporting Period, the Bank issued certificates of interbank deposit with an aggregate principal amount of RMB31,690 million. On June 24, 2024, the Bank issued financial bonds specialised for loans for small and micro enterprises with a size of RMB4,000 million with a coupon rate of 2.10% for a term of three years, which were utilized to grant small and micro enterprises loans. Details of the bonds that were not issued during the Reporting Period are set out in note 29 to the financial statements in the Report.

MATERIAL LITIGATION OR ARBITRATION

As of the end of the Reporting Period, the Bank was the plaintiff in 4 outstanding litigations with a principal balance of over RMB30 million, involving an amount of RMB824 million. The Bank was not the defendant in any outstanding litigations or arbitrations with an amount subject to the disputes of over RMB10 million. The above outstanding litigations are all loan disputes arising from banking business of the Bank, and as of the end of the Reporting Period, the Bank did not expect that such litigations and arbitrations (individually or jointly) would have a material adverse effect on the Bank's business, financial position and results of operations. Save as disclosed above, as of the date of the Report, the Bank had no other material litigation, arbitration and major case.

PENALTIES AND RECTIFICATION

To the best knowledge of the Bank, during the Reporting Period, the Bank and its Directors, Supervisors and senior management were not subject to any significant administrative penalties affecting the normal operations of the Bank from regulatory authorities.

FULFILLMENT OF UNDERTAKINGS

The specific details of the undertakings fulfilled by the Bank, its Shareholders, related parties and other undertaking-related parties are set out in "Chapter 11 Important Events – Fulfillment of Undertakings" in the 2023 annual report of the Bank, and there were no other undertakings that were fulfilled during the Reporting Period and not yet fulfilled as of the end of the Reporting Period.

MATERIAL CONTRACTS, MATERIAL GUARANTEES AND SIGNIFICANT INVESTMENTS

Material Contracts

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

Material Guarantees

As of the end of the Reporting Period, the balance of letters of guarantee and letters of credit of the Bank amounted to RMB2,374 million and RMB11.351 billion, respectively. The guarantee business is carried out in the ordinary course of business of the Bank, and the above businesses are financial guarantee business within the scope of business approved by the NFRA during the Reporting Period.

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Chapter 9 Important Events

RELATED PARTY TRANSACTIONS

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

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

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

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

In accordance with the requirements of the NFRA, during the Reporting Period, there were 3 resolutions on material related party transactions, namely Shandong Hi-Speed Group Company, Tongda Financial Leasing and Weihai Industrial Investment Group Co., Ltd.. As of the end of the Reporting Period, the Bank's balance of the credit exposure to related party transactions under the requirements of the NFRA was RMB7.351 billion, accounting for 22.89% of net capital, among which, the balance of the exposure to material related party transactions was RMB4.958 billion, and the balance of the exposure to normal related party transactions was RMB2.393 billion.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

As of the date of this report, the Bank had no significant events after the Reporting Period.

SIGNIFICANT EVENTS OF SUBSIDIARIES

During the Reporting Period, the subsidiaries had no significant event.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 77 to 175, which comprises the condensed consolidated statement of financial position of Weihai City Commercial Bank Co., Ltd. (the “**Bank**”) and its subsidiary (together the “**Group**”) as at June 30, 2024, and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”), issued by the International Accounting Standard Board. The directors are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

BDO Limited

Certified Public Accountants

Lam Tsz Ka

Practising Certificate no. P06838

Hong Kong, August 28, 2024

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

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2024	2023
Interest income		8,153,654	7,678,780
Interest expense		(4,690,317)	(4,387,071)
Net interest income	4	3,463,337	3,291,709
Fee and commission income		299,738	384,910
Fee and commission expense		(40,705)	(41,009)
Net fee and commission income	5	259,033	343,901
Net trading gains	6	37,862	132,596
Net gains arising from investment securities	7	680,330	558,287
Other operating income	8	115,450	22,488
Operating income		4,556,012	4,348,981
Operating expenses	9	(970,546)	(868,325)
Impairment losses on assets	10	(2,169,585)	(2,192,199)
Profit before tax		1,415,881	1,288,457
Income tax expense	11	(227,646)	(133,784)
Net profit for the period		1,188,235	1,154,673
Net profit for the period attributable to:			
Equity shareholders of the Bank		1,074,481	1,047,456
Non-controlling interests		113,754	107,217
		1,188,235	1,154,673

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

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2024	2023
Other comprehensive income for the period:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Financial assets measured at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	32(d)	793,041	258,918
– net movement in the impairment reserve, net of tax	32(e)	3,328	(8,477)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Financial assets measured at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	32(d)	3,007	3,432
Other comprehensive income for the period, net of tax		799,376	253,873
Total comprehensive income for the period		1,987,611	1,408,546
Total comprehensive income for the period attributable to:			
Equity shareholders of the Bank		1,873,857	1,301,329
Non-controlling interests		113,754	107,217
		1,987,611	1,408,546
Basic and diluted earnings per share (in RMB)	12	0.18	0.18

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2024	As at December 31, 2023
Assets			
Cash and deposits with the central bank	13	25,958,530	27,274,166
Deposits with banks and other financial institutions	14	591,731	833,928
Placements with banks	15	–	56,594
Financial assets held under resale agreements	16	3,855,916	–
Loans and advances to customers	17	202,628,262	187,404,674
Financial investments:	18		
Financial investments measured at fair value through profit or loss		6,848,358	8,100,645
Financial investments measured at fair value through other comprehensive income		69,275,820	55,669,509
Financial investments measured at amortised cost		76,952,161	82,122,784
Property and equipment	20	3,800,901	2,793,841
Right-of-use assets	21	397,666	370,691
Deferred tax assets	22	2,707,064	2,585,440
Other assets	23	29,847,675	24,664,554
Total assets		422,864,084	391,876,826
Liabilities and Equity			
Liabilities			
Borrowings from the central bank		10,748,950	9,836,382
Deposits from banks	25	5,152,356	5,518,984
Placements from banks	26	26,849,002	22,579,541
Financial assets sold under repurchase agreements	27	9,799,710	11,351,222
Deposits from customers	28	289,606,523	273,978,508
Income tax payable		203,572	125,213
Debt securities issued	29	48,260,917	37,446,188
Lease liabilities		396,349	349,851
Other liabilities	30	2,524,207	2,683,044
Total liabilities		393,541,586	363,868,933

Unaudited Condensed Consolidated Statement of Financial Position

As at June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Notes</i>	As at June 30, 2024	As at December 31, 2023
Equity			
Share capital	31	5,980,058	5,980,058
Capital reserve	32(a)	4,925,460	4,925,460
Surplus reserve	32(b)	1,720,576	1,720,576
General reserve	32(c)	4,144,800	3,690,579
Fair value reserve	32(d)	1,007,139	211,091
Impairment reserve	32(e)	37,150	33,822
Retained earnings		5,601,415	5,579,161
<hr/>			
Total equity attributable to equity shareholders of the Bank		23,416,598	22,140,747
Perpetual bonds	32(f)	4,099,201	4,099,201
Non-controlling interests		1,806,699	1,767,945
<hr/>			
Total equity		29,322,498	28,007,893
<hr/>			
Total liabilities and equity		422,864,084	391,876,826

Approved and authorised for issue by the board of directors on August 28, 2024 and signed on its behalf by

Tan Xianguo
Chairman

Meng Dongxiao
President

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

Note	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment Reserve	Retained earnings	Subtotal			
Balance at January 1, 2024	5,980,058	4,925,460	1,720,576	3,690,579	211,091	33,822	5,579,161	22,140,747	4,099,201	1,767,945	28,007,893
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	1,074,481	1,074,481	-	-	1,074,481
Other comprehensive income	-	-	-	-	796,048	3,328	-	799,376	-	113,754	913,130
Total comprehensive income	-	-	-	-	796,048	3,328	1,074,481	1,873,857	-	113,754	1,987,611
Appropriation of profit											
- Appropriation to general reserve 32(c)	-	-	-	454,221	-	-	(454,221)	-	-	-	-
- Appropriation to Shareholders	-	-	-	-	-	-	(598,006)	(598,006)	-	-	(598,006)
- Appropriation to non-controlling interests	-	-	-	-	-	-	-	-	-	(75,000)	(75,000)
Balance at June 30, 2024	5,980,058	4,925,460	1,720,576	4,144,800	1,007,139	37,150	5,601,415	23,416,598	4,099,201	1,806,699	29,322,498

Note	Attributable to equity shareholders of the Bank								Perpetual bonds	Non-controlling interests	Total
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment Reserve	Retained earnings	Subtotal			
Balance at January 1, 2023	5,980,058	4,925,460	1,549,088	3,227,913	(187,430)	58,565	4,494,289	20,047,943	4,099,201	1,585,490	25,732,634
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	1,047,456	1,047,456	-	107,217	1,154,673
Other comprehensive income	-	-	-	-	262,350	(8,477)	-	253,873	-	-	253,873
Total comprehensive income	-	-	-	-	262,350	(8,477)	1,047,456	1,301,329	-	107,217	1,408,546
Appropriation of profit											
- Appropriation to general reserve 32(c)	-	-	-	462,666	-	-	(462,666)	-	-	-	-
Balance at June 30, 2023	5,980,058	4,925,460	1,549,088	3,690,579	74,920	50,088	5,079,079	21,349,272	4,099,201	1,692,707	27,141,180

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2024	2023
Cash flows from operating activities			
Profit before income tax		1,415,881	1,288,457
<i>Adjustments for:</i>			
Impairment losses on assets	10	2,169,585	2,192,199
Depreciation and amortisation	9	155,624	113,037
Unrealised foreign exchange gains, net	6	(11,352)	(10,924)
Net gains on disposal of other assets	8	(1)	(15,929)
Net trading gains	6	(26,510)	(121,672)
Net gains on disposal of investment securities	7	(680,330)	(558,287)
Interest expenses on debt securities issued	4	587,129	517,594
Interest expenses on lease liabilities	9	8,447	6,844
Interest income from financial investments	4	(2,244,925)	(2,201,519)
		1,373,548	1,209,800
<i>Changes in operating assets</i>			
Net increase in deposits with the central bank		(18,293)	(1,143,552)
Net increase in deposits with banks and other financial institutions		(190)	–
Net increase in loans and advances to customers		(16,752,618)	(18,633,378)
Net increase in finance lease receivables		(3,263,182)	(2,235,469)
Net increase in other operating assets		(2,534,853)	(3,077,390)
		(22,569,136)	(25,089,789)
<i>Changes in operating liabilities</i>			
Net increase in borrowings from the central bank		913,524	1,317,336
Net decrease in deposits from banks		(365,329)	(1,387,008)
Net increase in placements from banks		4,248,200	1,887,929
Net decrease in financial assets sold under repurchase agreements		(1,549,953)	(65)
Net increase in deposits from customers		15,139,478	29,540,569
Net increase in other operating liabilities		198,136	1,175,908
Income tax paid		(537,370)	(624,901)
		18,046,686	31,909,768
Net cash flows (used in)/generated from operating activities		(3,148,902)	8,029,779

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2024	2023
Cash flows from investing activities		
Proceeds from disposal and redemption of financial investments	78,868,020	69,862,065
Return on investments	3,291,612	2,759,806
Payments on acquisition of investments	(85,617,628)	(82,325,458)
Payments on acquisition of property and equipment, intangible assets and other assets	(743,150)	(62,872)
Proceeds from disposal of other assets	37	254,865
Net cash flows used in investing activities	(4,201,109)	(9,511,594)
Cash flows from financing activities		
Proceeds from issuance of debt securities	35,728,247	28,971,073
Repayment of debt securities issued	(25,170,000)	(30,080,000)
Interest paid on debt securities issued	(330,647)	(329,849)
Capital element of lease liabilities paid	(31,281)	(48,501)
Interest element of lease liabilities paid	(8,447)	(6,844)
Dividends paid	(674,962)	(1)
Net cash flows generated from/(used in) financing activities	9,512,910	(1,494,122)
Effect of foreign exchange rate changes on cash and cash equivalents	(38)	2,467
Net increase/(decrease) in cash and cash equivalents	2,162,861	(2,973,470)
Cash and cash equivalents as at January 1	12,994,610	17,525,673
Cash and cash equivalents as at June 30	15,157,471	14,552,203
Interest received	8,929,426	7,450,448
Interest paid (excluding interest expense on debt securities issued)	(3,567,640)	(2,583,831)

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION

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

The Bank obtained its finance permit No. B0176H337100001 from the former China Banking Regulatory Commission (the former “**CBRC**”, in 2023, the regulator was renamed the National Financial Regulatory Administration (the “**NFRA**”) (Shandong Office). The Bank obtained its business license No. 913700002671339534 from the Market Supervision Administration of Weihai City. By June 30, 2024, the paid-in capital of the Bank was RMB5,980,058,344, with its registered office located at No. 9 Baoquan Road, Weihai City, Shandong Province. The Bank is regulated by the NFRA which was authorised by the State Council.

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

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

2. BASIS OF PREPARATION

These interim financial information have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“**IASB**”). These interim condensed consolidated financial statements were authorised for issue on August 28, 2024.

These interim financial information have been prepared in accordance with the same accounting policies adopted in the 2023 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 annual financial report. Details of new and amended standards adopted by the Group are set out in Note 3.

