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SHENGJING BANK CO., LTD.*
盛京銀行股份有限公司*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02066)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “**Board**”) of Shengjing Bank Co., Ltd. (the “**Bank**” or “**Shengjing Bank**”) is pleased to announce the unaudited interim results of the Bank for the six months ended 30 June 2022. The interim financial information for the six months ended 30 June 2022 prepared by the Bank has been reviewed by Crowe (HK) CPA Limited in accordance with International Standard on Review Engagements 2410. The Board and the Audit Committee of the Board have reviewed and confirmed the interim results of the Bank. This interim results announcement is published on the websites of the Bank (www.shengjingbank.com.cn) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report of the Bank for the six months ended 30 June 2022 will be despatched to shareholders of the Bank and be available at the abovementioned websites in due course.

By order of the Board
Shengjing Bank Co., Ltd.
Zhou Zhi
Joint Company Secretary

Shenyang, Liaoning Province, China
23 August 2022

As at the date of this announcement, the executive directors of the Bank are Mr. QIU Huofa, Mr. SHEN Guoyong, Mr. SHI Yang and Ms. LI Ying; the non-executive directors of the Bank are Mr. SU Qingxiang and Mr. LIANG Zhifang; and the independent non-executive directors of the Bank are Mr. NI Guoju, Mr. KEUNG Chak, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi.

* *Shengjing Bank Co., Ltd. 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.*



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COMPANY INFORMATION

| | |
|---|---|
| Legal Name in Chinese | 盛京銀行股份有限公司 |
| Abbreviation in Chinese | 盛京銀行 |
| Legal Name in English | Shengjing Bank Co., Ltd. |
| Abbreviation in English | SHENGJING BANK |
| Legal Representative | QIU Huofa |
| Authorised Representatives | QIU Huofa and ZHOU Zhi |
| Secretary to the Board of Directors | ZHOU Zhi |
| Joint Company Secretaries | ZHOU Zhi and KWONG Yin Ping, Yvonne |
| Registered and Business Address | No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC |
| Contact Number | 86-24-22535633 |
| Website | www.shengjingbank.com.cn |
| Principal Place of Business in Hong Kong | Unit 4105, 41/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong |
| Website of the Hong Kong Stock Exchange on which the H Share Interim Report is Published | www.hkexnews.hk |
| Place of Maintenance of the Interim Report | Office of the Board of Directors of Shengjing Bank |
| Stock Name | Shengjing Bank |
| Stock Code | 02066 |

COMPANY INFORMATION (CONTINUED)

| | |
|---|--|
| H Share Registrar and its Business Address | Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen’s Road East, Wanchai, Hong Kong |
| Legal Advisor as to PRC Laws and its Business Address | Tian Yuan Law Firm Suite 509, Tower A, Corporation Square 35 Financial Street, Xicheng District Beijing, the PRC |
| Legal Advisor as to Hong Kong Law and its Business Address | Freshfields Bruckhaus Deringer 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong |
| Auditor and its Business Address | Crowe (HK) CPA Limited 9/F, Leighton Centre 77 Leighton Road Causeway Bay Hong Kong |

FINANCIAL HIGHLIGHTS

| (Expressed in thousands of Renminbi, unless otherwise stated) | January to June 2022 | January to June 2021 | Rate of Change (%) |
|--|-------------------------|-------------------------|--------------------------------|
| Operating Results | | | |
| Interest income | 21,042,514 | 21,177,436 | (0.6) |
| Interest expenses | (14,986,222) | (14,546,398) | 3.0 |
| Net interest income | 6,056,292 | 6,631,038 | (8.7) |
| Net non-interest income | 2,024,777 | 1,877,218 | 7.9 |
| Operating income | 8,081,069 | 8,508,256 | (5.0) |
| Operating expenses | (2,678,598) | (2,490,900) | 7.5 |
| Impairment losses on assets | (4,471,632) | (5,102,544) | (12.4) |
| Profit before taxation | 930,839 | 914,812 | 1.8 |
| Income tax credit | 33,016 | 131,489 | (74.9) |
| Net profit | 963,855 | 1,046,301 | (7.9) |
| Net profit attributable to equity shareholders of the Bank | <u>944,113</u> | <u>1,030,360</u> | <u>(8.4)</u> |
| Calculated on a per share basis (RMB) | | | |
| Basic and diluted earnings per share | <u>0.11</u> | <u>0.12</u> | Change <u>(0.01)</u> |

FINANCIAL HIGHLIGHTS (CONTINUED)

| (Expressed in thousands of Renminbi, unless otherwise stated) | 30 June 2022 | 31 December 2021 | Rate of Change (%) |
|--|-------------------------|-------------------------|--------------------------|
| Major indicators of assets/liabilities | | | |
| Total assets | 1,056,268,387 | 1,006,126,253 | 5.0 |
| Of which: total loans and advances to customers ⁽¹⁾ | 604,855,773 | 586,032,668 | 3.2 |
| Total liabilities | 974,716,953 | 925,623,312 | 5.3 |
| Of which: total deposits from customers ⁽¹⁾ | 809,993,811 | 737,032,942 | 9.9 |
| Share capital | 8,796,680 | 8,796,680 | 0.0 |
| Equity attributable to equity shareholders of the Bank | 80,908,153 | 79,879,402 | 1.3 |
| Total equity | <u>81,551,434</u> | <u>80,502,941</u> | <u>1.3</u> |
| | January to June 2022 | January to June 2021 | Change |
| Profitability indicators (%) | | | |
| Return on average total assets ⁽²⁾ | 0.19 | 0.20 | (0.01) |
| Return on average equity ⁽³⁾ | 2.38 | 2.60 | (0.22) |
| Net interest spread ⁽⁴⁾ | 1.31 | 1.50 | (0.19) |
| Net interest margin ⁽⁵⁾ | 1.30 | 1.49 | (0.19) |
| Cost-to-income ratio ⁽⁶⁾ | <u>31.32</u> | <u>27.88</u> | <u>3.44</u> |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | 30 June 2022 | 31 December 2021 | Change |
|--|-----------------|---------------------|--------|
| Asset quality indicators (%) | | | |
| Non-performing loan ratio ⁽⁷⁾ | 3.26 | 3.28 | (0.02) |
| Provision coverage ratio ⁽⁸⁾ | 138.14 | 130.87 | 7.27 |
| Allowance to total loans ⁽⁹⁾ | 4.50 | 4.29 | 0.21 |
| Capital adequacy ratio indicators (%) | | | |
| Core tier-one capital adequacy ratio ⁽¹⁰⁾ | 10.29 | 10.54 | (0.25) |
| Tier-one capital adequacy ratio ⁽¹⁰⁾ | 10.29 | 10.54 | (0.25) |
| Capital adequacy ratio ⁽¹⁰⁾ | 12.01 | 12.12 | (0.11) |
| Total equity to total assets ratio | 7.72 | 8.00 | (0.28) |
| Other indicators (%) | | | |
| Loan-to-deposit ratio ⁽¹¹⁾ | 74.67 | 79.51 | (4.84) |

FINANCIAL HIGHLIGHTS (CONTINUED)

Notes:

- (1) Total loans and advances to customers do not include interest receivable, and total deposits from customers do not include interest payable.
- (2) Calculated by dividing the net profit by the average of total assets at the beginning and at the end of the period.
- (3) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (4) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (5) Calculated by dividing net interest income by the average interest-earning assets.
- (6) Calculated by dividing operating expenses (less tax and surcharges) by operating income.
- (7) Calculated by dividing the balance of non-performing loans by the total amount of loans and advances to customers.
- (8) Calculated by dividing the balance of provision for impairment on loans by the non-performing loans.
- (9) Calculated by dividing the balance of provision for impairment on loans by the total amount of loans and advances to customers.
- (10) Core tier-one capital adequacy ratio, Tier-one capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the former CBRC (effective from 1 January 2013).
- (11) Loan-to-deposit ratio is calculated by dividing the total amount of loans and advances to customers by total deposits from customers.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1 ANALYSIS OF OVERALL OPERATIONS

In the first half of 2022, facing complex and changeable external environment, the Bank actively responded to and implemented the national macro-economic and financial policies. The Bank, focusing on the strategic vision of building a sound bank, persisted in seeking progress while maintaining stability, followed the business philosophy of “upgrading the scale, improving the quality, preventing the risks, stabilizing the expectations and reinforcing the disciplines”, and focused on deposit growth, development of customer base, value creation and capacity improvement. The overall business operation showed a steadily progressive trend, the business structure was continuously optimized, the development foundation was increasingly consolidated, the risk-resistance capacity was steadily improved, and the capacity of sustainable development was further enhanced.

The operation scale steadily increased and the regional competitiveness continued to improve. In the first half of the year, by adhering to the market positioning of “serving local areas, serving small and medium-sized enterprises and serving the public”, the Bank thoroughly implemented the basic banking policy of “taking deposits as the key foundation of the Bank”, continued to increase credit to the real economy, maintained its leading position in the deposit market share in Shenyang, continued to increase its market share in Beijing, Shanghai and Tianjin, and further enhanced its regional competitiveness. As of 30 June 2022, the total assets of the Bank amounted to RMB1,056.268 billion, representing an increase of RMB50.142 billion or 5.0% as compared with that at the end of the previous year, the total loans and advances to customers amounted to RMB604.856 billion, representing an increase of representing an increase of RMB18.823 billion or 3.2% as compared with that at the end of the previous year, the total deposits from customers amounted to RMB809.994 billion, representing an increase of RMB72.961 billion or 9.9% as compared with that at the end of the previous year.