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

These interim financial information are presented in Renminbi (“**RMB**”), unless otherwise stated. These interim financial information and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (the “**IFRS Accounting Standards**”) and should be read in conjunction with the 2023 annual consolidated financial statements.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

2. BASIS OF PREPARATION (CONT'D)

These interim financial information are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, Review of Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited's independent review report to the Board of Directors is included on pages 76.

The financial information relating to the financial year ended December 31, 2023 that is included in these interim condensed consolidated financial statements as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements.

3. CHANGE IN ACCOUNTING POLICIES

Except as described below, the accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the 2023 annual consolidated financial statements.

(1) New standards, interpretations and amendments adopted from January 1, 2024

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)

The amendment to IFRS 16, introduces a new accounting model for variable payments and requires seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. The amendments provide that the seller-lessee can include variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction on initial recognition. The amendments also provide the seller-lessee with the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains after initial recognition. A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

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

Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)

The IASB has removed the requirement for a right to be unconditional and instead now requires that a right to defer settlement must exist at the reporting date and have substance. The IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. The amendments also clarified how a company classifies a liability that can be settled in its own shares.

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

3. CHANGE IN ACCOUNTING POLICIES (CONT'D)

(1) New standards, interpretations and amendments adopted from January 1, 2024 (Cont'd)

Disclosures – Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)

The IASB introduce additional disclosure requirements for companies that enter into supplier finance arrangements. The amendments require the companies disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement. The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

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

(2) Issued but not yet effective standards

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations are issued which are not yet effective for the six months ended June 30, 2024 and which have not been adopted in these financial statements. These include the following which may be relevant to the Bank.

	Effective for accounting period beginning on or after
Amendments to IAS 21, Lack of Exchangeability	January 1, 2025
Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026
IFRS 18, Presentation and Disclosure in Financial Statements	January 1, 2027
IFRS 19, Subsidiaries without Public Accountability: Disclosures	January 1, 2027
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has not applied the new and revised IFRS Accounting Standards that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new IFRS Accounting Standards but is not yet in a position to state whether these new IFRS Accounting Standards would have a material impact on its results of operations and financial position.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

4. NET INTEREST INCOME

	Six months ended June 30,	
	2024	2023
Interest income arising from		
Deposits with the central bank	153,178	158,234
Deposits with banks and other financial institutions	2,401	1,729
Placements with banks	103,999	78,128
Loans and advances to customers		
– Corporate loans and advances	3,766,002	3,225,831
– Personal loans and advances	985,935	1,121,455
– Discounted bills	116,260	159,177
Financial assets held under resale agreements	19,311	3,629
Financial investments	2,244,925	2,201,519
Finance leases	761,643	729,078
Sub-total	8,153,654	7,678,780
Interest expense arising from		
Borrowings from the central bank	(104,811)	(107,469)
Deposits from banks	(94,901)	(67,916)
Placements from banks	(442,194)	(414,915)
Deposits from customers	(3,352,176)	(3,184,041)
Financial assets sold under repurchase agreements	(101,479)	(92,999)
Debt securities issued	(587,129)	(517,594)
Discounted bills	(7,627)	(2,137)
Sub-total	(4,690,317)	(4,387,071)
Net interest income	3,463,337	3,291,709

Total interest income arising from financial assets that are not measured at fair value through profit or loss (“FVTPL”) for the six months ended June 30, 2024 amounted to RMB8,153.7 million (six months ended June 30, 2023: RMB7,678.8 million).

Total interest expense arising from financial liabilities that are not measured at FVTPL for the six months ended June 30, 2024 amounted to RMB4,690.3 million (six months ended June 30, 2023: RMB4,387.1 million).

Interest income arising from impaired loans for the six months ended June 30, 2024 amounted to RMB33.4 million (six months ended June 30, 2023: RMB30.0 million).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

5. NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Six months ended June 30,	
	2024	2023
Fee and commission income		
Acceptance and guarantee services fees	61,697	22,490
Agency services fees	188,644	284,383
Bank card services fees	8,402	10,965
Consultancy services fees	481	–
Settlement and clearing fees	33,281	45,533
Others	7,233	21,539
Sub-total	299,738	384,910
Fee and commission expense		
Bank card services fees	(4,145)	(4,182)
Settlement and clearing fees	(31,894)	(36,295)
Others	(4,666)	(532)
Sub-total	(40,705)	(41,009)
Net fee and commission income	259,033	343,901
Fee and commission income		
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	23,184	21,713
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	–	1,007
Fee and commission expense		
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading or designated at FVTPL	7,656	7,158

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(b) Disaggregation of income:

	Six months ended June 30,			
	2024		2023	
	At a point in time	Over time	At a point in time	Over time
Acceptance and guarantee services fees	–	61,697	–	22,490
Agency services fees	–	188,644	–	284,383
Bank card services fees	8,402	–	10,965	–
Consultancy services fees	–	481	–	–
Settlement and clearing fees	33,281	–	45,533	–
Others	3,641	3,592	8,438	13,101
Total	45,324	254,414	64,936	319,974

6. NET TRADING GAINS

	Six months ended June 30,	
	2024	2023
Net gains from debt securities	44,104	15,784
Net gains from funds	33,064	58,313
Net (losses)/gains from investment management products	(51,560)	7,667
Net (losses)/gains from derivatives	(3,829)	24,857
Net gains from equity investments	4,731	15,051
Exchange gains	11,352	10,924
Total	37,862	132,596

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

7. NET GAINS ARISING FROM INVESTMENT SECURITIES

	Six months ended June 30,	
	2024	2023
Net gains of financial investments measured at fair value through profit or loss	114,335	142,703
Net gains of financial assets measured at fair value through other comprehensive income	142,726	45,861
Net gains of financial assets measured at amortised costs	408,782	366,958
Net gains of investment on derivatives	14,487	2,765
Total	680,330	558,287

8. OTHER OPERATING INCOME

Other operating income streams:

	Six months ended June 30,	
	2024	2023
Penalty income	86	252
Rental income	114,082	1,517
Government grants	393	1,260
Net gains on disposal of other assets	1	15,929
Others	888	3,530
Total	115,450	22,488

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

9. OPERATING EXPENSES

	Note	Six months ended June 30,	
		2024	2023
Staff costs			
– Salaries, bonuses and allowances		397,544	374,371
– Social insurance		55,988	54,251
– Housing allowances		26,335	24,711
– Staff welfares		2,393	1,269
– Employee education expenses and labour union expenses		14,057	13,182
– Supplementary retirement benefits	(a)	13,988	13,300
Sub-total		510,305	481,084
Rental and property management expenses		6,575	9,700
Depreciation and amortisation		105,539	59,652
Depreciation charge for the right-of-use assets		50,085	53,385
Interest expense on lease liabilities		8,447	6,844
Taxes and surcharges		49,828	40,636
Office expenses		149,490	149,269
Other general and administrative expenses		90,277	67,755
Total		970,546	868,325

Note:

- (a) The defined contribution retirement plans of the Group include the social pension schemes, annuity plan, housing allowances and other social insurances. No forfeited contributions have been applied by the Bank to reduce its existing level of contributions for the six months ended June 30, 2024 and 2023, respectively.

10. IMPAIRMENT LOSSES ON ASSETS

	Six months ended June 30,	
	2024	2023
Financial assets held under resale agreements	3,516	–
Loans and advances to customers	1,547,201	1,940,166
Financial investments	487,013	138,101
Finance lease receivables	52,394	83,848
Credit commitments	(1,731)	15,893
Deposits with banks and other financial institutions	(230)	–
Placements with banks	(96)	–
Others	81,518	14,191
Total	2,169,585	2,192,199

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

11. INCOME TAX EXPENSE

(a) Income tax expense:

	Notes	Six months ended June 30,	
		2024	2023
Current tax		615,729	231,558
Deferred tax	22(b), 32(e)	(388,083)	(97,774)
Total		227,646	133,784

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

	Note	Six months ended June 30,	
		2024	2023
Profit before tax		1,415,881	1,288,457
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		353,970	322,114
Non-deductible expenses		18,817	8,960
Non-taxable income	(i)	(145,141)	(197,290)
Income tax expense		227,646	133,784

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

12. BASIC AND DILUTED EARNINGS PER SHARE

	Note	Six months ended June 30,	
		2024	2023
Net profit attributable to equity shareholders of the Bank		1,074,481	1,047,456
Weighted average number of ordinary shares (in thousands)	(a)	5,980,058	5,980,058
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.18	0.18

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

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

	Six months ended June 30,	
	2024	2023
Weighted average number of ordinary shares at beginning and end of the period	5,980,058	5,980,058

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

13. CASH AND DEPOSITS WITH THE CENTRAL BANK

	Notes	June 30, 2024	December 31, 2023
Cash on hand		219,589	267,078
Deposits with the central bank			
– Statutory deposit reserves	(a)	17,588,630	17,607,952
– Surplus deposit reserves	(b)	8,001,557	9,287,076
– Exchange risk reserves	(c)	140,084	102,448
– Fiscal deposits		47	68
Sub-total		25,730,318	26,997,544
Interests accrued		8,623	9,544
Total		25,958,530	27,274,166

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

	June 30, 2024	December 31, 2023
Reserve ratio for RMB deposits	6.5%	7.0%
Reserve ratio for foreign currency deposits	4.0%	4.0%

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

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places exchange risk reserves with the PBOC in accordance with relevant regulation. As at June 30, 2024, the exchange risk reserve ratio applicable to the Group is 20% (December 31, 2023: 20%).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

14. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
Deposits in mainland China		
– Banks	321,153	528,047
– Other financial institutions	104,246	47,367
Sub-total	425,399	575,414
Deposits outside mainland China		
– Banks	166,939	259,346
Sub-total	166,939	259,346
Interests accrued	52	57
Less: Provision for impairment losses	(659)	(889)
Total	591,731	833,928

15. PLACEMENTS WITH BANKS

Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
Placements in mainland China		
– Banks	–	56,662
Sub-total	–	56,662
Interests accrued	–	28
Less: Provision for impairment losses	–	(96)
Total	–	56,594

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

16. FINANCIAL ASSETS HELD UNDER RE SALE AGREEMENTS

(a) Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
In mainland China		
– Other financial institutions	3,858,701	–
Sub-total	3,858,701	–
Interests accrued	731	–
Less: Provision for impairment losses	(3,516)	–
Total	3,855,916	–

(b) Analysed by type of collateral held

	June 30, 2024	December 31, 2023
Securities		
– Policy banks	1,019,344	–
– Commercial banks and other financial institutions	2,839,357	–
Sub-total	3,858,701	–
Interests accrued	731	–
Less: Provision for impairment losses	(3,516)	–
Total	3,855,916	–

As at June 30, 2024, certain financial assets held under resale agreements were pledged for repurchase agreements (Note 24(b)).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	June 30, 2024	December 31, 2023
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	146,170,006	134,698,671
Personal loans		
– Residential mortgage loans	15,058,539	15,539,331
– Personal consumption loans	12,619,469	11,234,010
– Personal business loans	15,407,856	16,806,170
– Credit cards	678,852	825,664
Sub-total	43,764,716	44,405,175
Interests accrued	1,751,846	1,612,123
Less: Provision for loans and advances to customers measured at amortised cost	(4,548,458)	(4,172,577)
Sub-total	187,138,110	176,543,392
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	15,490,152	10,861,282
Net loans and advances to customers	202,628,262	187,404,674

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

	June 30, 2024		Loans and advances secured by collaterals
	Amount	Percentage	
Leasing and business services	31,596,017	15.38%	14,715,376
Water conservancy, environment and public facilities management	22,308,808	10.86%	11,015,108
Manufacturing	20,656,944	10.06%	6,966,037
Construction	19,295,105	9.39%	8,267,914
Wholesale and retail	19,215,509	9.35%	8,737,863
Electricity, heat, gas and water production and supply	7,847,335	3.82%	2,413,181
Real estate	7,216,573	3.51%	7,014,187
Agriculture, forestry, animal husbandry and fishery	3,476,652	1.69%	2,306,821
Transportation, warehousing and postal services	2,587,109	1.26%	875,702
Education	2,189,591	1.07%	1,177,901
Hygiene and social welfare	979,749	0.48%	321,250
Culture, sports and entertainment	507,282	0.25%	279,010
Information transmission, software and information technology services	443,444	0.22%	166,430
Others	7,849,888	3.82%	1,064,138
Sub-total of corporate loans and advances	146,170,006	71.16%	65,320,918
Personal loans	43,764,716	21.30%	22,598,169
Discounted bills	15,490,152	7.54%	15,490,152
Gross loans and advances to customers	205,424,874	100.00%	103,409,239

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

	December 31, 2023		Loans and advances secured by collaterals
	Amount	Percentage	
Leasing and business services	30,290,583	15.95%	13,917,551
Water conservancy, environment and public facilities management	21,030,539	11.07%	9,619,002
Construction	18,921,061	9.96%	7,018,776
Manufacturing	18,676,883	9.83%	6,683,040
Wholesale and retail	15,447,669	8.13%	7,388,369
Real estate	7,047,574	3.71%	6,937,191
Electricity, heat, gas and water production and supply	6,881,176	3.62%	2,203,474
Transportation, warehousing and postal services	3,441,110	1.81%	1,383,801
Agriculture, forestry, animal husbandry and fishery	2,936,211	1.55%	1,960,793
Education	2,226,918	1.17%	1,200,201
Hygiene and social welfare	988,069	0.52%	330,750
Culture, sports and entertainment	633,467	0.33%	141,100
Information transmission, software and information technology services	340,023	0.18%	138,450
Others	5,837,388	3.08%	613,055
Sub-total of corporate loans and advances	134,698,671	70.91%	59,535,553
Personal loans	44,405,175	23.37%	23,086,363
Discounted bills	10,861,282	5.72%	10,861,282
Gross loans and advances to customers	189,965,128	100.00%	93,483,198