The business structure continued to be optimized and the development foundation became more solid. In the first half of the year, the Bank insisted on returning to its original business and focusing on its main business, vigorously promoting the development of its main businesses such as deposits and loans, and further laying a solid foundation for development. As of 30 June 2022, the Bank’s total loans and advances to customers accounted for 57.3% of the total assets, the total deposits from customers accounted for approximately 83.1% of the total liabilities, and personal deposits accounted for 60.1% of the total deposits from customers, representing an increase of 3.1 percentage points as compared with that at the end of the previous year. The stability of funding sources was further enhanced. During the Reporting Period, the Bank realized net non-interest income of RMB2.025 billion, representing a year-on-year increase of RMB0.148 billion; net non-interest income accounted for 25.1% of total operating income, representing a year-on-year increase of 3.0 percentage points.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The risk control system was continuously improved and the provision coverage level was steadily improved. In the first half of the year, the Bank continued to strengthen the construction of its risk control system, and made efforts to push forward the implementation of the three-year action plan for comprehensive risk management and internal control and compliance. The Bank strictly implemented the criteria for credit business, improved the management of credit authorization, strengthened the monitoring of funds and risk warning after credit granting, launched a new generation of customer rating, credit and collateral management systems for online application, and enabled technology to improve risk control capabilities. While strictly controlling the incremental risk, the Bank actively carried out the collection and disposal of the existing non-performing assets, strengthened the provision for impairment and enhanced the risk resistance ability. As of 30 June 2022, the non-performing loan ratio was 3.26%, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year; the provision coverage ratio was 138.14%, representing an increase of 7.27 percentage points as compared with that at the end of the previous year; the loan provision ratio was 4.50%, representing an increase of 0.21 percentage point as compared with that at the end of the previous year.

The business transformation was effectively promoted and the endogenous development momentum continued to be strengthened. In the first half of the year, the Bank focused on the top ten preferred industries and major regional projects and key areas to expand its base customers and strengthen its core customers, and promoted the transformation of the corporate banking business into a featured and light business. The Bank actively built a “whole-product, whole-channel, whole-scene, integrated and digital” retail banking business model and the results of its transformation continued to show, with its high net worth customers growing steadily. As of 30 June 2022, personal deposits of the Bank amounted to RMB486.601 billion, representing an increase of RMB66.758 billion or 15.9% as compared with that at the end of the previous year, the total number of retail customers reached 26.85 million, wealth customers reached 251,000 and the total assets under management amounted to RMB274.4 billion, representing an increase of RMB45.8 billion or 20.0% as compared with that at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2 ANALYSIS OF FINANCIAL STATEMENTS

3.2.1 Analysis of the Income Statement

In the first half of 2022, the Bank achieved a net profit of RMB964 million, representing a year-on-year decrease of RMB82 million or 7.9%, principally due to the fact that under the background of the downward adjustment of LPR, the fierce competition in the deposit and loan business of high-quality customers and the continued impact of the repeated pandemic on certain regions and industries, the Bank complied with national policies and regulatory requirements, continued to benefit the real economy, coordinated and balanced income, costs and risks, actively promoted the structural adjustment of assets and liabilities, so as to improve the safety of asset and the soundness of operation. Affected by the above factors, the narrowing of deposit and loan spreads, coupled with the decline in yields on financial investment in line with the decline in market interest rates, resulting in a year-on-year decline in operating income, as well as the full provision for impairment losses on assets in accordance with the principle of prudence and robustness as well as expected credit risks.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|---|----------------------------------|--------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Interest income | 21,042,514 | 21,177,436 | (134,922) | (0.6) |
| Interest expense | (14,986,222) | (14,546,398) | (439,824) | 3.0 |
| Net interest income | 6,056,292 | 6,631,038 | (574,746) | (8.7) |
| Net fee and commission income | 54,772 | 166,084 | (111,312) | (67.0) |
| Net trading gains | 225,651 | (456,479) | 682,130 | N/A |
| Net gains arising from investments | 1,727,718 | 2,153,465 | (425,747) | (19.8) |
| Other operating income | 16,636 | 14,148 | 2,488 | 17.6 |
| Operating income | 8,081,069 | 8,508,256 | (427,187) | (5.0) |
| Operating expenses | (2,678,598) | (2,490,900) | (187,698) | 7.5 |
| Impairment losses on assets | (4,471,632) | (5,102,544) | 630,912 | (12.4) |
| Profit before taxation | 930,839 | 914,812 | 16,027 | 1.8 |
| Income tax credit | 33,016 | 131,489 | (98,473) | (74.9) |
| Net profit | 963,855 | 1,046,301 | (82,446) | (7.9) |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.1 Operating income

In the first half of 2022, the Bank achieved an operating income of RMB8,081 million, representing a year-on-year decrease of RMB427 million or 5.0%, mainly due to the downward trend of policies and market interest rates and the intensification of competition among peers, as well as the Bank's optimization of asset structure and loan investment orientation and strict control of credit risks, resulting in the year-on-year decrease of interest rates on loans and advances to customers and financial investments, and a year-on-year decrease in net interest income. At the same time, the Bank took advantage of market trading opportunities to actively engage in swing trading of financial assets. The decrease in net interest income was partially offset by the year-on-year increase in net non-interest income. The following table sets forth the major components of the Bank's operating income for the periods indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|---|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Net interest income | 6,056,292 | 6,631,038 | (574,746) | (8.7) |
| Net non-interest income | 2,024,777 | 1,877,218 | 147,559 | 7.9 |
| Operating income | 8,081,069 | 8,508,256 | (427,187) | (5.0) |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.2 Net interest income

In the first half of 2022, the Bank achieved a net interest income of RMB6,056 million, representing a year-on-year decrease of RMB575 million, or 8.7%, of which the year-on-year decrease in interest income by RMB135 million and year-on-year increase in interest expense of the Bank by RMB440 million. The following table sets forth the interest income, interest expense and net interest income of the Bank:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|---|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Interest income | 21,042,514 | 21,177,436 | (134,922) | (0.6) |
| Interest expense | (14,986,222) | (14,546,398) | (439,824) | 3.0 |
| Net interest income | 6,056,292 | 6,631,038 | (574,746) | (8.7) |

3.2.1.3 Net Interest Spread and Net Interest Margin

In the first half of 2022, the Bank's net interest spread and net interest margin were 1.31% and 1.30% respectively, representing a year-on-year decrease of 0.19 percentage point, mainly due to the Bank (i) promoted the quality of its liabilities, optimized the deposit structure, and seized the opportunity of reasonable and abundant market liquidity to lock in long-term low-cost inter-bank liabilities as a result that the interest bearing rate of its interest-bearing liabilities decreased; (ii) responded to changes in the external environment and policy orientation, implemented various bail-out policies for enterprises, proactively optimized risk control and pricing strategies, adjusted asset structure and investment orientation, resulting in the decrease in yield on interest-earning assets year-on-year exceeds the interest-bearing rate on interest-bearing liabilities, and the net interest spread and net interest margin narrowed year-on-year.

The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on interest-earning assets or the related average costs of interest bearing liabilities for the periods indicated.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June 2022 | | | For the six months ended 30 June 2021 | | |
|---|---------------------------------------|--------------------------------|-------------------------------|---------------------------------------|--------------------------------|-------------------------------|
| | Average balance | Interest income/ expense | Average yield/costs (%) | Average balance | Interest income/ expense | Average yield/costs (%) |
| Interest-earning assets | | | | | | |
| Loans and advances to customers | 640,163,520 | 17,036,060 | 5.37 | 544,795,761 | 15,489,274 | 5.73 |
| Financial investments | 184,127,816 | 3,176,030 | 3.48 | 243,402,148 | 4,873,671 | 4.04 |
| Deposits with Central Bank | 73,438,672 | 517,433 | 1.42 | 82,716,727 | 599,591 | 1.46 |
| Deposits and placements with banks and other financial institutions | 18,544,340 | 86,957 | 0.95 | 12,005,382 | 58,677 | 0.99 |
| Financial assets held under resale agreements | <u>26,066,879</u> | <u>226,034</u> | <u>1.75</u> | <u>16,323,210</u> | <u>156,223</u> | <u>1.93</u> |
| Total interest-earning assets | <u>942,341,227</u> | <u>21,042,514</u> | <u>4.50</u> | <u>899,243,228</u> | <u>21,177,436</u> | <u>4.75</u> |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June 2022 | | | For the six months ended 30 June 2021 | | |
|---|---------------------------------------|-------------------------|------------------------------------|---------------------------------------|-------------------------|------------------------------------|
| | Average balance | Interest income/expense | Average yield/interest payment (%) | Average balance | Interest income/expense | Average yield/interest payment (%) |
| Interest-bearing liabilities | | | | | | |
| Borrowings from Central Bank | 3,933,551 | 42,885 | 2.20 | 3,510,296 | 50,117 | 2.88 |
| Deposits from customers | 796,944,411 | 12,665,522 | 3.20 | 704,661,518 | 11,205,787 | 3.21 |
| Deposits and placements from banks and other financial institutions | 72,535,017 | 1,215,542 | 3.38 | 72,396,455 | 1,257,737 | 3.50 |
| Financial assets sold under repurchase agreements | 62,774,888 | 833,107 | 2.68 | 80,078,141 | 1,111,168 | 2.80 |
| Debt securities issued | 11,761,471 | 229,166 | 3.93 | 42,830,714 | 921,589 | 4.34 |
| Total interest-bearing liabilities | 947,949,338 | 14,986,222 | 3.19 | 903,477,124 | 14,546,398 | 3.25 |
| Net interest income | | 6,056,292 | | | 6,631,038 | |
| Net interest spread ⁽¹⁾ | | | 1.31 | | | 1.50 |
| Net interest margin ⁽²⁾ | | | 1.30 | | | 1.49 |

Notes:

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and interest rates for the periods indicated. Volume and interest rate variances have been measured based on movements in average balances over these periods, and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to changes in interest rate.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June 2022 compared with 2021 | | |
|---|---|---|--|
| | Increase/ (decrease) Volume ⁽¹⁾ | Due to interest rate ⁽²⁾ | Net increase/ (decrease) ⁽³⁾ |
| Interest-earning assets | | | |
| Loans and advances to customers | 2,732,286 | (1,185,500) | 1,546,786 |
| Financial investments | (1,197,342) | (500,299) | (1,697,641) |
| Deposits with Central Bank | (67,730) | (14,428) | (82,158) |
| Deposits and placements with banks and other financial institutions | 32,368 | (4,088) | 28,280 |
| Financial assets held under resale agreements | 94,026 | (24,215) | 69,811 |
| Changes in interest income | 1,593,608 | (1,728,530) | (134,922) |
| Interest-bearing liabilities | | | |
| Borrowings from Central Bank | 6,095 | (13,327) | (7,232) |
| Deposits from customers | 1,481,140 | (21,405) | 1,459,735 |
| Deposits and placements from banks and other financial institutions | 2,425 | (44,620) | (42,195) |
| Financial assets sold under repurchase agreements | (242,246) | (35,815) | (278,061) |
| Debt securities issued | (674,203) | (18,220) | (692,423) |
| Changes in interest income expense | 573,211 | (133,387) | 439,824 |
| Changes in net interest income | 1,020,397 | (1,595,143) | (574,746) |

Notes:

- (1) Representing the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.
- (2) Representing the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.
- (3) Representing interest income or expense for the period minus interest income or expense for the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.4 Interest income

In the first half of 2022, the Bank achieved an interest income of RMB21,043 million, representing a year-on-year decrease of RMB135 million or 0.6%, mainly due to the Bank's insistence on returning to its original business, focusing on its main business and continuously optimizing its asset structure, and its compression on the scale of financial investment business, resulting in a year-on-year decrease in interest income from financial investment.

The following table sets forth the breakdown of the interest income of the Bank for the periods indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended | | | |
|--|--------------------------|-----------------|-------------------|-----------------|
| | 30 June 2022 | | 30 June 2021 | |
| | Amount | of total (%) | Amount | of total (%) |
| Loans and advances to customers | | | | |
| Corporate loans (including discounted bills) | 14,258,083 | 67.8 | 12,706,640 | 60.0 |
| Personal loans | 2,777,977 | 13.2 | 2,782,634 | 13.2 |
| Sub-total | 17,036,060 | 81.0 | 15,489,274 | 73.2 |
| Financial investments | 3,176,030 | 15.1 | 4,873,671 | 23.0 |
| Deposits with Central Bank | 517,433 | 2.4 | 599,591 | 2.8 |
| Deposits and placements with banks and other financial institutions | 86,957 | 0.4 | 58,677 | 0.3 |
| Financial assets held under resale agreements | 226,034 | 1.1 | 156,223 | 0.7 |
| Total | 21,042,514 | 100.0 | 21,177,436 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers was the essential component of the Bank's interest income. In the first half of 2022, interest income of the Bank from loans and advances to customers amounted to RMB17,036 million, representing a year-on-year increase of RMB1,547 million or 10.0%, and accounted for 81.0% of the total interest income, representing an increase of 7.8 percentage points, which was mainly due to the Bank's active performance of social responsibilities, increased credit facilities and year-on-year increase in the average balances of the loans during the Reporting Period, at the same time, due to the reduction of LPR quotation, the repeated pandemic situation, the Bank's strengthening of credit access management, adjustment of loan investment and other factors, resulting in the downward interest rate of loans and the decrease in the average yield of loans and advances to customers.

The following table sets forth the average balances of the loans and advances to customers and the average yields of related interest income and loans and advances to customers for the years indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | | | |
|---|----------------------------------|--------------------|-------------------------|--------------------|--------------------|-------------------------|
| | 2022 | | | 2021 | | |
| | Average balance | Interest income | Average yield (%) | Average balance | Interest income | Average yield (%) |
| Corporate loans (including discounted bills) | 545,202,847 | 14,258,083 | 5.27 | 460,936,346 | 12,706,640 | 5.56 |
| Personal loans | 94,960,673 | 2,777,977 | 5.90 | 83,859,415 | 2,782,634 | 6.69 |
| Total | 640,163,520 | 17,036,060 | 5.37 | 544,795,761 | 15,489,274 | 5.73 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Interest Income from Financial Investments

In the first half of 2022, interest income of the Bank from financial investments amounted to RMB3,176 million, representing a year-on-year decrease of RMB1,698 million or 34.8%, which was mainly due to the Bank's continuous optimization of asset structure under the guidance of regulatory policies, year-on-year decrease of financial assets scale and downward impact of market interest rates during the Reporting Period, resulting in the decrease in the average yield of financial assets.

3. Interest Income from Deposits with Central Bank

In the first half of 2022, interest income of the Bank from deposits with Central Bank amounted to RMB517 million, representing a year-on-year decrease of RMB82 million or 13.7%, which was mainly due to the decrease in the average balance of the deposits with Central Bank as the deposit reserve ratio was lowered.

4. Interest Income from Deposits and Placements with Banks and Other Financial Institutions

In the first half of 2022, the Bank achieved interest income from deposits and placements with banks and other financial institutions amounting to RMB87 million, representing a year-on-year increase of RMB28 million or 48.2%, which was mainly due to the increase in the average balance of deposits and placements with banks and other financial institutions.

5. Interest Income from Financial Assets Held under Resale Agreements

In the first half of 2022, the Bank achieved interest income from financial assets held under resale agreements amounting to RMB226 million, representing a year-on-year increase of RMB70 million or 44.7%, which was mainly due to the increase of average balance held under resale agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.5 Interest expense

In the first half of 2022, interest expense of the Bank amounted to RMB14,986 million, representing a year-on-year increase of RMB440 million or 3.0%, which was mainly due to the Bank's adherence to the basic banking policy of "taking deposits as the key foundation of the Bank", continuous promotion of stable growth of core liabilities, the year-on-year increase in the scale and proportion of deposits, and the year-on-year increase in deposit interest expense of RMB1,460 million. At the same time, interbank and other financial institutions' deposits and placements, sales of repurchase of financial assets and issuance of bonds decreased in scale, with interest expense decreased by RMB1,020 million year-on-year, partially offsetting the increase in interest expense on deposits.

The following table sets forth the principal components of the interest expense of the Bank for the periods indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended | | | |
|---|--------------------------|-----------------|-------------------|-----------------|
| | 2022 | | 2021 | |
| | Amount | of total (%) | Amount | of total (%) |
| Borrowings from Central Bank | 42,885 | 0.3 | 50,117 | 0.3 |
| Deposits from customers | 12,665,522 | 84.5 | 11,205,787 | 77.0 |
| Deposits and placements from banks and other financial institutions | 1,215,542 | 8.1 | 1,257,737 | 8.6 |
| Financial assets sold under repurchase agreements | 833,107 | 5.6 | 1,111,168 | 7.7 |
| Debt securities issued | 229,166 | 1.5 | 921,589 | 6.4 |
| Total | 14,986,222 | 100.0 | 14,546,398 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Interest Expense on Borrowing from the Central Bank*

In the first half of 2022, the Bank's borrowing interest expense from the Central Bank amounted to RMB43 million, representing a year-on-year decrease of RMB7 million or of 14.4%, which was mainly due to the decrease in the average cost of the Bank's borrowing from the Central Bank.

2. *Interest Expense on Deposits from Customers*

In the first half of 2022, interest expense on deposits from customers amounted to RMB12,666 million, representing a year-on-year increase of RMB1,460 million, or 13.0%, which was mainly due to the Bank's continuous improvement in customer base construction by taking advantage of its regional competitiveness, the significant increase in deposit scale, and the continuous improvement in the proportion and stability of core liabilities. At the same time, the Bank actively promoted cost control and optimized the deposit structure, the scale and proportion of low-cost deposits such as demand deposits increased year-on-year and the deposit interest rate decreased, partially offsetting the increase in interest expense due to the increase in scale.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the average balance, interest expense and average cost for each of the components of the Bank's deposits from customers:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June 2022 | | | For the six months ended 30 June 2021 | | |
|---|---------------------------------------|-------------------|------------------|---------------------------------------|-------------------|------------------|
| | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) |
| Corporate deposits | | | | | | |
| Demand | 181,997,171 | 1,294,826 | 1.43 | 146,451,431 | 883,148 | 1.22 |
| Time | 160,892,264 | 2,904,861 | 3.64 | 187,893,180 | 3,207,690 | 3.44 |
| Sub-total | 342,889,435 | 4,199,687 | 2.47 | 334,344,611 | 4,090,838 | 2.47 |
| Personal deposits | | | | | | |
| Demand | 49,112,630 | 105,863 | 0.43 | 28,441,962 | 56,169 | 0.40 |
| Time | 404,942,346 | 8,359,972 | 4.16 | 341,874,945 | 7,058,780 | 4.16 |
| Sub-total | 454,054,976 | 8,465,835 | 3.76 | 370,316,907 | 7,114,949 | 3.87 |
| Total deposits from customers | 796,944,411 | 12,665,522 | 3.20 | 704,661,518 | 11,205,787 | 3.21 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Interest Expense on Deposits and Placements from Banks and Other Financial Institutions

In the first half of 2022, interest expense of the Bank on deposits and placements from banks and other financial institutions amounted to RMB1,216 million, representing a year-on-year decrease of RMB42 million or 3.4%, which was mainly due to the decrease of average cost of deposits and placements from banks and other financial institutions.

4. Interest Expense on Financial Assets Sold under Repurchase Agreements

In the first half of 2022, interest expense of the Bank on financial assets sold under repurchase agreements amounted to RMB833 million, representing a year-on-year decrease of RMB278 million or 25.0%, which was mainly due to the decrease in average balance of financial assets sold under repurchase agreements of the Bank.