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(c) Analysed by type of collateral

	June 30, 2024	December 31, 2023
Unsecured loans	29,820,721	26,994,716
Guaranteed loans	72,194,914	69,487,214
Collateralised loans	66,629,540	65,258,123
Pledged loans	21,289,547	17,363,793
Discounted bills	15,490,152	10,861,282
Sub-total	205,424,874	189,965,128
Interests accrued	1,751,846	1,612,123
Gross loans and advances to customers	207,176,720	191,577,251
Less: Provision for loans and advances to customers measured at amortised cost	(4,548,458)	(4,172,577)
Net loans and advances to customers	202,628,262	187,404,674

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

	June 30, 2024				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	162,144	318,616	73,507	9,944	564,211
Guaranteed loans	122,836	296,094	71,553	19,849	510,332
Collateralised loans	556,256	1,212,099	616,996	40,306	2,425,657
Pledged loans	9,000	2,900	480	-	12,380
Total	850,236	1,829,709	762,536	70,099	3,512,580
As a percentage of gross loans and advances to customers	0.41%	0.89%	0.37%	0.03%	1.70%

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

	December 31, 2023				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	185,401	203,950	59,730	7,201	456,282
Guaranteed loans	438,479	259,185	280,112	18,399	996,175
Collateralised loans	767,020	621,828	566,968	16,505	1,972,321
Pledged loans	2,900	–	29,429	–	32,329
Total	1,393,800	1,084,963	936,239	42,105	3,457,107
As a percentage of gross loans and advances to customers	0.73%	0.57%	0.49%	0.02%	1.81%

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

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

	June 30, 2024			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (Note (i))	
Total loans and advances to customers measured at amortised cost	182,692,437	6,158,070	2,836,061	191,686,568
Less: Provision for impairment losses	(2,244,726)	(866,022)	(1,437,710)	(4,548,458)
Carrying amount of loans and advances to customers measured at amortised cost	180,447,711	5,292,048	1,398,351	187,138,110
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	15,490,152	–	–	15,490,152
Total carrying amount of loans and advances to customers	195,937,863	5,292,048	1,398,351	202,628,262

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

	December 31, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss (Note (i))	
Total loans and advances to customers measured at amortised cost	173,263,559	4,657,050	2,795,360	180,715,969
Less: Provision for impairment losses	(1,986,388)	(940,194)	(1,245,995)	(4,172,577)
Carrying amount of loans and advances to customers measured at amortised cost	171,277,171	3,716,856	1,549,365	176,543,392
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	10,861,282	–	–	10,861,282
Total carrying amount of loans and advances to customers	182,138,453	3,716,856	1,549,365	187,404,674

Note:

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

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(f) Movements of provision for impairment losses

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

	Six months ended June 30, 2024			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	1,986,388	940,194	1,245,995	4,172,577
Transferred:				
– to expected credit losses over the next 12 months	45,585	(45,585)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(18,163)	42,684	(24,521)	–
– to lifetime expected credit losses: credit-impaired loans	(14,690)	(124,847)	139,537	–
Charge for the period	245,606	53,576	1,240,516	1,539,698
Recoveries	–	–	432,440	432,440
Write-offs and others	–	–	(1,596,257)	(1,596,257)
As at June 30	2,244,726	866,022	1,437,710	4,548,458

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(Expressed in thousands of Renminbi, unless otherwise stated)

17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

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

	Year ended December 31, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	1,423,130	812,904	1,401,233	3,637,267
Transferred:				
– to expected credit losses over the next 12 months	25,847	(25,847)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(6,640)	59,931	(53,291)	–
– to lifetime expected credit losses: credit-impaired loans	(4,650)	(135,531)	140,181	–
Charge for the year	548,701	228,737	2,413,468	3,190,906
Recoveries	–	–	143,525	143,525
Write-offs and others	–	–	(2,799,121)	(2,799,121)
As at December 31	1,986,388	940,194	1,245,995	4,172,577

As at June 30, 2024, the Group adjusted the customer rating of loans and advance to customers. The loan principal transferred from stage 1 to stage 2 and stage 3 was RMB2,374.7 million (December 31, 2023: RMB1,446.6 million), and corresponding impairment provision increased by RMB688.3 million (December 31, 2023: RMB483.4 million). The loan principal transferred from stage 2 to stage 3 was RMB378.4 million (December 31, 2023: RMB609.5 million), impairment provision increasing by RMB43.8 million (December 31, 2023: RMB135.3 million). The loan principal transferred from stage 2 to stage 1 was RMB79.4 million (December 31, 2023: RMB43.2 million), impairment provision decreasing by RMB22.0 million (December 31, 2023: RMB9.5 million). The loan principal transferred from stage 3 to stage 1 and stage 2 was not significant.

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17. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

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

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

	Six months ended June 30, 2024			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at January 1	25,927	-	-	25,927
Charge for the period	7,503	-	-	7,503
As at June 30	33,430	-	-	33,430

	Year ended December 31, 2023			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
As at January 1	69,267	-	-	69,267
Reversal for the year	(43,340)	-	-	(43,340)
As at December 31	25,927	-	-	25,927

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

(g) Disposal of loans and advances to customers

During the six months ended June 30, 2024, the Group did not transfer loans and advances to independent third parties. During the year ended December 31, 2023 the Group transferred (i) loans and advances with principal amount of RMB181.7 million; (ii) relevant interests of RMB6.6 million, to independent third parties and the transfer price was RMB30.0 million.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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18. FINANCIAL INVESTMENTS

	<i>Notes</i>	June 30, 2024	December 31, 2023
Financial investments measured at fair value through profit or loss	<i>(a)</i>	6,848,358	8,100,645
Financial investments measured at fair value through other comprehensive income	<i>(b)</i>	69,275,820	55,669,509
Financial investments measured at amortised cost	<i>(c)</i>	76,952,161	82,122,784
Total		153,076,339	145,892,938

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

	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in mainland China		
– Banks and other financial institutions	1,663,536	1,819,183
– Corporates	20,724	20,270
Sub-total	1,684,260	1,839,453
– Unlisted	1,684,260	1,839,453
Asset-backed securities		
– Unlisted	–	413,699
Investment funds		
– Unlisted	3,921,198	4,916,188
Investment management products		
– Unlisted	1,031,582	724,718
Equity Investments		
– Listed	211,318	206,587
Total	6,848,358	8,100,645

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

18. FINANCIAL INVESTMENTS (CONT'D)

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

	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in mainland China		
– Government	3,646,772	653,018
– Policy banks	40,050,039	32,250,825
– Banks and other financial institutions	9,814,843	6,862,210
– Corporates	12,016,432	11,816,489
Sub-total	65,528,086	51,582,542
Interests accrued	892,613	960,155
– Unlisted	66,420,699	52,542,697
Interbank deposits		
– Unlisted	2,301,464	2,631,754
Asset-backed securities	218,579	167,050
Interests accrued	15,408	12,348
– Unlisted	233,987	179,398
Equity investments		
– Unlisted	319,670	315,660
Total	69,275,820	55,669,509

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

18. FINANCIAL INVESTMENTS (CONT'D)

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

Notes:

- (i) As at the end of each of the reporting periods, there were no investments subject to material restrictions in the realisation.
- (ii) The Group designates part of non-trading equity investments as financial investments measured at fair value through other comprehensive income.
- (iii) For the six months ended June 30, 2024, there were no cash dividends received from equity investments measured at fair value through other comprehensive income (December 31, 2023: RMB4.6 million).
- (iv) Movements of gross carrying amount of financial investments measured at fair value through other comprehensive income are as follows:

	Six months ended June 30, 2024			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	55,353,849	–	–	55,353,849
New financial assets originated or purchased	74,535,940	–	–	74,535,940
Financial assets derecognised during the period	(61,918,916)	–	–	(61,918,916)
Changes in accrued interest	(64,482)	–	–	(64,482)
Changes in fair value	1,049,759	–	–	1,049,759
As at June 30	68,956,150	–	–	68,956,150

	Year ended December 31, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	36,770,757	–	–	36,770,757
New financial assets originated or purchased	67,414,801	–	–	67,414,801
Financial assets derecognised during the year	(49,630,670)	–	–	(49,630,670)
Changes in accrued interest	287,503	–	–	287,503
Changes in fair value	511,458	–	–	511,458
As at December 31	55,353,849	–	–	55,353,849

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18. FINANCIAL INVESTMENTS (CONT'D)

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

Notes: (Cont'd)

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

	Six months ended June 30, 2024			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	19,169	–	–	19,169
Reversal for the period	(3,065)	–	–	(3,065)
Balance at June 30	16,104	–	–	16,104

	Year ended December 31, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	8,820	–	–	8,820
Charge for the year	10,349	–	–	10,349
As at December 31	19,169	–	–	19,169

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

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18. FINANCIAL INVESTMENTS (CONT'D)

(c) Financial investments measured at amortised cost

	<i>Notes</i>	June 30, 2024	December 31, 2023
Debt securities issued by the following institutions in mainland China	<i>(i)</i>		
– Government		31,247,060	33,771,947
– Policy banks		21,507,322	21,581,463
– Banks and other financial institutions		900,000	900,000
– Corporate		18,616,946	19,606,698
Interests accrued		1,308,619	1,506,714
Sub-total		73,579,947	77,366,822
Investment management products		4,362,163	5,675,703
Interests accrued		145,479	148,398
– Unlisted		4,507,642	5,824,101
Asset-backed securities		843,324	801,630
Interests accrued		25,827	25,933
– Unlisted		869,151	827,563
Less: Provision for impairment losses	<i>(iii)</i>	(2,004,579)	(1,895,702)
Total		76,952,161	82,122,784

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18. FINANCIAL INVESTMENTS (CONT'D)

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

Notes:

- (i) As at the end of each of the reporting period, certain debt securities were pledged for repurchase agreements, borrowings from the central bank, deposits from customers and securities borrowing (Note 24(a)).
- (ii) Movements of gross carrying amount of financial investments measured at amortised cost are as follows:

	Six months ended June 30, 2024			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	77,427,306	2,956,561	3,634,619	84,018,486
New financial assets originated or purchase	8,789,868	-	-	8,789,868
Financial assets derecognised during the period	(13,055,494)	-	(595,000)	(13,650,494)
Transfers:				
- to expected credit losses over the next 12 months	617,955	(617,955)	-	-
- to lifetime expected credit losses credit-impaired	-	(2,338,606)	2,338,606	-
Changes in accrued interest	(258,845)	-	57,725	(201,120)
As at June 30	73,520,790	-	5,435,950	78,956,740

	Year ended December 31, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	78,692,379	824,734	4,214,558	83,731,671
New financial assets originated or purchase	26,708,475	-	-	26,708,475
Financial assets derecognised during the year	(25,693,250)	(4,314)	(929,939)	(26,627,503)
Transfers:				
- to lifetime expected credit losses not credit-impaired	(1,899,879)	1,899,879	-	-
- to lifetime expected credit losses credit-impaired	(362,547)	-	362,547	-
Changes in accrued interest	(17,872)	236,262	(12,547)	205,843
As at December 31	77,427,306	2,956,561	3,634,619	84,018,486

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18. FINANCIAL INVESTMENTS (CONT'D)

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

Notes (Cont'd):

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

	Six months ended June 30, 2024			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	80,673	234,680	1,580,349	1,895,702
Transfers:				
– to expected credit losses over the next 12 months	73,403	(73,403)	–	–
– to lifetime expected credit losses credit-impaired	–	(161,277)	161,277	–
(Reversal)/charge for the period	(83,278)	–	573,356	490,078
Write-offs	–	–	(381,201)	(381,201)
As at June 30	70,798	–	1,933,781	2,004,579

	Year ended December 31, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	111,536	113,566	1,569,506	1,794,608
Transfers:				
– to expected credit losses over the next 12 months	11,984	(11,984)	–	–
– to lifetime expected credit losses not credit-impaired	(32,539)	32,539	–	–
– to lifetime expected credit losses credit-impaired	(406)	–	406	–
(Reversal)/charge for the year	(9,902)	100,559	732,437	823,094
Write-offs	–	–	(722,000)	(722,000)
As at December 31	80,673	234,680	1,580,349	1,895,702

19. INVESTMENT IN A SUBSIDIARY

	June 30, 2024	December 31, 2023
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	1,047,500	1,047,500

Shandong Tongda Financial Leasing Co., Ltd. (“Tongda”), a limited liability company which was incorporated on June 6, 2016 at Shandong Province, the PRC with registered capital of RMB1,000.0 million. As at June 30, 2024, the registered capital of Tongda is RMB1,650.0 million. The principal activities of Tongda are the provision of financial leasing services in the PRC. As at June 30, 2024, the Bank holds 54.55% of equity interests of Tongda (December 31, 2023: 54.55%).