5. Interest Expense on Debt Securities Issued

In the first half of 2022, interest expense of the Bank on debt securities issued amounted to RMB229 million, representing a year-on-year decrease of RMB692 million or 75.1%, which was mainly due to the decrease in the average balance of the debt securities issued of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.6 Net Non-interest Income

1. Net Fee and Commission Income

In the first half of 2022, the Bank achieved a net fee and commission income of RMB55 million, representing a year-on-year decrease of RMB111 million or 67.0%, which is mainly due to the reduction of fees in accordance with the implementation of the fee reduction and concession policy of the Bank during the Reporting Period, as well as the decline in the scale of agency and custodian business, resulting in a year-on-year decrease in fee and commission income.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|--|----------------------------------|----------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Fee and commission income | | | | |
| Agency and custody services fees | 255,461 | 593,660 | (338,199) | (57.0) |
| Settlement and clearing services fees | 25,227 | 54,342 | (29,115) | (53.6) |
| Bank card services fees | 92,114 | 85,637 | 6,477 | 7.6 |
| Fee and commission expense | (318,030) | (567,555) | 249,525 | (44.0) |
| Net fee and commission income | 54,772 | 166,084 | (111,312) | (67.0) |

2. Net Trading Gains

In the first half of 2022, the Bank's net trading gains amounted to RMB226 million, representing a year-on-year increase of RMB682 million, mainly due to the research and judgment on the fluctuations in the bond and foreign exchange markets enhanced by the Bank during the Reporting Period, the Bank's optimization of the allocation of transactional financial assets and foreign exchange trading strategies, the year-on-year increase in fair value revaluation gains and losses and net foreign exchange gains.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Net Gains Arising from Investments

In the first half of 2022, the net gains arising from investments of the Bank amounted to RMB1,728 million, representing a year-on-year decrease of RMB426 million or 19.8%, mainly due to the decrease in net income from disposal of bond assets during the Reporting Period.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|--|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Net gains on financial assets at fair value through profit or loss | 352,596 | 322,052 | 30,544 | 9.5 |
| Net gains on disposal of financial assets at fair value through other comprehensive income | 92,923 | 100,993 | (8,070) | (8.0) |
| Dividends from designated as financial assets at fair value through other comprehensive income | 83,341 | 55,920 | 27,421 | 49.0 |
| Net gains on disposal of financial assets measured at amortised cost | 1,198,858 | 1,674,500 | (475,642) | (28.4) |
| Total | 1,727,718 | 2,153,465 | (425,747) | (19.8) |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.7 Operating expenses

In the first half of 2022, the operating expenses of the Bank amounted to RMB2,679 million, representing a year-on-year increase of RMB188 million or 7.5%, which was mainly due to the Bank's active implementation of the retail transformation strategy during the Reporting Period, the increase in staff, the increase in asset size and continued growth in deposits from customers, and the year-on-year increase in deposit insurance and supervision fees.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|--|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Staff costs | 1,543,724 | 1,457,440 | 86,284 | 5.9 |
| Tax and surcharges | 147,698 | 118,871 | 28,827 | 24.3 |
| Depreciation and amortization | 296,938 | 307,814 | (10,876) | (3.5) |
| Rental and property management expenses | 47,284 | 51,486 | (4,202) | (8.2) |
| Office expenses | 142,048 | 125,608 | 16,440 | 13.1 |
| Other general and administrative expenses | 500,906 | 429,681 | 71,225 | 16.6 |
| Total operating expenses | 2,678,598 | 2,490,900 | 187,698 | 7.5 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Staff Costs

In the first half of 2022, staff costs of the Bank amounted to RMB1,544 million, representing a year-on-year increase of RMB86 million or 5.9%, which was mainly due to the increase in staff, the corresponding salaries, bonuses and allowances and the increase in social insurance and housing allowances.

The following table sets forth the principal components of the staff costs of the Bank for the periods indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|---|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | Rate of change (%) |
| Salaries, bonuses and allowances | 1,131,016 | 1,056,184 | 74,832 | 7.1 |
| Social insurance and housing allowances | 314,602 | 311,222 | 3,380 | 1.1 |
| Supplementary retirement benefits | 2,660 | 3,277 | (617) | (18.8) |
| Other staff benefits | 95,446 | 86,757 | 8,689 | 10.0 |
| Staff costs | 1,543,724 | 1,457,440 | 86,284 | 5.9 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Office Expenses, Rental and Property Management Expenses

In the first half of 2022, office expenses, rental and property management expenses of the Bank amounted to RMB189 million, representing a year-on-year increase of RMB12 million or 6.9%.

3. Depreciation and Amortisation

In the first half of 2022, depreciation and amortization expenses of the Bank amounted to RMB297 million, representing a year-on-year decrease of RMB11 million or 3.5%.

4. Other General and Administrative Expenses

In the first half of 2022, other general and administrative expenses of the Bank amounted to RMB501 million, representing a year-on-year increase of RMB71 million or 16.6%, mainly due to the significant year-on-year increase in various deposits of the Bank resulting in the corresponding increase in deposit insurance premiums, etc..

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.1.8 Impairment losses on assets

During the reporting period, the Bank continued to adhere to prudent principles, strictly managed asset risk classification, fully accrued asset impairment provisions, improved the provisioning level, and enhanced the risk offsetting and loss absorption ability. In the first half of 2022, impairment losses on assets of the Bank amounted to RMB4.472 billion, representing a year-on-year decrease of RMB0.631 billion or 12.4%.

The following table sets forth the principal components of impairment losses on assets of the Bank for the periods indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | Rate of change (%) |
|---|----------------------------------|------------------|---------------------|--------------------------|
| | 2022 | 2021 | Change in amount | |
| Deposits and placements with bank and other financial institutions | 1,864 | (375) | 2,239 | N/A |
| Financial assets held under resale agreements | 516 | (2,285) | 2,801 | N/A |
| Loans and advances to customers | 2,297,910 | 4,863,288 | (2,565,378) | (52.7) |
| Financial investments | 1,930,635 | 199,341 | 1,731,294 | 868.5 |
| Credit commitment | (37,138) | 42,859 | (79,997) | (186.7) |
| Others | 277,845 | (284) | 278,129 | N/A |
| Total | 4,471,632 | 5,102,544 | (630,912) | (12.4) |

3.2.1.9 Income tax credit

In the first half of 2022, the Bank's income tax credit amounted to RMB-33 million, which was mainly due to the recognition of deferred income tax assets on deductible temporary differences formed of the Bank during the Reporting Period and the tax effect of tax-free income.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.2 Analysis of the Statement of Financial Position

3.2.2.1 Assets

As of 30 June 2022, total assets of the Bank amounted to RMB1,056.268 billion, representing an increase of RMB50.142 billion or 5.0% as compared with that at the end of the previous year, mainly due to the growth driven by the credit business. The principal components of our assets are (i) net loans and advances to customers (ii) financial investments (iii) cash and deposits with Central Bank, which accounted for 57.8%, 29.9% and 7.9% respectively, of total assets of the Bank as of 30 June 2022.

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

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|--|----------------------|-----------------|------------------------|-----------------|
| | Amount | of total (%) | Amount | of total (%) |
| Assets | | | | |
| Total loans and advances to customers | 604,855,773 | 57.3 | 586,032,668 | 58.2 |
| Interest receivable | 31,589,546 | 3.0 | 22,082,972 | 2.2 |
| Provision for impairment losses | (26,898,143) | (2.5) | (24,672,122) | (2.5) |
| Net loans and advances to customers | 609,547,176 | 57.8 | 583,443,518 | 57.9 |
| Financial investments ⁽¹⁾ | 315,755,160 | 29.9 | 312,000,748 | 31.0 |
| Deposits with banks and other financial institutions | 11,254,486 | 1.1 | 8,842,567 | 0.9 |
| Cash and deposits with Central Bank | 83,290,159 | 7.9 | 72,330,736 | 7.2 |
| Financial assets held under resale agreements | 3,604,321 | 0.3 | 2,261,877 | 0.2 |
| Placements with banks and other financial institutions | 3,616,294 | 0.3 | 1,250,301 | 0.1 |
| Derivative financial assets | 619,407 | 0.1 | 574,444 | 0.1 |
| Other assets ⁽²⁾ | 28,581,384 | 2.6 | 25,422,062 | 2.6 |
| Total assets | 1,056,268,387 | 100.0 | 1,006,126,253 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) Financial investments include financial investments at fair value through other comprehensive income, financial investments at amortised cost and other financial investments at fair value through profit or loss.
- (2) Includes property and equipment, other receivables, deferred income tax assets and other assets.

1. Loans and Advances to Customers

The total loans and advances to customers made by the Bank as of 30 June 2022 amounted to RMB604.856 billion, representing an increase of RMB18.823 billion or 3.2% as compared with that at the end of the previous year, and accounted for 57.3% of the total assets, representing a decrease of 0.9 percentage point as compared with that at the end of the previous year. The loans and advances to customers made by the Bank consisted mainly of corporate loans (including discounted bills) and personal loans.

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|-----------------|------------------------|-----------------|
| | Amount | of total (%) | Amount | of total (%) |
| Corporate loans | | | | |
| – Corporate loans | 432,827,178 | 71.6 | 420,136,666 | 71.7 |
| – Discounted bills | 78,190,278 | 12.9 | 65,170,949 | 11.1 |
| Personal loans | | | | |
| – Residential mortgage | 57,715,553 | 9.5 | 57,516,140 | 9.8 |
| – Personal consumption loans | 20,812,726 | 3.5 | 28,329,721 | 4.8 |
| – Credit cards | 7,897,048 | 1.3 | 7,335,915 | 1.3 |
| – Personal business loans | 7,412,617 | 1.2 | 7,542,819 | 1.3 |
| – Others | 373 | 0.0 | 458 | 0.0 |
| Total loans and advances to customers | 604,855,773 | 100.0 | 586,032,668 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Corporate loans constituted the largest component of the Bank's loan portfolio. As of 30 June 2022, the corporate loans (including discounted bills) of the Bank amounted to RMB511.017 billion, representing an increase of RMB25.710 billion or 5.3% as compared with that at the end of the previous year, accounting for 84.5% of the total loans and advances to customers and representing an increase of 1.7 percentage points as compared with that at the end of the previous year. This was mainly due to the fact that during the Reporting Period, the Bank insisted on returning to its original business, actively increased credit supply, and effectively supported the real economy development centering on top ten preferred industries and major regional projects and key areas; The Bank made full use of its advantages in outlet layout and integrated online and offline settlement to achieve full-scenario and all-ecological cooperation in bank-government business.

Personal loans offered by the Bank mainly include residential mortgage loans, personal consumption loans, credit cards and personal business loans. As of 30 June 2022, personal loans of the Bank amounted to RMB93.838 billion, representing a decrease of RMB6,887 million or 6.8% as compared with that at the end of the previous year, and accounted for 15.5% of total loans and advances to customers, representing a decrease of 1.7 percentage points as compared with that at the end of the previous year. This was mainly due to the slowdown of economic growth during the Reporting Period, coupled with the impact of the COVID-19 pandemic and the regulation and control of the real estate industry, as well as the sluggish demand for personal consumption and mortgage loans, resulting in a decrease in the scale of personal loan business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) Loans by type of guarantee

The structure of collaterals of the Bank's loans and advances to customers was stable and the Bank's capability of mitigating risks was relatively solid. As of 30 June 2022, the balance of loans guaranteed or secured by mortgages and pledges amounted to RMB559,377 million, representing an increase of RMB32,267 million or 6.1% as compared with that at the end of the previous year, and accounted for 92.5% of the total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such a loan is allocated to the category representing the primary form of collateral.

The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|-----------------|------------------------|-----------------|
| | Amount | of total (%) | Amount | of total (%) |
| Loans secured by mortgages | 229,383,081 | 38.0 | 222,873,962 | 37.9 |
| Loans secured by pledges | 129,588,599 | 21.4 | 101,680,848 | 17.4 |
| Guaranteed loans | 200,404,881 | 33.1 | 202,554,832 | 34.6 |
| Unsecured loans | 45,479,212 | 7.5 | 58,923,026 | 10.1 |
| Total loans and advances to customers | 604,855,773 | 100.0 | 586,032,668 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2) Changes in provision for impairment on loans and advances to customers

As of 30 June 2022, the balance of provision for impairment on loans and advances to customers at amortised cost of the Bank amounted to RMB26,898 million, representing an increase of RMB2,226 million or 9.0% as compared with that at the end of the previous year, mainly due to the adequate provision for loss on asset impairment by the Bank to further enhance its risk coverage based on the expected credit risk loss, taking into account the economic growth and the impact of the COVID-19 pandemic. As of 30 June 2022, the Bank's allowance to total loans was 4.50%, representing an increase of 0.21 percentage point as compared with that at the end of the previous year.

The following table sets forth the provision for impairment losses on loans and advances issued by the Bank on the dates indicated:

| | During the six months ended 30 June 2022 | | | | 2021 | | | |
|--|--|--|---|-------------------|--|--|---|-------------------|
| | Expected credit loss in the next 12 months | A lifetime expected credit loss - loans without credit impairment loss | A lifetime expected credit loss - loans with credit impairment loss | Total | Expected credit loss in the next 12 months | A lifetime expected credit loss - loans without credit impairment loss | A lifetime expected credit loss - loans with credit impairment loss | Total |
| Balance as at the beginning of the period | 6,421,176 | 7,417,897 | 10,833,049 | 24,672,122 | 7,337,769 | 6,987,110 | 6,010,909 | 20,335,788 |
| Transferred to: | | | | | | | | |
| - to expected credit loss over the next 12 months | 110,431 | (103,712) | (6,719) | - | 2,198,461 | (1,383,837) | (814,624) | - |
| - to lifetime expected credit losses | | | | | | | | |
| - not credit-impaired loans | (50,413) | 50,413 | - | - | (218,136) | 405,529 | (187,393) | - |
| - to lifetime expected credit losses - credit-impaired loans | (8,373) | (101,200) | 109,573 | - | (44,732) | (1,885,448) | 1,930,180 | - |
| Net charge/(release) for the period | 469,526 | (444,312) | 2,418,531 | 2,443,745 | (2,852,186) | 3,294,543 | 6,272,198 | 6,714,555 |
| Transfer out | - | - | - | - | - | - | (2,236,251) | (2,236,251) |
| Write-offs | - | - | (223,327) | (223,327) | - | - | (146,435) | (146,435) |
| Recoveries | - | - | 5,513 | 5,513 | - | - | 4,465 | 4,465 |
| Balance as at the end of the period | <u>6,942,347</u> | <u>6,819,086</u> | <u>13,136,710</u> | <u>26,898,143</u> | <u>6,421,176</u> | <u>7,417,897</u> | <u>10,833,049</u> | <u>24,672,122</u> |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Financial Investments

As of 30 June 2022, the balance of financial investments (including financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost) of the Bank amounted to RMB315,755 million, representing an increase of RMB3,754 million or 1.2% as compared with those at the end of the previous year, and accounted for 29.9% of the total assets, representing a decrease of 1.1 percentage points as compared with that at the end of the previous year.

The following table set forth the main components of the Bank's financial investments (exclusive of interest receivable) as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|--|--------------------|-----------------|------------------------|-----------------|
| | Amount | of total (%) | Amount | of total (%) |
| Financial assets at fair value through profit or loss | 96,258,180 | 31.0 | 93,378,132 | 30.4 |
| – Bonds issued by banks and other financial institutions | 36,611,161 | 11.8 | 32,030,941 | 10.4 |
| – Corporate entity bonds | 1,205,994 | 0.4 | 1,204,854 | 0.4 |
| – Investment management products managed by securities companies | 58,441,025 | 18.8 | 60,142,337 | 19.6 |
| Financial assets at fair value through other comprehensive income | 49,454,940 | 15.9 | 33,690,804 | 11.0 |
| – Government bonds | 15,432,101 | 5.0 | 18,148,592 | 5.9 |
| – Bonds issued by policy banks | 23,547,636 | 7.6 | 4,918,953 | 1.6 |
| – Bonds issued by banks and other financial institutions | 442,431 | 0.1 | 517,889 | 0.2 |
| – Corporate entity bonds | 2,095,784 | 0.7 | 2,163,398 | 0.7 |
| – Capital bonds with no fixed terms issued by commercial banks | 1,028,168 | 0.3 | 1,020,044 | 0.3 |
| – Equity investments | 6,908,820 | 2.2 | 6,921,928 | 2.3 |
| Financial investment measured at amortised cost | 165,028,694 | 53.1 | 180,501,036 | 58.6 |
| – Government bonds | 49,239,733 | 15.9 | 39,096,660 | 12.7 |
| – Bonds issued by policy banks | 28,952,900 | 9.3 | 55,696,204 | 18.1 |
| – Bonds issued by banks and other financial institutions | 300,000 | 0.1 | 300,000 | 0.1 |
| – Corporate entity bonds | 5,720,794 | 1.8 | 5,649,801 | 1.8 |
| – Investment management products managed by securities companies | 4,607,608 | 1.5 | 3,815,274 | 1.2 |
| – Investment management products under the trust scheme | 82,393,657 | 26.5 | 80,554,015 | 26.2 |
| Less: provisions for impairment of financial assets at amortised cost | (6,185,998) | (2.0) | (4,610,918) | (1.5) |
| Total | 310,741,814 | 100.0 | 307,569,972 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) Changes in the provision for financial assets at fair value through other comprehensive income

| (Expressed in thousands of Renminbi, unless otherwise stated) | During the six months ended 30 June 2022 | | | | 2021 | | | |
|---|--|---|---|------------------|-------------------------------------|---|---|----------------|
| | Expected | Lifetime | Lifetime | Total | Expected | Lifetime | Lifetime | Total |
| | credit loss over the next 12 months | expected credit loss – no credit impairment | expected credit loss –credit impairment | | credit loss over the next 12 months | expected credit loss – no credit impairment | expected credit loss –credit impairment | |
| Balance as at the beginning of the period | 889 | – | 696,978 | 697,867 | 1,019 | – | 641,840 | 642,859 |
| Net charge/(release) for the period | 1,606 | – | 353,949 | 355,555 | (130) | – | 55,138 | 55,008 |
| Balance as at the end of the period | 2,495 | – | 1,050,927 | 1,053,422 | 889 | – | 696,978 | 697,867 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2) Changes in the provision for financial assets at amortised cost

| | During the six months ended 30 June 2022 | | | | 2021 | | | |
|---|---|--|--|------------------|---|--|--|------------------|
| | Expected credit loss over the next 12 months | Lifetime expected credit loss – no credit impairment | Lifetime expected credit loss –credit impairment | Total | Expected credit loss over the next 12 months | Lifetime expected credit loss – no credit impairment | Lifetime expected credit loss –credit impairment | Total |
| Balance as at the beginning of the period | 719,400 | 1,103,626 | 2,787,892 | 4,610,918 | 1,640,198 | 151,576 | 1,621,314 | 3,413,088 |
| Transferred to: | | | | | | | | |
| – to expected credit losses over the next 12 months | – | – | – | – | 417,900 | – | (417,900) | – |
| – to lifetime expected credit losses | | | | | | | | |
| – not credit-impaired loans | – | – | – | – | (50,848) | 50,848 | – | – |
| – to lifetime expected credit losses | | | | | | | | |
| – credit-impaired loans | (8,458) | – | 8,458 | – | (647,943) | – | 647,943 | – |
| Net charge/(release) for the period | 9,056 | 447,281 | 1,118,743 | 1,575,080 | (639,907) | 901,202 | 936,535 | 1,197,830 |
| Balance as at the end of the period | 719,998 | 1,550,907 | 3,915,093 | 6,185,998 | 719,400 | 1,103,626 | 2,787,892 | 4,610,918 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.2.2 Liabilities

As of 30 June 2022, total liabilities of the Bank amounted to RMB974.717 billion, representing an increase of RMB49.094 billion or 5.3% as compared with that at the end of the previous year. The Bank's liabilities mainly consisted of (i) deposits from customers, (ii) financial assets sold under repurchase agreements and (iii) deposits from banks and other financial institutions, accounting for 84.8%, 7.9% and 4.1%, respectively, with respect to the total liabilities.