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20. PROPERTY AND EQUIPMENT

	Premises <i>Note (a)</i>	Machinery <i>Note (b)</i>	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
As at January 1, 2023	1,001,890	–	280,196	505,625	19,026	1,806,737
Additions	81,150	1,749,852	9,702	31,514	1,088	1,873,306
Transfer to investment properties	(293)	–	–	–	–	(293)
Disposals	–	–	–	(27,360)	(793)	(28,153)
As at December 31, 2023 and January 1, 2024	1,082,747	1,749,852	289,898	509,779	19,321	3,651,597
Additions	454,650	624,904	8,818	5,657	–	1,094,029
Disposals	–	(37)	(121)	–	–	(158)
As at June 30, 2024	1,537,397	2,374,719	298,595	515,436	19,321	4,745,468
Accumulated depreciation						
As at January 1, 2023	210,527	–	203,816	338,231	15,951	768,525
Charge for the year	26,191	18,682	20,374	44,317	791	110,355
Disposal	–	–	–	(26,050)	(754)	(26,804)
As at December 31, 2023 and January 1, 2024	236,718	18,682	224,190	356,498	15,988	852,076
Charge for the period	12,970	42,066	9,258	22,247	392	86,933
Disposal	–	(1)	(121)	–	–	(122)
As at June 30, 2024	249,688	60,747	233,327	378,745	16,380	938,887
Impairment loss						
As at December 31, 2023 and June 30, 2024	5,680	–	–	–	–	5,680
Net book value						
As at June 30, 2024	1,282,029	2,313,972	65,268	136,691	2,941	3,800,901
As at December 31, 2023	840,349	1,731,170	65,708	153,281	3,333	2,793,841

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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20. PROPERTY AND EQUIPMENT (CONT'D)

Notes:

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

	At June 30, 2024	At December 31, 2023
Held in mainland China		
– Medium-term leases (10-50 years)	803,998	816,482
– Long-term leases (over 50 years)	478,031	23,867
	1,282,029	840,349

- (b) The Group leases its machinery under operating lease arrangements. Lease of the machinery usually runs for eighteen years. Lease payment are usually negotiated to reflect market return.

21. RIGHT-OF-USE ASSETS

	Motor vehicles	Properties	Total
Net book value			
As at January 1, 2023	20	335,330	335,350
Additions	–	141,406	141,406
Depreciation charge for the year	(20)	(105,971)	(105,991)
Disposal	–	(74)	(74)
As at December 31, 2023 and January 1, 2024	–	370,691	370,691
Additions	–	82,307	82,307
Depreciation charge for the period	–	(50,085)	(50,085)
Disposal	–	(5,247)	(5,247)
As at June 30, 2024	–	397,666	397,666

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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22. DEFERRED TAX

(a) Analysed by nature

	June 30, 2024		December 31, 2023	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	11,312,086	2,828,021	9,802,706	2,450,676
– Fair value changes of financial assets	314,444	78,611	351,203	87,801
– Accrued staff costs	680,277	170,069	634,775	158,694
– Others	409,018	102,255	362,520	90,630
Subtotal	12,715,825	3,178,956	11,151,204	2,787,801
Deferred income tax liabilities				
– Fair value changes of financial assets	(1,489,902)	(372,475)	(438,753)	(109,688)
– Others	(397,666)	(99,417)	(370,691)	(92,673)
Subtotal	(1,887,568)	(471,892)	(809,444)	(202,361)
Net balances	10,828,257	2,707,064	10,341,760	2,585,440

(b) Movements of deferred tax

	Allowance for impairment losses <i>Note (i)</i>	Accrued staff costs	Fair value changes of financial assets <i>Note (ii)</i>	Others	Net balance of deferred tax assets
As at January 1, 2023	1,995,370	140,312	197,883	4,024	2,337,589
Recognised in profit or loss	455,306	18,382	(86,930)	(6,067)	380,691
Recognised in other comprehensive income	–	–	(132,840)	–	(132,840)
As at December 31, 2023 and January 1, 2024	2,450,676	158,694	(21,887)	(2,043)	2,585,440
Recognised in profit or loss	377,345	11,375	(6,628)	4,881	386,973
Recognised in other comprehensive income	–	–	(265,349)	–	(265,349)
As at June 30, 2024	2,828,021	170,069	(293,864)	2,838	2,707,064

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

22. DEFERRED TAX (CONT'D)

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

Notes:

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

23. OTHER ASSETS

	Notes	June 30, 2024	December 31, 2023
Interest receivables	(a)	385,047	516,221
Prepaid expenses	(b)	224,595	393,181
Intangible assets	(c)	102,535	102,215
Long-term deferred expenses		1,421	1,581
Reposessed assets	(d)	183,355	183,355
Land use rights	(e)	10,005	10,140
Investment properties	(f)	12,924	13,204
Finance lease receivables	(g)	25,501,795	22,291,436
Settlement and clearing account		3,396,967	1,052,966
Value added tax ("VAT") recoverable		730,604	567,178
Others		355,325	547,982
Subtotal		30,904,573	25,679,459
Less: Provision for impairment losses		(1,056,898)	(1,014,905)
Total		29,847,675	24,664,554

(a) Interest receivables

	June 30, 2024	December 31, 2023
Interest receivable arising from:		
Financial investments	335,752	464,622
Loans and advances to customers	40,639	49,856
Others	8,656	1,743
Sub-total	385,047	516,221
Less: Provision for impairment losses	(213,160)	(218,934)
Total	171,887	297,287

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(b) Prepaid expenses

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

(c) Intangible assets

	Computer software and system development
Cost	
As at January 1, 2023	228,846
Additions	61,498
<hr/>	
As at December 31, 2023 and January 1, 2024	290,344
Additions	18,252
<hr/>	
As at June 30, 2024	308,596
Accumulated amortisation	
As at January 1, 2023	160,040
Charge for the year	28,089
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As at December 31, 2023 and January 1, 2024	188,129
Charge for the period	17,932
<hr/>	
As at June 30, 2024	206,061
Net book value	
As at June 30, 2024	102,535
<hr/>	
As at December 31, 2023	102,215
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Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(d) Repossessed assets

	June 30, 2024	December 31, 2023
Land use right and buildings	183,355	183,355
Less: impairment allowances	(11,448)	(11,448)
Net balances	171,907	171,907

(e) Land use rights

	June 30, 2024	December 31, 2023
Located in mainland China: 10-50 years	10,005	10,140

(f) Investment properties

	Investment properties
Cost	
As at January 1, 2023	23,150
Transfer from property and equipment	293
As at December 31, 2023, January 1, 2024 and June 30, 2024	23,443
Accumulated depreciation and impairment	
As at January 1, 2023	9,574
Charge for the year	665
As at December 31, 2023 and January 1, 2024	10,239
Charge for the period	280
As at June 30, 2024	10,519
Net book value	
As at June 30, 2024	12,924
As at December 31, 2023	13,204

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(g) Finance lease receivables

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

	June 30, 2024	December 31, 2023
Total minimum finance lease receivables		
Within 1 year (inclusive)	10,666,262	9,012,915
1 year to 5 years	14,079,352	13,277,870
Over 5 years	7,689,266	5,718,646
Gross amount of finance lease receivables	32,434,880	28,009,431
Less: Unearned finance income	(5,982,457)	(5,056,794)
Less: Unrealised VAT	(1,245,120)	(1,008,516)
Net amount of finance lease receivables	25,207,303	21,944,121
Interests accrued	294,492	347,315
Less: Provision for impairment losses	(830,296)	(782,556)
Carrying amount of finance lease receivables	24,671,499	21,508,880
Present value of minimum lease receivables		
Within 1 year (inclusive)	8,823,319	7,596,128
1 year to 5 years	11,100,732	10,579,145
Over 5 years	4,747,448	3,333,607
Total	24,671,499	21,508,880

The Group applies general approach on measure expected credit loss (“ECL”) on finance lease receivables based on the ECL measurement. The Group’s credit policy and exposure to credit risk on finance lease receivables are disclosed in note 39(a).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(g) Finance lease receivables (Cont'd)

Analysis of finance lease receivables and provision for impairment losses

	June 30, 2024			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	23,159,764	1,993,431	348,600	25,501,795
Less: Provision for impairment losses	(373,046)	(275,480)	(181,770)	(830,296)
Total carrying amount of finance lease receivables	22,786,718	1,717,951	166,830	24,671,499

	December 31, 2023			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
Total finance lease receivables measured at amortised cost	21,035,587	764,402	491,447	22,291,436
Less: Provision for impairment losses	(384,815)	(142,745)	(254,996)	(782,556)
Total carrying amount of finance lease receivables	20,650,772	621,657	236,451	21,508,880

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

23. OTHER ASSETS (CONT'D)

(g) Finance lease receivables (Cont'd)

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

	Six months ended June 30, 2024			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	384,815	142,745	254,996	782,556
Transferred:				
– to lifetime expected credit losses:				
not credit-impaired	(22,114)	109,914	(87,800)	–
Charge for the period	10,345	22,821	19,228	52,394
Written off and others	–	–	(4,654)	(4,654)
As at June 30	373,046	275,480	181,770	830,296

	Year ended December 31, 2023			Total
	Finance lease receivables that are assessed for expected credit losses over the next 12 months	Finance lease receivables that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired finance lease receivables that are assessed for lifetime expected credit loss	
As at January 1	269,795	136,235	288,799	694,829
Transferred:				
– to losses over the next 12 months	(6,650)	–	6,650	–
– to lifetime expected credit losses:				
not credit-impaired	(9,474)	9,474	–	–
credit-impaired	–	(15,943)	15,943	–
Charge for the year	131,144	12,979	174,300	318,423
Written off and others	–	–	(230,696)	(230,696)
As at December 31	384,815	142,745	254,996	782,556

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

24. PLEDGED ASSETS

(a) Assets pledged as collateral

	June 30, 2024	December 31, 2023
For borrowings from the central bank:		
– Financial investments measured at amortised costs	13,483,681	12,443,987
– Discounted bills	1,156,696	–
For repurchase agreements:		
– Financial investments measured at amortised costs	9,492,586	11,345,376
– Discounted bills	498,185	945,825
Total	24,631,148	24,735,188

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

(b) Pledged assets received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. See Note 16 for the Group's balance of the financial assets held under resale agreements. The fair value of such collateral accepted by the Group was RMB3,855.9 million as at June 30, 2024 (December 31, 2023: Nil). These transactions were conducted under standard terms in the normal course of business.

25. DEPOSITS FROM BANKS

Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
Deposits in mainland China		
– Banks	5,143,616	5,508,945
Sub-total	5,143,616	5,508,945
Interests accrued	8,740	10,039
Total	5,152,356	5,518,984

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

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26. PLACEMENTS FROM BANKS

Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
Placements in mainland China – Banks	26,588,480	22,340,280
Sub-total	26,588,480	22,340,280
Interests accrued	260,522	239,261
Total	26,849,002	22,579,541

27. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	June 30, 2024	December 31, 2023
In mainland China – Banks	9,798,103	11,348,056
Sub-total	9,798,103	11,348,056
Interests accrued	1,607	3,166
Total	9,799,710	11,351,222

(b) Analysed by type of collateral held

	June 30, 2024	December 31, 2023
Debt securities	9,299,500	10,400,000
Bank acceptance	498,603	948,056
Sub-total	9,798,103	11,348,056
Interests accrued	1,607	3,166
Total	9,799,710	11,351,222

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

28. DEPOSITS FROM CUSTOMERS

	June 30, 2024	December 31, 2023
Demand deposits		
– Corporate customers	58,843,135	48,611,835
– Individual customers	11,446,772	10,611,339
Sub-total	70,289,907	59,223,174
Time deposits		
– Corporate customers	88,647,035	91,295,962
– Individual customers	122,714,179	115,919,664
Sub-total	211,361,214	207,215,626
Inward and outward remittances	84,532	157,375
Interests accrued	7,870,870	7,382,333
Total	289,606,523	273,978,508

29. DEBT SECURITIES ISSUED

	Notes	June 30, 2024	December 31, 2023
Interbank deposits issued	(a)	28,158,227	21,600,077
Tier-two capital debts issued	(b)	5,699,712	5,699,690
Financial bonds issued	(c)	13,999,716	9,999,641
Sub-total		47,857,655	37,299,408
Interests accrued		403,262	146,780
Total		48,260,917	37,446,188

Notes:

(a) Interbank deposits issued

- i. In 2023, the Bank issued a number of certificates of interbank deposits with total nominal amount RMB53,400.0 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.80% to 2.90% per annum.
- ii. During the six months ended June 30, 2024, the Bank issued a number of certificates of interbank deposit with total minimal amount RMB31,690.0 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.90% to 2.55% per annum.
- iii. As at June 30, 2024, the fair value of interbank deposits issued was RMB28,179.8 million (December 31, 2023: RMB21,601.3 million).

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For the six months ended June 30, 2024

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29. DEBT SECURITIES ISSUED (CONT'D)

Notes: (Cont'd)

(b) Tier-two capital debts issued

- i. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB3,000.0 million on September 10, 2020. The coupon interest rate per annum is 4.20%.
- ii. The Bank issued 10-year fixed interest rate tier-two capital debts with face value of RMB2,700.0 million on July 29, 2022. The coupon interest rate per annum is 3.80%.
- iii. As at June 30, 2024, the fair value of the tier-two capital debts issued was RMB5,878.6 million (December 31, 2023: RMB5,763.5 million).