The following table sets forth the components of the Bank's total liabilities as at the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|--------------|------------------------|--------------|
| | Amount | of total (%) | Amount | of total (%) |
| Borrowings from Central Bank | 953,503 | 0.1 | 1,631,922 | 0.2 |
| Deposits from customers | 826,903,041 | 84.8 | 754,880,674 | 81.6 |
| Deposits from banks and other financial institutions | 40,422,755 | 4.1 | 59,942,166 | 6.5 |
| Placements from banks and other financial institutions | 3,174,039 | 0.3 | 581,595 | 0.1 |
| Financial liabilities at fair value through profit or loss | – | – | 6,504,990 | 0.7 |
| Derivative financial liabilities | 628,402 | 0.1 | 564,291 | 0.1 |
| Financial assets sold under repurchase agreements | 76,625,349 | 7.9 | 89,271,137 | 9.6 |
| Debt securities issued | 20,960,362 | 2.2 | 8,427,431 | 0.9 |
| Other liabilities ⁽¹⁾ | 5,049,502 | 0.5 | 3,819,106 | 0.3 |
| Total | 974,716,953 | 100.0 | 925,623,312 | 100.0 |

Note:

- (1) Including settlement accounts, staff remuneration payable, deferred income, taxes payable, dormant accounts and other liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Deposits from Customers*

As of 30 June 2022, the Bank's total deposits from customers (exclusive of interest payable) amounted to RMB809.994 billion, with an increase of RMB72.961 billion or 9.9% as compared with that at the end of the previous year, accounting for 83.1% of the total liabilities and representing an increase of 3.5 percentage points as compared with that at the end of the previous year. Among them, personal deposits increased by RMB66.758 billion as compared with that at the end of the previous year. The main reason is that during the Reporting Period, the Bank continued to focus on the construction of customer base, upgraded and improved the financial service product system, promoted the digital transformation and development strategy, and empowered existing operations through mobile Internet technology, marketing for new and mobile business development scenarios, thus achieving rapid growth in personal deposits; Corporate deposits increased by RMB5.813 billion as compared with that at the end of the previous year, mainly due to the fact that during the Reporting Period, the Bank closely focused on "government finance and industry finance" in marketing activities, strengthened the maintenance and expansion of basic and high-quality customer base, promoted product innovation and enhanced comprehensive service capabilities, and achieved growth in corporate settlement deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the Bank's deposits from customers (exclusive of interest payable) and product types as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|--------------|------------------------|--------------|
| | Amount | of total (%) | Amount | of total (%) |
| Corporate deposits | | | | |
| Demand deposits | 167,059,711 | 20.6 | 139,501,418 | 18.9 |
| Time deposits | 114,315,957 | 14.1 | 136,060,819 | 18.5 |
| Sub-total | 281,375,668 | 34.7 | 275,562,237 | 37.4 |
| Personal deposits | | | | |
| Demand deposits | 52,893,707 | 6.5 | 52,119,182 | 7.1 |
| Time deposits | 433,707,200 | 53.6 | 367,723,470 | 49.9 |
| Sub-total | 486,600,907 | 60.1 | 419,842,652 | 57.0 |
| Other deposits ⁽¹⁾ | 42,017,236 | 5.2 | 41,628,053 | 5.6 |
| Total | 809,993,811 | 100.0 | 737,032,942 | 100.0 |

Note:

(1) Mainly including pledged deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued (exclusive of interest payable) as at the dates indicated:

| | As at 30 June 2022 Amount | As at 31 December 2021 Amount |
|--|------------------------------------|--|
| (Expressed in thousands of Renminbi, unless otherwise stated) | | |
| Tier-two capital bond with fixed rate maturing in December 2027 | 6,000,000 | 6,000,000 |
| Interbank certificates of deposits issued | 14,803,272 | 2,417,309 |
| Total | 20,803,272 | 8,417,309 |

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB6.0 billion in the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

As of 30 June 2022, the balance of certificates of interbank deposit issued by the Bank amounted to RMB14.803 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.2.3 Equity

As of 30 June 2022, the equity balance of the Bank amounted to RMB81.551 billion, representing an increase of RMB1.048 billion or 1.3% as compared with that at the end of the previous year. The following table sets forth the components of the equity of the Bank as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|-----------------|------------------------|-----------------|
| | Amount | of total (%) | Amount | of total (%) |
| Share capital | 8,796,680 | 10.8 | 8,796,680 | 10.9 |
| Capital reserve | 26,931,360 | 33.0 | 26,931,360 | 33.4 |
| Surplus reserve | 7,447,212 | 9.1 | 7,319,347 | 9.1 |
| General reserve | 14,022,964 | 17.2 | 14,013,554 | 17.4 |
| Investment revaluation reserve | (889,358) | (1.1) | (816,706) | (1.0) |
| Provision reserve | 1,019,418 | 1.3 | 862,128 | 1.1 |
| Reserve on remeasurement of defined benefit liability | (24,638) | (0.0) | (24,638) | (0.0) |
| Retained earnings | 23,604,515 | 28.9 | 22,797,677 | 28.3 |
| Non-controlling interests | 643,281 | 0.8 | 623,539 | 0.8 |
| Total equity | 81,551,434 | 100.0 | 80,502,941 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.3 Loan quality analysis

During the Reporting Period, the Bank strengthened credit risk management, promoted the optimization and adjustment of credit structure, further improved the construction of digital intelligent risk control system, promoted the application of risk monitoring and management system, enhanced the foresight and initiative of risk early warning and prevention and control, and comprehensively improved the level of risk management, and effectively preventing incremental credit risks; meanwhile, the Bank took comprehensive measures, such as cash liquidate, legal litigation, reunification and write-off of bad debts, to promote the liquidate and disposal of non-performing assets, reduced and resolved existing risks in an orderly manner, and continuously consolidated asset quality. As of 30 June 2022, the Bank's non-performing loan ratio was 3.26%, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year. The provision coverage ratio was 138.14%, representing an increase of 7.27 percentage points as compared with that at the end of the previous year, and the ability to offset risk losses continued to increase.

3.2.3.1 Breakdown of loans by the five-category classification system

The non-performing loans of the Bank are classified into loans and advances to customers that are substandard, doubtful and loss. As of 30 June 2022, the non-performing loans of the Bank amounted to RMB19.692 billion, and the non-performing loan ratio was 3.26%, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | As at 31 December 2021 | |
|---|--------------------|--------------|------------------------|--------------|
| | Amount | of total (%) | Amount | of total (%) |
| Normal | 570,488,089 | 94.3 | 549,478,083 | 93.7 |
| Special mention | 14,675,255 | 2.4 | 17,356,401 | 3.0 |
| Substandard | 18,201,729 | 3.0 | 17,913,718 | 3.1 |
| Doubtful | 1,009,399 | 0.2 | 805,554 | 0.1 |
| Loss | 481,301 | 0.1 | 478,912 | 0.1 |
| Total loans and advances to customers | 604,855,773 | 100.0 | 586,032,668 | 100.0 |
| Non-performing loan | 19,692,429 | 3.26 | 19,198,184 | 3.28 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.3.2 Concentration of loans

1. Concentration in terms of Industry and Distribution of Non-performing Loans

During the Reporting Period, the Bank further developed industry finance, focused on the ten selected industries, continued to strengthen the construction of customer base and optimised loan structure. The following table sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | | | As at 31 December 2021 | | | |
|---|--------------------|---------------------------|----------------------------|-----------------------------|------------------------|---------------------------|----------------------------|-----------------------------|
| | Loan amount | Non-performing of total % | Non-performing loan amount | Non-performing loan ratio % | Loan amount | Non-performing of total % | Non-performing loan amount | Non-performing loan ratio % |
| Wholesale and retail | 150,582,777 | 24.9 | 11,346,746 | 7.54 | 150,601,899 | 25.6 | 10,738,594 | 7.13 |
| Renting and business activities | 99,337,022 | 16.4 | 925,345 | 0.93 | 100,283,745 | 17.1 | 923,149 | 0.92 |
| Real estate | 79,108,710 | 13.1 | 1,525,347 | 1.93 | 69,734,707 | 11.9 | 1,380,576 | 1.98 |
| Construction | 34,964,345 | 5.8 | 522,512 | 1.49 | 28,848,272 | 4.9 | 470,159 | 1.63 |
| Manufacturing | 36,767,221 | 6.1 | 2,407,281 | 6.55 | 39,005,576 | 6.7 | 2,618,410 | 6.71 |
| Culture, sports and entertainment | 999,631 | 0.2 | 35,000 | 3.50 | 1,078,195 | 0.2 | 45,000 | 4.17 |
| Transportation, storage and postal services | 8,432,308 | 1.4 | 150,033 | 1.78 | 8,304,991 | 1.4 | 145,850 | 1.76 |
| Production and supply of electric power, heat, gas and water | 3,009,432 | 0.5 | 817,923 | 27.18 | 3,337,573 | 0.6 | 938,298 | 28.11 |
| Accommodation and catering | 2,864,199 | 0.5 | 140,931 | 4.92 | 2,945,073 | 0.5 | 143,988 | 4.89 |
| Mining | 1,407,002 | 0.2 | 54,290 | 3.86 | 2,139,442 | 0.4 | 54,290 | 2.54 |
| Household and other services | 1,216,850 | 0.2 | - | - | 360,300 | 0.1 | - | - |
| Agriculture, forestry, animal husbandry and fishery | 608,794 | 0.1 | 54,624 | 8.97 | 632,694 | 0.1 | 55,224 | 8.73 |
| Others | 13,528,887 | 2.2 | 90,561 | 0.67 | 12,864,199 | 2.2 | 89,241 | 0.69 |
| Discounted bills | 78,190,278 | 12.9 | - | - | 65,170,949 | 11.1 | - | - |
| Personal loans and advances | 93,838,317 | 15.5 | 1,621,836 | 1.73 | 100,725,053 | 17.2 | 1,595,405 | 1.58 |
| Total | 604,855,773 | 100.0 | 19,692,429 | 3.26 | 586,032,668 | 100.0 | 19,198,184 | 3.28 |

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 30 June 2022, loans provided to customers of (i) wholesale and retail, (ii) renting and business activities (iii) real estate and (iv) manufacturing represented the largest components of the Bank's corporate loans. As of 30 June 2022 and 31 December 2021, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB365.796 billion and RMB359.626 billion, respectively, accounting for 60.5% and 61.3%, respectively, with respect to the Bank's total loans and advances to customers.

2. Concentration in terms of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers of at 30 June 2022. As of the same date, all such loans were classified as normal loans:

| (Expressed in thousands of Renminbi, unless otherwise stated) | 30 June 2022 | | |
|---|-----------------------------------|-----------|---------------|
| | Industry involved | Amount | of total % |
| Customer A | Renting and business activities | 8,500,700 | 1.41 |
| Customer B | Real estate | 6,139,900 | 1.02 |
| Customer C | Culture, sports and entertainment | 5,829,850 | 0.96 |
| Customer D | Renting and business activities | 5,192,300 | 0.86 |
| Customer E | Wholesale and retail | 5,130,000 | 0.85 |
| Customer F | Real estate | 5,000,000 | 0.83 |
| Customer G | Renting and business activities | 4,986,072 | 0.82 |
| Customer H | Manufacturing | 4,481,000 | 0.74 |
| Customer I | Real estate | 3,498,000 | 0.58 |
| Customer J | Real estate | 3,466,040 | 0.57 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Distribution of Non-performing Loans by Product Type

The following table sets forth the loans and non-performing loans by product type as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | | | As at 31 December 2021 | | |
|---|--------------------|----------------------------|-----------------------------|------------------------|----------------------------|-----------------------------|
| | Loan amount | Non-performing loan amount | Non-performing loan ratio % | Loan amount | Non-performing loan amount | Non-performing loan ratio % |
| Corporate loans | 511,017,456 | 18,070,593 | 3.54 | 485,307,615 | 17,602,779 | 3.63 |
| Short-term loans | 66,714,902 | 13,187,364 | 19.77 | 109,207,805 | 12,812,678 | 11.73 |
| Medium and long term loans | 366,112,276 | 4,883,229 | 1.33 | 310,928,861 | 4,790,101 | 1.54 |
| Discounted bills | 78,190,278 | - | - | 65,170,949 | - | - |
| Retail loans | 93,838,317 | 1,621,836 | 1.73 | 100,725,053 | 1,595,405 | 1.58 |
| Mortgage loans | 57,715,553 | 479,504 | 0.83 | 57,516,140 | 548,244 | 0.95 |
| Personal business loans | 7,412,617 | 251,224 | 3.39 | 7,542,819 | 206,946 | 2.74 |
| Personal consumption loans | 20,812,726 | 344,949 | 1.66 | 28,329,721 | 293,929 | 1.04 |
| Credit card overdrawn | 7,897,048 | 545,786 | 6.91 | 7,335,915 | 545,828 | 7.44 |
| Others | 373 | 373 | 100.0 | 458 | 458 | 100.0 |
| Total | 604,855,773 | 19,692,429 | 3.26 | 586,032,668 | 19,198,184 | 3.28 |

As of 30 June 2022 and 31 December 2021, the non-performing loan ratio of the Bank was 3.26% and 3.28%, respectively.

As of 30 June 2022 and 31 December 2021, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 3.54% and 3.63%, respectively.

As of 30 June 2022 and 31 December 2021, the non-performing loan ratio of the Bank's retail loans was 1.73% and 1.58%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.4 Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by former CBRC. As of 30 June 2022, the Bank's core tier-one capital adequacy ratio and tier-one capital adequacy ratio were both 10.29%, and the capital adequacy ratio was 12.01%, which at all levels met the regulatory requirements.

The following table sets forth the relevant information of the Bank's capital adequacy ratio as of the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | As at 31 December 2021 |
|--|--------------------------|------------------------------|
| Core capital | | |
| – Share capital | 8,796,680 | 8,796,680 |
| – Qualifying portion of capital reserve | 26,931,360 | 26,931,360 |
| – Surplus reserve | 7,447,212 | 7,319,347 |
| – General reserve | 14,022,964 | 14,013,554 |
| – Investment revaluation reserve | (889,358) | (816,706) |
| – Provision reserve | 1,019,418 | 862,128 |
| – Retained earnings | 23,604,515 | 22,797,677 |
| – Qualifying portions of non-controlling interests | 128,361 | 121,712 |
| – Others | (24,638) | (24,638) |
| Core Tier-one Capital | 81,036,514 | 80,001,114 |
| Core Tier-one capital deductions | (316,274) | (303,297) |
| Net Core Tier-one Capital | 80,720,240 | 79,697,817 |
| Net Tier-one Capital | 80,720,240 | 79,697,817 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | As at 31 December 2021 |
|--|--------------------------|------------------------------|
| Tier-two Capital | | |
| – Qualifying portions of tier-two capital instruments issued | 6,000,000 | 6,000,000 |
| – Surplus provision for loan impairment | 7,440,754 | 5,929,637 |
| Net tier-two Capital | <u>13,440,754</u> | <u>11,929,637</u> |
| Total net Capital | <u>94,160,994</u> | <u>91,627,454</u> |
| Total risk weighted assets | 784,272,845 | 756,282,510 |
| Core Tier-one Capital adequacy ratio | 10.29% | 10.54% |
| Tier-one Capital adequacy ratio | 10.29% | 10.54% |
| Capital adequacy ratio | <u>12.01%</u> | <u>12.12%</u> |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.5 Segment Information

3.2.5.1 Summary of regional branches

The Bank is mainly operating within China. 18 branches are located in five provinces and municipalities directly under the Central Government. It also established seven subsidiaries in Liaoning, Shanghai and Zhejiang Province.

| (Expressed in thousands of Renminbi, unless otherwise stated) | Operating income | | | | Non-current assets ⁽¹⁾ | | | |
|---|------------------------------|----------------|------------------|----------------|-----------------------------------|----------------|------------------|----------------|
| | For the period ended 30 June | | | | | | | |
| | 2022 | | 2021 | | 30 June 2022 | | 31 December 2021 | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Northeast China Region | 7,863,609 | 97.3 | 8,294,367 | 97.5 | 6,084,600 | 95.3 | 6,181,396 | 96.2 |
| North China Region | 175,489 | 2.2 | 165,766 | 1.9 | 259,589 | 4.1 | 215,781 | 3.4 |
| Others | 41,971 | 0.5 | 48,123 | 0.6 | 39,163 | 0.6 | 29,666 | 0.4 |
| Total | 8,081,069 | 100.0 | 8,508,256 | 100.0 | 6,383,352 | 100.0 | 6,426,843 | 100.0 |

Note:

- (i) Non-current assets include property and equipment, intangible assets, right-of-use assets and land use rights.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.5.2 Business segments

Since this year, the Bank has thoroughly implemented the “four focuses” business strategy, combined the improvement of its own operational quality and efficiency with the transformation and upgrading of regional economy, accelerated the strategic transformation and development, strengthened the linkage of business segments, accurately allocated financial resources, and firmly promoted high-quality development and characteristic transformation. In the first half of 2022, the operating income of corporate business amounted to RMB5.003 billion, accounting for 61.9% of the total operating income. The operating income of retail banking business amounted to RMB1.087 billion, accounting for 13.5% of the total operating income. The operating income of treasury business amounted to RMB1.895 billion, accounting for 23.4% of the total operating income.

| (Expressed in thousands of Renminbi, unless otherwise stated) | For the six months ended 30 June | | | |
|---|----------------------------------|-----------------|------------------|-----------------|
| | 2022 | | 2021 | |
| | Amount | of total (%) | Amount | of total (%) |
| Operating income | | | | |
| Corporate banking | 5,003,306 | 61.9 | 5,582,814 | 65.6 |
| Retail banking | 1,086,846 | 13.5 | 944,778 | 11.1 |
| Treasury business | 1,894,593 | 23.4 | 1,914,909 | 22.5 |
| Others | 96,324 | 1.2 | 65,755 | 0.8 |
| Total | 8,081,069 | 100.0 | 8,508,256 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.2.6 Commitments of Off-balance Sheet Items

The following table sets forth the Bank's credit commitments as at the dates indicated:

| (Expressed in thousands of Renminbi, unless otherwise stated) | As at 30 June 2022 | As at 31 December 2021 |
|--|--------------------------|------------------------------|
| Bank acceptances | 89,724,836 | 128,417,787 |
| Letters of guarantees | 7,573,246 | 13,446,399 |
| Letters of credit | 10,160,297 | 12,617,399 |
| Unused credit card commitments | 18,420,448 | 17,777,920 |
| Total | 125,878,827 | 172,259,505 |

3.3 BUSINESS OVERVIEW

3.3.1 Corporate Banking Business

The Bank takes the professional operation of industry finance as the main line, lays the foundation for long-term benefits as the foundation, regards the active management of risk prevention and control and the cultivation of professional capabilities of the team as the guarantee, deeply implements the operating strategy of “four focuses”, and takes multiple measures in structural optimization, customer marketing, product innovation, channel expansion and system construction, etc., actively shapes the corporate financial brand image, firmly promotes high-quality development and characteristic transformation of corporate business, and strives to create financing, resource integration, capital operation and asset management “four-in-one” comprehensive and professional service model of asset management, constantly enrich financial service measures, actively integrate into the overall situation of local economic development, and actively contribute the “Shengjing Power” to achieving steady growth and stabilizing market players.

3.3.1.1 Corporate deposits

By adhering to the basic policy of taking deposits as the key foundation of the Bank, the Bank, guided by the quality growth of the scale of deposits, focused on deepening customer operation and absorbed low-cost and stable core deposits, strengthened the corporate debt business through optimization of industries to expand customers, product application innovation, platform channel construction, institutional team building and long-term assessment mechanism. The Bank increased the extension marketing of upstream and downstream deposits for core customers, such as strategic customers and key customers, to promote the internal circulation of the capital system. By expanding the basic customer base and enhancing the application of products, the Bank consolidated the foundation of corporate deposits. The Bank released the “TOWER+” transaction bank brand, increased the comprehensive marketing of trading products, and provided customer cash flow management services to obtain settlement deposits. The Bank strengthened the three-level linkage marketing model of the head office and branches for major customers and key projects, so as to effectively promote the growth of corporate deposits. As of 30 June 2022, the balance of corporate deposits of the bank amounted to RMB281,376 million, representing an increase of RMB5,814 million as compared with that at the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.1.2 Corporate loans

The Bank earnestly implemented the decisions and arrangements of the Party committee and the government and the work requirements of the regulatory authorities, firmly grasped the fundamental purpose of financial services for the real economy, and focused on reducing corporate financing costs and improving the quality and efficiency of serving the real economy. Relying on major national and local strategies and key projects, and adhering to the positioning of “serving the local economy, serving small and medium-sized enterprises, and serving urban and rural residents”, to achieve integrated development with the local economy, grow together with small, medium and micro enterprises, return to the origin of operations, actively help enterprises with their difficulties, and truly invest credit resources in the key and weak parts of economic and social development. The Bank identified equipment manufacturing, digital technology, people’s livelihood and public utilities, modern agriculture, medicine and medical care, new retail, urban renewal, iron and steel metallurgy, energy and petrochemicals, and government finance as the top ten preferred industries, formulated industry business strategies and credit policies, highlighted annual development priorities, and formed differentiated industry business layout. As of 30 June 2022, the balance of the Bank’s corporate loans (exclusive of discounted bills, foreign currency loans, forfaiting business) amounted to RMB432,827 million, representing an increase of RMB12,690 million as compared with that at the beginning of the year.