(c) Financial bonds issued

- i. On December 16, 2022, the Bank issued 3-year financial bonds specialised for small and micro enterprises with face value of RMB5,000.0 million. The coupon interest rate per annum is 3.00%.
- ii. On July 14, 2023, the Bank issued 3-year fixed interest rate green financial bonds with face value of RMB5,000.0 million. The coupon interest rate per annum is 2.70%.
- iii. On June 24, 2024, the Bank issued 3-year financial bonds specialised for small and micro enterprises with face value of RMB4,000.0 million. The coupon interest rate per annum is 2.10%.
- iv. As at June 30, 2024, the fair value of the financial bonds issued was RMB14,109.9 million (December 31, 2023: RMB10,012.6 million).

30. OTHER LIABILITIES

	Notes	June 30, 2024	December 31, 2023
Interest payable		35,061	11,676
Agency business liabilities		178,471	182,061
Accrued staff costs	(a)	784,030	806,659
Dividend payable		3,744	5,700
Settlement and clearing accounts		284,134	307,405
Output VAT payable		106,538	123,855
Contract liabilities	(b)	7,206	10,797
Provisions	(c)	65,257	66,988
Deposits received		342,358	282,687
Other tax payables		266,464	242,296
Receipt in advances		48,925	160,300
Others		402,019	482,620
Total		2,524,207	2,683,044

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30. OTHER LIABILITIES (CONT'D)

(a) Accrued staff costs

	June 30, 2024	December 31, 2023
Salary, bonuses and allowances payable	703,968	734,503
Social insurance payable	435	–
Others	79,627	72,156
Total	784,030	806,659

(b) Contract liabilities

As at June 30, 2024, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB7.2 million (December 31, 2023: RMB10.8 million). Such amount represents income expected to be recognised in the future from finance lease services. The Group will recognise the expected income in future as the services are provided. The expected timing of recognising revenue are ranged from one to five years.

(c) Provisions

	June 30, 2024	December 31, 2023
Provision for credit commitments	65,257	66,988

Movements of provisions for credit commitments are as follows:

	Six months ended June 30, 2024			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit- impaired	Lifetime expected credit losses credit-impaired	
As at January 1	66,988	–	–	66,988
Reversal for the period	(1,731)	–	–	(1,731)
As at June 30	65,257	–	–	65,257

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30. OTHER LIABILITIES (CONT'D)

(c) Provisions (Cont'd)

	Year ended December 31, 2023			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
As at January 1	67,501	–	–	67,501
Reversal for the year	(513)	–	–	(513)
As at December 31	66,988	–	–	66,988

31. SHARE CAPITAL

Authorised and issued share capital

	June 30, 2024	December 31, 2023
Ordinary shares in mainland China	4,971,197	4,971,197
Ordinary shares listed in Hong Kong (H-share)	1,008,861	1,008,861
Total	5,980,058	5,980,058

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

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32. RESERVES

(a) Capital reserve

	June 30, 2024	December 31, 2023
Share premium	4,933,399	4,933,399
Other capital reserve	(7,939)	(7,939)
Total	4,925,460	4,925,460

(b) Surplus reserve

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

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

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders. For the six months ended June 30, 2024, no resolution of discretionary surplus reserve was made by the shareholders (For the year ended December 31, 2023: RMB171.5 million).

(c) General reserve

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

(d) Fair value reserve

	Six months ended June 30, 2024	Year ended December 31, 2023
As at January 1	211,091	(187,430)
Changes in fair value recognised in other comprehensive income	1,061,397	531,361
Less: deferred tax	(265,349)	(132,840)
As at June 30/December 31	1,007,139	211,091

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For the six months ended June 30, 2024

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32. RESERVES (CONT'D)

(e) Impairment reserve

	Six months ended June 30, 2024	Year ended December 31, 2023
As at January 1	33,822	58,565
Impairment losses recognised in other comprehensive income	4,438	(32,991)
Less: deferred tax	(1,110)	8,248
As at June 30/December 31	37,150	33,822

(f) Other equity instrument

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

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

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

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

During the year ended December 31, 2023, the Group did not cancel the payment of distribution and the corresponding interest of RMB214.8 million was paid to perpetual bondholders accordingly.

During the six months ended June 30, 2024, the Group did not distribute interest on perpetual bonds.

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33. RETAINED EARNINGS

In accordance with the resolution at the Bank's Annual General Meeting on April 30, 2024, the shareholders approved the following profit appropriation for the year ended December 31, 2023:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Pursuant to the Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20), appropriation of general reserve amounted to approximately RMB438.1 million; and
- Declaration of cash dividend in an aggregation amount of approximately RMB598.0 million to shareholders whose names appear on the register of member of the Bank on May 13, 2024. The agreed dividend were distributed in the form of cash to the equity shareholders on May 31, 2024.

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

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

34. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

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

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognised as at June 30, 2024 and December 31, 2023:

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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34. INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONT'D)

- (a) Structured entities sponsored by third party institutions in which the Group holds an interest:
(Cont'd)

	June 30, 2024		December 31, 2023	
	Carrying amount	Maximum exposure	Carrying amount	Maximum Exposure
Financial investments measured at fair value through profit or loss	5,044,247	5,044,247	5,640,906	5,640,906
Financial investments measured at amortised cost	3,460,836	3,460,836	4,552,303	4,552,303
Total	8,505,083	8,505,083	10,193,209	10,193,209

As at June 30, 2024 and December 31, 2023, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

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

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. The Group does not control these structured entities and therefore, these structured entities are not consolidated. These structured entities are financed through the issue of units to investors. The Group earns commission fee by providing management services to the investors of these structured entities. As at June 30, 2024 and December 31, 2023, the management fee receivables being recognised are not material in the consolidated statement of financial position.

For the six months ended June 30, 2024, the amount of fee and commission income received from the abovementioned structured entities by the Group are RMB155.2 million (six months ended June 30, 2023: RMB249.1 million).

As at June 30, 2024, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products sponsored by the Group is RMB35,550.8 million (December 31, 2023: RMB35,628.3 million).

- (c) Unconsolidated structure entities sponsored by the Group during the period which the Group does not have an interest in as at June 30, 2024:

For the six months ended June 30, 2024, there was no non-principal guaranteed wealth management products sponsored and issued by the Group after January 1, but matured before June 30 (six months ended June 30, 2023: Nil).

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35. CAPITAL MANAGEMENT

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

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

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

Since January 1, 2024, the Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks" and other relevant regulations issued by the NFRA on November 1, 2023.

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

As the "Regulation Governing Capital of Commercial Banks" was effective from January 1, 2024, the capital adequacy ratios as of June 30, 2024 were calculated in accordance with "Regulation Governing Capital of Commercial Banks" while the capital adequacy ratio as of December 31, 2023 were calculated in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" issued by former CBRC on June 7, 2012.

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

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

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35. CAPITAL MANAGEMENT (CONT'D)

The Group's capital adequacy ratios calculated as follows:

	June 30, 2024	December 31, 2023
Total core tier-one capital		
– Share capital	5,980,058	5,980,058
– Qualifying portion of capital reserve	4,925,460	4,925,460
– Surplus reserve	1,720,576	1,720,576
– General reserve	4,144,800	3,690,579
– Other comprehensive income	1,044,289	244,913
– Retained earnings	5,601,415	5,579,161
– Qualifying portions of non-controlling interests	1,019,341	882,242
Core tier-one capital	24,435,939	23,022,989
Core tier-one capital deductions	(376,258)	(395,577)
Net core tier-one capital	24,059,681	22,627,412
Other tier-one capital	4,235,113	4,216,833
Net tier-one capital	28,294,794	26,844,245
Tier-two capital		
– Instruments issued and share premium	5,699,712	5,699,690
– Surplus provision for loan impairment	2,089,957	1,729,643
– Qualifying portions of non-controlling interests	271,824	235,264
Net tier-two capital	8,061,493	7,664,597
Net capital base	36,356,287	34,508,842
Total risk weighted assets	268,363,407	257,975,717
Core tier-one capital adequacy ratio	8.97%	8.77%
Tier-one capital adequacy ratio	10.54%	10.41%
Capital adequacy ratio	13.55%	13.38%

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For the six months ended June 30, 2024

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36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	Six months ended June 30,	
	2024	2023
Cash and cash equivalents as at June 30	15,157,471	14,552,203
Less: Cash and cash equivalents as at January 1	(12,994,610)	(17,525,673)
Net increase/(decrease) in cash and cash equivalents	2,162,861	(2,973,470)

(b) Cash and cash equivalents

	June 30, 2024	June 30, 2023
Cash on hand	219,589	225,205
Deposits with the central bank other than restricted deposits	8,001,557	7,165,521
Deposits with banks and other financial institutions	584,098	1,361,478
Debt investments with maturity three months or less	6,352,227	5,799,999
Total	15,157,471	14,552,203

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

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37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

i. Major shareholders

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

Shareholdings in the Bank:

	June 30, 2024	December 31, 2023
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	35.56%	35.56%
Weihai municipal Finance Bureau (威海市財政局)	15.38%	15.38%
Shandong Hi-Speed Company Limited (山東高速股份有限公司)	11.60%	11.60%
Weihai Tian'an Real Estate Development Co., Ltd. (威海天安房地產開發有限公司)	2.75%	2.75%
Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd (山東環球漁具股份有限公司)	1.39%	1.39%
Shandong Homey Aquatic Development Co., Ltd. (山東好當家海洋發展股份有限公司)	1.20%	1.20%

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

ii. Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 19.

iii. Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37(a) or their controlling shareholders.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

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

i. Transactions between the Bank and major shareholders:

	Six months ended June 30,	
	2024	2023
Transactions during the period		
Interest income	3,771	5,778
Interest expense	47,119	32,784
Fee and commission income	27	1,658
	June 30, 2024	December 31, 2023
Balances at end of the period/year		
Deposits from customers	7,904,984	3,716,011
Financial investments	200,768	205,377

ii. Transactions between the Bank and its subsidiary:

	Six months ended June 30,	
	2024	2023
Transactions during the period		
Interest income	42,937	47,434
Interest expense	7,647	6,564
Rental income	1,040	1,040
	June 30, 2024	December 31, 2023
Balances at end of the period/year		
Loans and advances to customers	2,405,739	2,426,896
Deposits from customers	202,559	222,796

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

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

iii. Transactions between the Bank and other related parties:

	Six months ended June 30,	
	2024	2023
Transactions during the period		
Interest income	108,950	118,763
Interest expense	90,463	57,884
Fee and commission income	8,831	6,826
Rental expenses	648	648
	June 30,	December 31,
	2024	2023
Balances at end of the period/year		
Loans and advances to customers	3,855,201	5,097,685
Deposits from customers	9,288,774	21,001,802
Financial investments	260,035	306,094
Bank acceptances	114,242	424,384
Letters of guarantees	136,727	141,959
Letters of credit	1,475,000	1,275,000

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and senior management.

i. Transactions between the Bank and key management personnel

	Six months ended June 30,	
	2024	2023
Transactions during the period		
Interest income	22	33
Interest expense	153	526
	June 30,	December 31,
	2024	2023
Balances at end of the period/year		
Loans and advances to customers	1,085	1,482
Deposits from customers	12,461	13,330

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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37. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(c) Key management personnel (Cont'd)

ii. Key management personnel compensation

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

	Six months ended June 30,	
	2024	2023
Key management personnel compensation	7,619	7,114

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

	June 30, 2024	December 31, 2023
Aggregate amount of relevant loans outstanding at the end of the period/year	1,085	1,482
Maximum aggregate amount of relevant loans outstanding during the period/year	1,482	1,693

There were no amount due but unpaid at June 30, 2024 and December 31, 2023.

38. SEGMENT REPORTING

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

Corporate banking

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

Retail banking

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

38. SEGMENT REPORTING (CONT'D)

Financial market business

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

Others

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

38. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2024				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income/(expense)	2,504,444	(869,329)	1,828,222	–	3,463,337
Internal net interest income/(expense)	56,779	1,800,530	(1,857,309)	–	–
Net interest income/(expense)	2,561,223	931,201	(29,087)	–	3,463,337
Net fee and commission					
Income/(expense)	70,347	55,477	135,113	(1,904)	259,033
Net trading (losses)/gains	(1,523)	–	39,385	–	37,862
Net gains arising from investment securities	–	–	680,330	–	680,330
Other operating income	113,974	–	–	1,476	115,450
Operating income	2,744,021	986,678	825,741	(428)	4,556,012
Operating expenses	(591,882)	(245,631)	(122,590)	(10,443)	(970,546)
Impairment losses on assets	(1,373,274)	(391,250)	(400,332)	(4,729)	(2,169,585)
Profit/(loss) before tax	778,865	349,797	302,819	(15,600)	1,415,881
Segment assets	188,771,917	54,985,524	173,379,367	3,020,212	420,157,020
Deferred tax assets	–	–	–	2,707,064	2,707,064
Total assets	188,771,917	54,985,524	173,379,367	5,727,276	422,864,084
Segment liabilities	186,310,131	140,379,861	64,393,295	2,458,299	393,541,586
Total liabilities	186,310,131	140,379,861	64,393,295	2,458,299	393,541,586
Other segment information					
– Depreciation and amortisation	92,647	43,071	19,627	279	155,624
– Capital expenditure	663,358	308,393	140,528	–	1,112,279

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38. SEGMENT REPORTING (CONT'D)

	Six months ended June 30, 2023				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income/(expense)	1,981,346	(597,353)	1,907,716	–	3,291,709
Internal net interest income/(expense)	468,756	1,525,033	(1,993,789)	–	–
Net interest income	2,450,102	927,680	(86,073)	–	3,291,709
Net fee and commission					
Income/(expense)	58,131	55,716	231,738	(1,684)	343,901
Net trading gains/(losses)	(2,733)	–	135,329	–	132,596
Net gains arising from investment securities	–	–	558,287	–	558,287
Other operating income	17,283	–	–	5,205	22,488
Operating income	2,522,783	983,396	839,281	3,521	4,348,981
Operating expenses	(514,174)	(240,431)	(102,936)	(10,784)	(868,325)
Impairment losses on assets	(1,395,947)	(391,552)	(402,514)	(2,186)	(2,192,199)
Profit/(loss) before tax	612,662	351,413	333,831	(9,449)	1,288,457
Other segment information					
– Depreciation and amortisation	66,912	31,915	13,367	843	113,037
– Capital expenditure	33,182	15,827	6,629	–	55,638
	Year ended December 31, 2023 (Audited)				Total
	Corporate banking	Retail banking	Financial market business	Others	
Segment assets	171,464,783	57,089,104	159,362,724	1,374,775	389,291,386
Deferred tax assets	–	–	–	2,585,440	2,585,440
Total assets	171,464,783	57,089,104	159,362,724	3,960,215	391,876,826
Segment liabilities	184,626,101	132,151,318	44,821,672	2,269,842	363,868,933
Total liabilities	184,626,101	132,151,318	44,821,672	2,269,842	363,868,933

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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39. RISK MANAGEMENT

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

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

Risk management system

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

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

(a) Credit risk

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

Credit business

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Credit business (Cont'd)

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

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

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

Stages of risks in financial instrument

Stage 1

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

Stage 2

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

Stage 3

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Significant increase in credit risk

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

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

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

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

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

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

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

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

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

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of expected credit losses ("**ECLs**")

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

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

(Expressed in thousands of Renminbi, unless otherwise stated)

39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

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

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

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

As at June 30, 2024 and December 31, 2023, there has been no significant changes in the estimate techniques and key assumptions of the Group.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2024

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

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

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

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For the six months ended June 30, 2024

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

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

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

A higher probability weight is assigned to the Baseline scenario to reflect the most likely outcome and a lower probability weight is assigned to the Optimistic and Pessimistic scenarios to reflect the less likely outcomes. As at June 30, 2024, the weights assigned to various economic scenarios were: "Baseline" 60%, "Optimistic" 20%, and "Pessimistic" 20% (December 31, 2023: the same).

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

	June 30, 2024	December 31, 2023
Macroeconomic Factor	Range of the factors	
GDP: accumulated year-on-year	5.0%-5.2%	4.8%-5.0%
M2: accumulated year-on-year	–	9.5%-10.4%
CPI: accumulated year-on-year	0.5%-0.6%	–

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

As at June 30, 2024, if 5% of the probability weight is shifted from Baseline scenario to Pessimistic scenario, the impairment allowance of loans and advances will increase by 0.14% (December 31, 2023: increase by 0.13%), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will increase by 0.01% (December 31, 2023: increase by 0.42%). If 5% of the probability weight is shifted from Baseline scenario to Optimistic scenario, the impairment allowance of loans and advances will decrease by 0.05% (December 31, 2023: decrease by 0.26%), and the impairment allowance of debt investments at amortised cost and fair value through other comprehensive income will decrease by 0.01% (December 31, 2023: decrease by 0.33%).

i. Maximum credit risk exposure

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

	June 30, 2024				
	Loans and advances to customers	Deposits with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months					
– Overdue but not credit-impaired	718,865	-	-	-	22,084
– Neither overdue nor credit-impaired	195,976,819	592,338	3,858,701	140,485,324	23,280,085
Sub-total	196,695,684	592,338	3,858,701	140,485,324	23,302,169
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs					
– Overdue but not credit-impaired	577,911	-	-	-	516,030
– Neither overdue nor credit-impaired	5,318,982	-	-	-	1,390,444
Sub-total	5,896,893	-	-	-	1,906,474
Balance of credit-impaired financial assets that are assessed for lifetime ECLs					
– Overdue and credit-impaired	2,568,177	-	-	3,039,620	701,600
– Credit-impaired but not overdue	264,120	-	-	2,000,000	-
Sub-total	2,832,297	-	-	5,039,620	701,600
Interests accrued	1,751,846	52	731	2,387,946	294,492
Less: Provision for impairment losses	(4,548,458)	(659)	(3,516)	(2,004,579)	(1,045,450)
Net value	202,628,262	591,731	3,855,916	145,908,311	25,159,285

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

	December 31, 2023			
	Loans and advances to customers	Deposits/placements with banks and other financial institutions	Financial investments (Note i)	Others (Note ii)
Balance of financial assets that are assessed for ECLs over the next 12 months				
- Overdue but not credit-impaired	11,684,895	-	-	22,623
- Neither overdue nor credit-impaired	171,020,444	891,422	130,585,417	21,187,336
Sub-total	182,705,339	891,422	130,585,417	21,209,959
Balance of financial assets that are not credit-impaired and assessed for lifetime ECLs				
- Overdue but not credit-impaired	614,875	-	-	144,740
- Neither overdue nor credit-impaired	3,884,943	-	2,498,751	628,532
Sub-total	4,499,818	-	2,498,751	773,272
Balance of credit-impaired financial assets that are assessed for lifetime ECLs				
- Overdue and credit-impaired	2,627,763	-	2,784,619	634,128
- Credit-impaired but not overdue	132,208	-	850,000	342,047
Sub-total	2,759,971	-	3,634,619	976,175
Interests accrued	1,612,123	85	2,653,548	347,315
Less: Provision for impairment losses	(4,172,577)	(985)	(1,895,702)	(1,003,457)
Net value	187,404,674	890,522	137,476,633	22,303,264

Notes:

- i. Financial investments include financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.
- ii. Others comprise interest receivables, finance lease receivables and other receivables in other assets.
- iii. As at June 30, 2024, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB706.5 million (December 31, 2023: RMB1,199.3 million). The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB8,146.5 million (December 31, 2023: RMB7,206.6 million). The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

Financial assets (exclusive interests accrued) analysed by credit quality

	June 30, 2024								
	Balance				Provision for impairment losses				ECL Rate Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	25,949,907	-	-	25,949,907	-	-	-	-	N/A
Deposits with banks and other financial institutions	592,338	-	-	592,338	(659)	-	-	(659)	0.11%
Financial assets held under resale agreements	3,858,701	-	-	3,858,701	(3,516)	-	-	(3,516)	0.09%
Loans and advances to customers	181,205,532	5,896,893	2,832,297	189,934,722	(2,212,654)	(859,898)	(1,437,621)	(4,510,173)	2.37%
Financial investments	72,437,195	-	5,039,620	77,476,815	(68,718)	-	(1,894,147)	(1,962,865)	2.53%
Other assets	23,302,169	1,906,474	701,600	25,910,243	(378,518)	(275,702)	(391,230)	(1,045,450)	4.03%
Total	307,345,842	7,803,367	8,573,517	323,722,726	(2,664,065)	(1,135,600)	(3,722,998)	(7,522,663)	2.32%
Financial assets measured at fair value through other comprehensive income:									
Loans and advances to customers	15,490,152	-	-	15,490,152	(33,430)	-	-	(33,430)	0.22%
Financial investments	68,048,129	-	-	68,048,129	(15,882)	-	-	(15,882)	0.02%
Total	83,538,281	-	-	83,538,281	(49,312)	-	-	(49,312)	0.06%
Credit commitments	67,785,865	-	-	67,785,865	(65,257)	-	-	(65,257)	0.10%

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

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

	Balance				December 31, 2023				ECL rate Total
					Provision for impairment losses				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Financial assets measured at amortised cost:									
Cash and deposits with the central bank	27,264,622	-	-	27,264,622	-	-	-	-	N/A
Deposits with banks and other financial institutions	834,760	-	-	834,760	(889)	-	-	(889)	0.11%
Placements with banks	56,662	-	-	56,662	(96)	-	-	(96)	0.17%
Loans and advances to customers	171,844,057	4,499,818	2,759,971	179,103,846	(1,972,541)	(938,560)	(1,245,628)	(4,156,729)	2.32%
Financial investments	76,204,071	2,498,751	3,634,619	82,337,441	(79,497)	(197,169)	(1,580,348)	(1,857,014)	2.26%
Other assets	21,209,959	773,272	976,175	22,959,406	(387,307)	(142,943)	(473,207)	(1,003,457)	4.37%
Total	297,414,131	7,771,841	7,370,765	312,556,737	(2,440,330)	(1,278,672)	(3,299,183)	(7,018,185)	2.25%
Financial assets at fair value through other comprehensive income:									
Loans and advances to customers	10,861,282	-	-	10,861,282	(25,927)	-	-	(25,927)	0.24%
Financial investments	54,381,346	-	-	54,381,346	(19,169)	-	-	(19,169)	0.04%
Total	65,242,628	-	-	65,242,628	(45,096)	-	-	(45,096)	0.07%
Credit commitments	62,179,193	-	-	62,179,193	(66,988)	-	-	(66,988)	0.11%

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

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

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

	June 30, 2024			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.87%	14.55%	43.42%	2.32%
Financial assets measured at fair value through other comprehensive income	0.06%	N/A	N/A	0.06%
Credit commitments	0.10%	N/A	N/A	0.10%

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.82%	16.45%	44.76%	2.25%
Financial assets measured at fair value through other comprehensive income	0.07%	N/A	N/A	0.07%
Credit commitments	0.11%	N/A	N/A	0.11%

iii. Rescheduled loans and advances to customers

Rescheduled loans and advances to customers refer to the loans that the Group adjust the repayment terms of the loan contract due to the deterioration of the borrower's financial condition or inability to repay. As at June 30, 2024, the Group has rescheduled loans and advances to customers amounted to RMB2,103.3 million (December 31, 2023: RMB1,109.9 million).

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(a) Credit risk (Cont'd)

Measurement of ECLs (Cont'd)

iv. Credit rating

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

	June 30, 2024	December 31, 2023
Neither overdue nor impaired		
Ratings		
– AAA	41,495,122	39,205,876
– AA– to AA+	23,599,773	24,580,469
– below AA–	450,000	1,838,723
Sub-total	65,544,895	65,625,068
Unrated	72,975,994	63,033,810
Total	138,520,889	128,658,878

(b) Market risk

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

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

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

Interest rate risk

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

Repricing risk

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk

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

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

	June 30, 2024					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	25,958,530	442,242	25,516,288	-	-	-
Deposits with banks and other financial institutions	591,731	52	591,679	-	-	-
Financial assets held under resale agreements	3,855,916	731	3,855,185	-	-	-
Loans and advances to customers (Note (i))	202,628,262	3,116,113	30,012,693	71,949,532	62,284,153	35,265,771
Financial investments (Note (ii))	153,076,339	2,755,569	9,575,605	4,972,543	46,973,664	88,798,958
Other assets	36,753,306	12,376,300	2,659,186	5,869,640	11,100,732	4,747,448
Total assets	422,864,084	18,691,007	72,210,636	82,791,715	120,358,549	128,812,177
Liabilities						
Borrowings from the central Bank	10,748,950	4,715	3,610,920	7,133,315	-	-
Deposits from banks	5,152,356	8,739	2,873,617	2,270,000	-	-
Placements from banks	26,849,002	260,522	7,855,480	18,246,000	487,000	-
Financial assets sold under repurchase agreements	9,799,710	1,607	9,798,103	-	-	-
Deposits from customers	289,606,523	78,245,309	36,442,567	69,536,781	105,381,866	-
Debt securities issued	48,260,917	403,261	14,907,897	13,250,330	13,999,717	5,699,712
Other liabilities	3,124,128	2,727,779	28,830	47,381	217,974	102,164
Total liabilities	393,541,586	81,651,932	75,517,414	110,483,807	120,086,557	5,801,876
Asset-liability gap	29,322,498	(62,960,925)	(3,306,778)	(27,692,092)	271,992	123,010,301

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

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

	Total	December 31, 2023				
		Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	27,274,166	379,138	26,895,028	-	-	-
Deposits with banks and other financial institutions	833,928	57	833,871	-	-	-
Placements with banks	56,594	28	56,566	-	-	-
Loans and advances to customers (Note (i))	187,404,674	2,708,208	28,597,772	63,350,726	56,654,229	36,093,739
Financial investments (Note (ii))	145,892,938	3,018,337	14,966,874	5,966,790	40,397,693	81,543,244
Other assets	30,414,526	8,893,057	2,045,784	5,280,291	10,775,260	3,420,134
Total assets	391,876,826	14,998,825	73,395,895	74,597,807	107,827,182	121,057,117
Liabilities						
Borrowings from the central bank	9,836,382	5,671	2,632,865	7,197,846	-	-
Deposits from banks	5,518,984	10,039	2,358,945	3,150,000	-	-
Placements from banks	22,579,541	239,261	7,584,096	13,868,184	888,000	-
Financial assets sold under repurchase agreements	11,351,222	3,166	11,348,056	-	-	-
Deposits from customers	273,978,508	66,710,828	21,449,965	83,807,490	102,010,225	-
Debt securities issued	37,446,188	146,780	6,918,990	14,681,087	9,999,641	5,699,690
Others liabilities	3,158,108	2,354,471	31,691	209,761	328,566	233,619
Total liabilities	363,868,933	69,470,216	52,324,608	122,914,368	113,226,432	5,933,309
Asset-liability gap	28,007,893	(54,471,391)	21,071,287	(48,316,561)	(5,399,250)	115,123,808

Notes:

- i. As at June 30, 2024, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB1,016.8 million (December 31, 2023: RMB1,507.6 million).
- ii. Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Trading interest rate risk (Cont'd)

(ii) Interest rate sensitivity analysis

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

	June 30, 2024	December 31, 2023
Change in net profit		
Up 100 bps parallel shift in yield curves	136,977	166,249
Down 100 bps parallel shift in yield curves	(136,977)	(166,249)

	June 30, 2024	December 31, 2023
Change in equity		
Up 100 bps parallel shift in yield curves	163,632	209,875
Down 100 bps parallel shift in yield curves	(163,632)	(209,875)

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

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

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk

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

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

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

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

	June 30, 2024			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	25,744,548	213,982	–	25,958,530
Deposits with banks and other financial institutions	360,233	198,446	33,052	591,731
Financial assets held under resale agreements	3,855,916	–	–	3,855,916
Loans and advances to customers	202,339,938	288,324	–	202,628,262
Financial investments (Note)	150,779,540	2,296,799	–	153,076,339
Others	36,746,956	29	6,321	36,753,306
Total assets	419,827,131	2,997,580	39,373	422,864,084
Liabilities				
Borrowings from the central bank	10,748,950	–	–	10,748,950
Deposits from banks	4,937,956	214,400	–	5,152,356
Placements from banks	25,772,160	1,076,842	–	26,849,002
Financial assets sold under repurchase agreements	9,799,710	–	–	9,799,710
Deposits from customers	287,694,398	1,898,458	13,667	289,606,523
Debt securities issued	48,260,917	–	–	48,260,917
Others	3,098,876	23,689	1,563	3,124,128
Total liabilities	390,312,967	3,213,389	15,230	393,541,586
Net position	29,514,164	(215,809)	24,143	29,322,498
Off-balance sheet credit commitments	67,525,739	255,729	4,398	67,785,866

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(b) Market risk (Cont'd)

Foreign currency risk (Cont'd)

	RMB	December 31, 2023		Total (RMB Equivalent)
		USD (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	27,098,710	175,456	–	27,274,166
Deposits with banks and other financial institutions	492,430	315,665	25,833	833,928
Placements with banks	–	56,594	–	56,594
Loans and advances to customers	187,257,905	146,769	–	187,404,674
Financial investments (<i>Note</i>)	143,611,744	2,281,194	–	145,892,938
Other assets	30,406,188	–	8,338	30,414,526
Total assets	388,866,977	2,975,678	34,171	391,876,826
Liabilities				
Borrowing from the central bank	9,836,382	–	–	9,836,382
Deposits from banks and other financial institutions	5,161,994	356,990	–	5,518,984
Placements from banks	21,862,893	716,648	–	22,579,541
Financial assets sold under repurchase agreements	11,351,222	–	–	11,351,222
Deposits from customers	271,901,683	2,069,708	7,117	273,978,508
Debt securities issued	37,446,188	–	–	37,446,188
Other liabilities	2,995,672	162,420	16	3,158,108
Total liabilities	360,556,034	3,305,766	7,133	363,868,933
Net position	28,310,943	(330,088)	27,038	28,007,893
Off-balance sheet credit commitments	62,124,293	54,900	–	62,179,193

Note:

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) *Liquidity risk*

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Risk Management Department, Financial Planning Department, Corporate Banking Department, Retail Banking Department, Department of Credit Approval, Department of Financial Market, Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group: strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the Financial Planning Department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

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

	June 30, 2024							Total
	Indefinite <i>Note (i)</i>	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	17,728,762	8,221,145	-	8,623	-	-	-	25,958,530
Deposits with banks and other financial institutions	8,239	583,440	-	52	-	-	-	591,731
Financial assets held under resale agreements	-	-	3,855,916	-	-	-	-	3,855,916
Loans and advances to customers	1,811,872	400,773	11,804,526	18,718,058	72,006,898	62,468,391	35,417,744	202,628,262
Financial investments	1,842,630	-	6,111,638	2,837,767	6,511,682	46,973,664	88,798,958	153,076,339
Others	9,567,578	3,213,978	914,712	1,339,218	5,869,640	11,100,732	4,747,448	36,753,306
Total assets	30,959,081	12,419,336	22,686,792	22,903,718	84,388,220	120,542,787	128,964,150	422,864,084
Liabilities								
Borrowings from the central bank	-	-	1,582,408	2,033,227	7,133,315	-	-	10,748,950
Deposits from banks	-	9,813	1,869,263	1,000,694	2,272,586	-	-	5,152,356
Placements from banks	-	-	3,087,197	4,888,605	18,384,029	489,171	-	26,849,002
Financial assets sold under repurchase agreements	-	-	9,799,710	-	-	-	-	9,799,710
Deposits from customers	-	72,340,495	11,029,840	26,430,826	71,479,435	108,325,927	-	289,606,523
Debt securities issued	-	-	4,704,116	10,526,577	13,330,795	13,999,717	5,699,712	48,260,917
Others	-	2,296,154	46,804	100,721	77,309	354,458	248,682	3,124,128
Total liabilities	-	74,646,462	32,119,338	44,980,650	112,677,469	123,169,273	5,948,394	393,541,586
Net position	30,959,081	(62,227,126)	(9,432,546)	(22,076,932)	(28,289,249)	(2,626,486)	123,015,756	29,322,498

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

	Indefinite Note (i)	Repayable on demand	Within one month	December 31, 2023				Total
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	17,608,020	9,554,154	-	10,075	101,917	-	-	27,274,166
Deposits with banks and other financial institutions	8,049	825,822	-	57	-	-	-	833,928
Placements with banks	-	-	56,594	-	-	-	-	56,594
Loans and advances to customers	1,771,161	850,815	8,301,774	19,863,428	56,894,201	63,627,654	36,095,641	187,404,674
Financial investments	950,107	-	11,539,663	3,041,790	6,068,457	41,508,292	82,784,629	145,892,938
Others	5,575,916	3,497,120	919,822	1,289,874	5,217,650	10,580,203	3,333,941	30,414,526
Total assets	25,913,253	14,727,911	20,817,853	24,205,224	68,282,225	115,716,149	122,214,211	391,876,826
Liabilities								
Borrowings from the central bank	-	-	659,198	1,974,942	7,202,242	-	-	9,836,382
Deposits from banks	-	4,811	2,002,984	356,990	3,154,199	-	-	5,518,984
Placements from banks	-	-	3,561,290	8,865,590	9,261,985	890,676	-	22,579,541
Financial assets sold under repurchase agreements	-	-	11,351,222	-	-	-	-	11,351,222
Deposits from customers	-	59,427,297	21,803,577	23,025,673	63,595,220	106,126,741	-	273,978,508
Debt securities issued	-	-	2,486,646	4,432,344	14,827,867	9,999,641	5,699,690	37,446,188
Others	-	2,525,569	28,159	3,492	49,316	317,953	233,619	3,158,108
Total liabilities	-	61,957,677	41,893,076	38,659,031	98,090,829	117,335,011	5,933,309	363,868,933
Net position	25,913,253	(47,229,766)	(21,075,223)	(14,453,807)	(29,808,604)	(1,618,862)	116,280,902	28,007,893

Note:

- (i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired financial investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(c) Liquidity risk (Cont'd)

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

	June 30, 2024							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from the central bank	10,748,950	10,927,167	-	1,606,042	2,062,908	7,258,217	-	-
Deposits from banks	5,152,356	5,183,220	9,813	1,871,534	1,003,847	2,298,026	-	-
Placements from banks	26,849,002	27,348,526	-	3,104,280	4,939,298	18,783,518	521,430	-
Financial assets sold under repurchase agreements	9,799,710	9,799,827	-	9,301,224	498,603	-	-	-
Deposits from customers	289,606,523	297,958,947	72,340,495	9,287,977	26,993,228	72,741,271	116,595,976	-
Debt securities issued	48,260,917	51,288,098	-	4,872,397	10,629,821	13,920,790	15,502,512	6,362,578
Other financial liabilities	1,896,918	1,932,320	1,068,943	47,921	102,868	85,303	375,492	251,793
Total non-derivative financial liabilities	392,314,376	404,438,105	73,419,251	30,091,375	46,230,573	115,087,125	132,995,410	6,614,371

	December 31, 2023							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from the central bank	9,836,382	10,017,724	-	668,963	2,007,137	7,341,624	-	-
Deposits from banks	5,518,984	5,599,968	4,811	2,004,900	360,416	3,229,841	-	-
Placements from banks	22,579,541	22,984,574	-	3,571,436	8,980,707	9,479,351	953,080	-
Financial assets sold under repurchase agreements	11,351,222	11,356,590	-	11,356,590	-	-	-	-
Deposits from customers	273,978,508	278,237,603	59,427,297	21,919,554	22,405,087	64,081,276	110,404,389	-
Debt securities issued	37,446,188	40,463,808	-	2,506,860	4,533,906	15,725,952	11,334,512	6,362,578
Other financial liabilities	1,948,132	2,002,118	1,315,594	28,684	6,031	59,998	350,357	241,454
Total non-derivative financial liabilities	362,658,957	370,662,385	60,747,702	42,053,987	38,293,284	99,918,042	123,042,338	6,604,032

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

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39. RISK MANAGEMENT (CONT'D)

Risk management system (Cont'd)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of 'robust' risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.
- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel violating operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

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40. FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(b) Fair value measurement

(i) *Financial assets*

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

Deposits with the central bank and deposits with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial investments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

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40. FAIR VALUE (CONT'D)

(b) Fair value measurement (Cont'd)

(ii) Financial liabilities

The Group's financial liabilities mainly include borrowings from the central bank, deposits from banks, placements from banks, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued is presented in Note 29. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	June 30, 2024			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	1,684,260	–	1,684,260
– equity investments	211,318	–	–	211,318
– investment funds	–	3,921,198	–	3,921,198
– investment management products	–	–	1,031,582	1,031,582
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	66,420,699	–	66,420,699
– equity investments	–	–	319,670	319,670
– assets-backed securities	–	233,987	–	233,987
– interbank deposits	–	2,301,464	–	2,301,464
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	15,490,152	–	15,490,152
Total	211,318	90,051,760	1,351,252	91,614,330

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

	December 31, 2023			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments measured at fair value through profit or loss				
– debt securities	–	1,839,453	–	1,839,453
– equity investments	206,587	–	–	206,587
– investment funds	–	4,916,188	–	4,916,188
– assets-backed securities	–	413,699	–	413,699
– investment management products	–	–	724,718	724,718
Financial investments measured at fair value through other comprehensive income				
– debt securities	–	52,542,697	–	52,542,697
– equity investments	–	–	315,660	315,660
– assets-backed securities	–	179,398	–	179,398
– interbank deposits	–	2,631,754	–	2,631,754
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	10,861,282	–	10,861,282
Total	206,587	73,384,471	1,040,378	74,631,436

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The movement during the each of the reporting period in the balance of Level 3 fair value measurements is as follows:

	January 1, 2024	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				June 30, 2024	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss												
- investment management products	724,718	-	-	(50,776)	-	370,096	-	-	(12,456)	1,031,582	(50,776)	
Financial investments measured at fair value through other comprehensive income												
- equity investments	315,660	-	-	-	4,010	-	-	-	-	319,670	-	
Total	1,040,378	-	-	(50,776)	4,010	370,096	-	-	(12,456)	1,351,252	(50,776)	

	January 1, 2023	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements				December 31, 2023	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year	
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	Settlements			
Assets												
Financial investments measured at fair value through profit or loss												
- investment management products	789,813	-	-	12,341	-	33,478	-	-	(110,914)	724,718	5,769	
Financial investments measured at fair value through other comprehensive income												
- equity investments	312,613	-	-	-	3,047	-	-	-	-	315,660	-	
Total	1,102,426	-	-	12,341	3,047	33,478	-	-	(110,914)	1,040,378	5,769	

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

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at June 30, 2024	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss – investment management products	1,031,582	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income – equity investments	319,670	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at December 31, 2023	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss – investment management products	724,718	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income – equity investments	315,660	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the six months ended June 30, 2024 and year ended December 31, 2023, there were no significant change in the valuation techniques.

As at June 30, 2024 and December 31, 2023, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments and investment management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

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40. FAIR VALUE (CONT'D)

(c) Fair value hierarchy (Cont'd)

The sensitivity analysis of the fair value on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis is set out as below.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

	June 30, 2024			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets measured at fair value through profit or loss				
– investment management products	7,737	(7,737)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	2,398	(2,398)
	December 31, 2023			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets measured at fair value through profit or loss				
– investment management products	5,435	(5,435)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	2,367	(2,367)

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41. TRANSACTIONS ON BEHALF OF CUSTOMERS

(a) Entrusted lending business

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group only acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the consolidated statements of financial position. Surplus funding is accounted for as deposits from customers.

	June 30, 2024	December 31, 2023
Entrusted loans	5,772,009	10,182,876
Entrusted funds	5,772,009	10,182,876

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds and funds. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. At the end of each of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	June 30, 2024	December 31, 2023
Funds received from customers under wealth management services	34,463,161	34,865,506

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42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, letters of credit, financial guarantees and credit card commitments.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	June 30, 2024	December 31, 2023
Acceptances	51,614,462	46,727,268
Letters of credit	11,350,828	10,903,720
Letters of guarantees	2,374,190	2,115,696
Credit card commitments	2,446,385	2,432,509
Total	67,785,865	62,179,193

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount for credit commitments

	June 30, 2024	December 31, 2023
Credit risk-weighted amounts	8,441,236	8,734,510

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the NFRA.

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42. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(c) Capital commitments

As at the end of each of the reporting period, the Group's authorised capital commitments are as follows:

	June 30, 2024	December 31, 2023
Property and equipment		
– Contracted but not paid for	150,641	24,894
Intangible assets		
– Contracted but not paid for	67,510	93,738
Total	218,151	118,632

(d) Outstanding litigations and disputes

As at June 30, 2024 and December 31, 2023, the Group had not identified any outstanding litigations and disputes which the Group as defendant with an estimated gross amounts larger than RMB10 million. The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Group's internal lawyers, it is unlikely for the Group to receive unfavorable ruling in these case. Therefore, the Group has not recognised the litigation provision at the reporting date. Directors of the Bank are of the view that these litigations will not have any material adverse effect on the Group's business, financial condition, results of operations or prospects.

43. COMPARATIVE FIGURES

For financial statements disclosure purpose, the Group made reclassification adjustments.

CHAPTER 12 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The Bank discloses the unaudited supplementary financial information in accordance with the Listing Rules and the Banking (Disclosure) Rules as follows:

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

1.1 Liquidity coverage ratio

Liquidity coverage ratio (RMB'000)	June 30, 2024	December 31, 2023
Qualified and quality liquidity assets	109,849,615	97,911,424
Amount of net cash outflows in the next 30 days	41,630,264	34,994,706
Liquidity coverage ratio	263.87%	279.79%

According to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

1.2 Leverage ratio

	June 30, 2024	December 31, 2023
Leverage ratio	5.89%	6.03%

Pursuant to the Administrative Measures on the Capital of Commercial Banks (《商業銀行資本管理辦法》) issued by the NFRA and became effective since January 1, 2024, a minimum leverage ratio of 4% is required for commercial banks.

The following table sets forth the relevant accounting items corresponding to the regulatory leverage ratio items and the differences between the regulatory items and accounting items.

Unit: RMB'000

No.	Item	June 30, 2024	December 31, 2023
1	Consolidated total assets	422,864,084	391,876,826
2	Consolidated adjustments	-	-
3	Adjustments for client assets	-	-
4	Adjustments for derivatives	12,622	53,785
5	Adjustments for securities finance transactions	-	-
6	Adjustments for off-balance sheet items	58,158,589	53,363,024
7	Adjustments for asset securitization transactions	-	-
8	Adjustments for unsettled financial assets	-	-
9	Adjustments for cash pools	-	-
10	Adjustments for deposit reserves (if any)	-	-
11	Adjustments for prudent valuation and impairment allowances	-	-
12	Other adjustments	(376,258)	(395,577)
13	Balance of on- and off-balance sheet assets after adjustments	480,659,037	444,898,058

Chapter 12 Unaudited Supplementary Financial Information

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

1.2 Leverage ratio (Cont'd)

The following table sets forth information on the Bank's leverage ratio, net tier-one capital, on- and off-balance sheet assets after adjustments and relevant breakdown.

Unit: RMB'000

No.	Item	June 30, 2024	December 31, 2023
1	On-balance sheet assets (excluding derivatives and securities finance transactions)	426,622,138	398,288,089
2	Less: Impairment allowances	(7,653,220)	(6,459,249)
3	Less: Tier-one capital deductions	(376,258)	(395,577)
4	Balance of on-balance sheet assets after adjustments (excluding derivatives and securities finance transactions)	418,592,660	391,433,263
5	Replacement cost of various derivatives (net of qualified security deposits)	18,029	26,626
6	Potential risk exposure of various derivatives	31,058	75,145
7	Total collateral and pledges charged to the balance sheet	—	—
8	Less: Assets receivable arising from provision of qualified security deposits	—	—
9	Less: Balance of assets of derivatives arising from transactions with central counterparties when providing clearing services to customers	—	—
10	Notional principal amount of sold credit derivatives	—	—
11	Less: Balance of deductible assets of sold credit derivatives	—	—
12	Balance of assets of derivatives	49,087	101,771
13	Balance of accounting assets for securities finance transactions	3,858,701	—
14	Less: Balance of deductible assets of securities finance transactions	—	—
15	Counterparty credit risk exposure of securities finance transactions	—	—
16	Balance of assets of securities finance transactions arising from agency securities finance transactions	—	—
17	Balance of assets of securities finance transactions	3,858,701	—
18	Balance of off-balance sheet items	70,794,958	65,722,253
19	Less: Balance of off-balance sheet items deducted by credit conversion	(12,571,112)	(12,274,003)
20	Less: Impairment allowances of off-balance sheet items	(65,257)	(85,226)
21	Balance of off-balance sheet items after adjustments	58,158,589	53,363,024
22	Net tier-one capital	28,294,794	26,844,245
23	Balance of on- and off-balance sheet assets after adjustments	480,659,037	444,898,058
	Leverage ratio	5.89%	6.03%

Chapter 12 Unaudited Supplementary Financial Information

1. LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONT'D)

1.3 Net stable funding ratio

Net stable funding ratio (RMB'000)	June 30, 2024	December 31, 2023
Available stable funding	280,447,613	263,281,383
Required stable funding	200,511,670	187,559,321
Net stable funding ratio	139.87%	140.37%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), a minimum net stable funding ratio of 100% is required for commercial banks.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formulae announced by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2. CURRENCY CONCENTRATIONS

Unit: RMB'000

	June 30, 2024			Total
	USD	HKD	Others	
Spot assets	3,000,658	12,615	26,776	3,040,049
Spot liabilities	(3,350,805)	(6,063)	(7,424)	(3,364,292)
Net position	(350,147)	6,552	19,352	(324,243)

	December 31, 2023			Total
	USD	HKD	Others	
Spot assets	3,066,196	8,740	25,430	3,100,366
Spot liabilities	(3,388,088)	(360)	(6,773)	(3,395,221)
Net position	(321,892)	8,380	18,657	(294,855)

3. INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all third parties claims outside Mainland China as international claims. International claims include loans and advances to customers, deposits with central bank and amounts due from banks and other financial institutions.

A country or geographical area shall be immediately reported if it constitutes 10% or more of the aggregate amount of an international claim, after taking into account all of its risk transfers. A risk transfer shall only be made if the guarantor of a claim is located in a country different from that of a counterparty, or if a claim is made against an overseas branch of a bank whose head-office is located in another country.

Unit: RMB'000

	June 30, 2024		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	11,239	–	11,239
Europe	19,386	–	19,386
Others	–	–	–
Total	30,625	–	30,625

	December 31, 2023		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	10,101	–	10,101
Europe	15,935	–	15,935
Others	1,076	–	1,076
Total	27,112	–	27,112

Chapter 12 Unaudited Supplementary Financial Information

4. MATERIAL RELATED PARTY TRANSACTIONS

As of the end of the Reporting Period, the Bank's credit balance of material related party transactions (excluding net deposits, security deposits, etc.) was RMB4.958 billion, details of which are as follows:

Unit: RMB'000

Name of related party	Type of business	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	100,000	0.31%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	200,000	0.62%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	100,000	0.31%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	200,000	0.62%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	100,000	0.31%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	180,000	0.56%
Shandong Tongda Financial Leasing Co., Ltd. (山東通達金融租賃有限公司)	Interbank borrowing	250,000	0.78%
Shandong Hi-Speed Tonghe Investment Co., Ltd.* (山東高速通和投資有限公司)	Loan	300,000	0.94%
Shandong High-Speed Forest Industry Supply Chain Co., Ltd.* (山東高速林產供應鏈有限公司)	Loan	200,000	0.62%
Shandong High-Speed Engineering Project Management Co., Ltd.* (山東高速工程項目管理有限公司)	Letters of guarantee	6,292	0.02%
Shandong Hi-Speed Engineering Testing Co., Ltd. (山東高速工程檢測有限公司)	Letters of guarantee	1,656	0.01%

Chapter 12 Unaudited Supplementary Financial Information

4. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	951	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	249	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	390	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	788	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	267	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	1,002	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	240	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	254	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	337	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	318	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	826	0.00%
Shandong High-speed Asphalt Co., Ltd.* (山東高速瀝青有限公司)	Letters of guarantee	867	0.00%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	137,000	0.43%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	137,000	0.43%
Shangao International Commercial Factoring (Shenzhen) Co., Ltd.* Jinan Branch (山高國際商業保理(深圳)有限公司濟南分公司)	Loan	200,000	0.62%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Debt investments	200,000	0.62%
Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司)	Wealth management investment REITS	57,614	0.18%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	17,500	0.05%

4. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

Name of related party	Type of business	Credit balance of major related party transactions (net of net security deposits)	Percentage of net capital as at the end of the Reporting Period
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	39,000	0.12%
Shandong Hi-Speed Weihai Development Company Limited* (山東高速威海發展有限公司)	Loan	19,500	0.06%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	176,000	0.55%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	172,000	0.54%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	76,000	0.24%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	76,000	0.24%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	200,000	0.62%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Discount	150,000	0.47%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	172,000	0.54%
Dongying United Petrochemical Company Limited* (東營聯合石化有限責任公司)	Domestic letters of credit	128,000	0.40%
Shandong High-speed Logistics Supply Chain Co., Ltd.* (山東高速物流供應鏈有限公司)	Discount	30,015	0.09%
Shandong Expressway Qingdao Construction Management Co., Ltd.* (山東高速青島建設管理有限公司)	Discount	60,000	0.19%
Shandong Expressway Luzhong Logistics Development Co., Ltd.* (山東高速魯中物流發展有限公司)	Discount	5,000	0.02%
Shandong Minsheng Construction Group Co., Ltd.* (山東民生建工集團有限公司)	Loan	10,000	0.03%
Shandong Minsheng Heying Trading Co., Ltd.* (山東民生和盈商貿有限公司)	Loan	488	0.00%
Total		4,957,554	15.44%

* For identification purpose only

LIST OF INSTITUTIONS

District	Name of organisation	Business address	Remarks
Weihai, Shandong	Headquarters	9 Baoquan Road, Huancui District, Weihai City	51 licensed branches and sub-branches in Weihai District
Jinan, Shandong	Jinan Branch	The whole building of Building 1 (A3), Room 101-107, 1/F, Room 201-206, 2/F, Building 2 (A1), Xinyuanxin Center, 3 Huaxin Road, Licheng District, Jinan City	12 licensed branches and sub-branches in Jinan District
	Laiwu Branch	60 Luzhong East Main Street, Laiwu District, Jinan City, Shandong Province	2 licensed branches and sub-branches in Laiwu District
Qingdao, Shandong	Qingdao Branch	487 Changjiang Middle Road, Huangdao District, Qingdao City, Shandong Province	9 licensed branches and sub-branches in Qingdao District
Yantai, Shandong	Yantai Branch	218-1 Changjiang Road, Yantai Economic and Technological Development Zone, Shandong Province	6 licensed branches and sub-branches in Yantai District
Dezhou, Shandong	Dezhou Branch	1337 Tianqu Middle Road, Decheng District, Dezhou City, Shandong Province	5 licensed branches and sub-branches in Dezhou District
Jining, Shandong	Jining Branch	71 Wutaizha Road, Jining High-tech Zone, Shandong Province	7 licensed branches and sub-branches in Jining District
Linyi, Shandong	Linyi Branch	0004 Yimeng Road, Lanshan District, Linyi City, Shandong Province	6 licensed branches and sub-branches in Linyi District
Weifang, Shandong	Weifang Branch	1589 Xinhua Road, Kuiwen District, Weifang City, Shandong Province	3 licensed branches and sub-branches in Weifang District

List of Institutions

District	Name of organisation	Business address	Remarks
Dongying, Shandong	Dongying Branch	500 Xi'er Road, Dongying District, Dongying City, Shandong Province	2 licensed branches and sub-branches in Dongying District
Zibo, Shandong	Zibo Branch	227 Xincun West Road, Zhangdian District, Zibo City, Shandong Province	2 licensed branches and sub-branches in Zibo District
Liaocheng, Shandong	Liaocheng Branch	117 Dongchang West Road, Dongchangfu District, Liaocheng City, Shandong Province	2 licensed branches and sub-branches in Liaocheng District
Zaozhuang, Shandong	Zaozhuang Branch	117 Guangming West Road and 55 Deren North Road, Zaozhuang High-tech Zone, Shandong Province	2 licensed branches and sub-branches in Zaozhuang District
Heze, Shandong	Heze Branch	289 Yongchang Road, Heze Economic Development Zone, Shandong Province	2 licensed branches and sub-branches in Heze District
Tai'an, Shandong	Tai'an Branch	472 Dongyue Main Street, Taishan District, Tai'an City, Shandong Province	2 licensed branch and sub-branches in Tai'an District
Rizhao, Shandong	Rizhao Branch	59 Qinhuangdao Road, Economic and Technological Development Zone, Rizhao City, Shandong Province	1 licensed branch and sub-branch in Rizhao District
Binzhou, Shandong	Binzhou Branch	338 Huanghe 6th Road, Binzhou Economic and Technological Development Zone, Shandong Province	2 licensed branches and sub-branches in Binzhou District
Tianjin City	Tianjin Branch	150 Fuan Main Street, Heping District, Tianjin City	10 licensed branches and sub-branches in Tianjin District