3.3.1.3 Transaction banking

The Bank implemented the new development concept, integrated into the new development pattern, continued to do a good job of “six stabilities” and “six guarantees”, deepened the top-level design of transaction banks, and efficiently promoted the building of the “TOWER+” transaction bank brand; deeply cultivated industry finance, and innovative breakthroughs have been made such as electronic guarantee for residential system, “Dingyirong”, and Order Financing; helped stabilize foreign trade, and cross-border financial services such as “Liaoning Trade Loan” and direct lending by overseas institutions have been repeatedly innovated. Focusing on the action plan for supply chain finance, the Bank effectively played the important role of transaction banking in settlement and financing, credit guarantee, product innovation, customer management, etc., and led the bank-wide corporate business transformation to specialization, light-duty and digitalization. As of 30 June 2022, the balance of the Bank’s on/off balance assets of transaction banking amounted to RMB36,475 million, realized the clearance volume of the transaction banking of USD6,414 million, and the revenue from the transaction banking intermediary business amounted to RMB98 million.

3.3.2 Retail Banking

During the Reporting Period, with the strategic vision of “being a good bank, and under the operation guideline of “upgrading the scale, improving the quality, preventing the risks, stabilizing the expectations and reinforcing the disciplines”, the Bank focused on customer and created a full-product, omni-channel, full-scenario, integrated and digital retail banking development model, and kept contributing to the retail business.

3.3.2.1 *Personal deposits*

The Bank’s personal deposits maintained stable and rapid growth. First is to focus on promoting integrated operation, strengthen overall management, establish an integrated promotion mechanism at the head office and branch level, implement the integrated account manager system at the sub-branch level, strengthen departmental coordination and resource allocation, and realize integrated comprehensive marketing of all products. Second is to implement digital empowerment, build a digital marketing platform, online remote video, intelligent outbound calls and other functions. Third is to build a market-oriented and competitive retail team, focus on building a “1+3” professional marketing team of product managers, wealth managers, public managers and credit managers, continuously upgrade and improve the assessment and incentive mechanism, and build a “pioneering sentimental” professional honor system. Fourth is to carry out differentiated customer group management, adhere to the hierarchical management of private banking, wealth, public and long-tail customers, adhere to the group management of pension, agency, new citizens, retired soldiers and rural resident customers, put into practice the “4+5” customer operation model, and strive to build “enjoy your life accompanied by Shengjing” pension financial service system to improve customer experience. Fifth is to carry out standardized and characteristic channel services, create a standardized network service model, establish a benchmark network, create a characteristic remote banking center, optimize manual seats, upgrade robot services, create characteristic online APP services, and build a solid foundation of scenario service.

As of 30 June 2022, the balance of Bank’s personal deposit has kept growing, reaching RMB486,601 million, representing an increase of RMB66,758 million or 15.9% as compared with that at the end of the previous year. Among them, the market share in Shenyang has remained the first for many years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.2.2 Personal loans

The Bank actively promoted comprehensive transformation of retail business, focused on customers, and steadily developed the housing mortgage business. In light of the changes in the real estate market in the cities where the operating authorities are located and the requirements of regulatory policies, the Bank has formed differentiated regional strategies to give priority to supporting the reasonable needs of residents for self-occupied housing. The Bank actively complied with the national consumption promotion policy, based on subdivided consumer industries, deeply tapped potentials and refined customer groups, and launched 12 self-operated consumer loan products in “six customer groups and six industries”. The Bank quickly responded to the national call, and built an exclusive customer service system around the financial needs of the “300 million new citizens” target customers. The Bank helped stabilize the overall economic market, implemented the “one extension and one guarantee” credit policy, and promoted the recovery of consumption growth. The Bank improved the risk monitoring system, multi-dimensional big data risk verification, and sped up the update of product policies and processes. In the first half of the year, the downward pressure on the economy further increased, and residents’ financing needs fell significantly, superimposing on the uncertainty of the COVID-19 pandemic. As of 30 June 2022, the personal loans (including personal housing mortgage loans, personal consumption loans, credit cards, personal business loans and other personal loans) amounted to RMB93,838 million.

3.3.2.3 Bank cards

The Bank continued to promote the development of the bank card service system, optimized service functions, enhanced customer experience, and provided high-quality, efficient and convenient financial services to individual customers; continued to launch service plans for special customer groups to achieve mass customer acquisition. As of 30 June 2022, the Bank issued 19.277 million debit cards in total, representing an increase of 587,200 cards as compared with that of the beginning of the year, with a total consumption amount of RMB10,991 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.2.4 Assets management

The Bank's asset management business resolutely implemented the core concept of "four-fund integration", further promoted business transformation and innovation, grasped market opportunities, boldly opened up a new "blue print" of business, and embarked on a unique and differentiated development path for asset management. The Bank centered on the customers, enriched product varieties and functions, and created wealth management products with "flexible redemption, wide transaction channels, multiple product types, high performance returns, stable net worth fluctuations and abundant excess returns". The Bank has always adhered to the asset management brand of "operating the bank with decent wealth management", constantly explored new areas and new drivers for sustainable business growth, comprehensively helped stabilize the economic market, and effectively served the needs of high-quality economic and social development and the preservation and appreciation of residents' wealth. As of 30 June 2022, the current balance of the Bank's wealth management amounted to RMB41,851 million with a realized intermediary business revenue of RMB100 million.

3.3.3 Capital and Investment Banking Business

3.3.3.1 Capital business

In capital business, the Bank adhered to the functional orientation of "serving for liquidity management, revenue growth and comprehensive operation of customers". The Bank adhered to the coordination and unity of liquidity and profitability, insisted on customer expansion and marketing, and enriched financing channels; optimized asset and liability allocation and transactions, continuously improved capital utilization efficiency, and significantly improved capital operation capabilities.

The Bank's capital business was transformed from an allocation-based strategy to a transaction-based strategy. The Bank organized a full-time trading team to accurately grasp market fluctuations, started from two aspects, namely "improving investment income" and "optimizing investment structure", continued to optimize the position structure, improved the trading level of bonds, foreign exchange, bills and derivatives, and recorded increase in net trading price gains and exchange gains and losses in the first half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank adhered to the marketing strategy of expanding customers and enriched the reserves of the clients. In the first half of the year, the Bank focused on expanding policy-based and large state-owned stock banks' counterparties, and actively expanded credit extension for integrated businesses. In the fields of trade finance, inter-bank business, bill business, asset management business and technical support, the Bank has established diversified inter-bank cooperative relations with state-owned banks; at the same time, the Bank selected the best online inter-bank debt varieties, flexibly arranged financing terms, and improved both the stability and efficiency of debt.

The Bank fully wielded the financial market channels and products to serve customers with integrated operations. In the first half of the year, through investment business products and services, the Bank helped branch customers in comprehensive marketing; opened centralized foreign exchange clearing and enriched foreign exchange business channels, which effectively improved customer service experience.

3.3.3.2 Investment bank business

The Bank actively built a customized and light-weight investment banking business system, adhered to the strategy of "returning to the original business, focusing on its main business and developing with double light", and optimized the new investment and inventory management. On one hand, the Bank actively implemented the scale reduction of non-standardized creditor's rights business; on the other hand, the Bank closely followed the main theme of national policies, focused on urban transformation and development, reform of state-owned assets and state-owned enterprises, industrial optimization and upgrading, and national economy and people's livelihood, provided assistance for major projects in the fields of industrial upgrading and urban renewal. During the Reporting Period, the business layout of syndicated loans, merger and acquisition investment and financing consultancy was further expanded, driving the investment banking business to develop in a high-quality and sustainable direction.

3.3.4 Specialized institutions and subsidiaries

3.3.4.1 *Financial service center for Small Business*

The financial service center for small businesses of the Bank practically implemented the various preferential policies, firmly established its market positioning of “serving the local economy, serving small and medium-sized enterprises, and serving urban and rural residents”, and supported the difficulties alleviation and recovery, as well as high-quality development of small and micro enterprises by further improving the quality and efficiency of financial services, expanding service coverage, increasing credit supply to small and micro enterprises, optimizing customer structure, and promoting the reasonable reduction of comprehensive financing costs for fully playing to the role of financial guarantee in the work of “six stabilities” and “six guarantees”.

The small business financial services of the Bank firmly implemented the inclusive financial services concept of “finance for the people”, and continuously promoted innovation in service concepts, service content and service delivery methods with a customer-centric approach to enhance the accessibility, coverage and satisfaction of inclusive finance. Firstly, the Bank has standardised products to meet high frequency demand. We have actively developed online quick loan products, such as “Tax Easy Loan” and “Quick and Easy Loan”, and widely applied “Operating Loan”, “Shangquan Dai” and “Housing Mortgage Loan”, “Purchase Loan”, “Rent Loan” and other traditional products for small and micro enterprises, and maximised the potential value of our products through a combination of traditional and innovative products. Secondly, we have developed specialised solutions to meet individual needs. We strived to explore innovative development and differentiated service models for inclusive finance, and achieved efficient services for financing the supply chain of inclusive micro and small business through system direct connection, with an average time of 2 minutes for each business placement. We have also achieved the first launch of five innovative businesses, including the “Liaomao Loan”, “Stabilisation Loan for Enterprise Suffering from the Pandemic”, “Agricultural Supply and Marketing Loan”, “Technology Credit Loan” and “Shengjin Loan”, to provide more suitable financial products for small and micro customers. Thirdly, the Bank is committed to reducing customer costs, implementing a special interest rate policy for inclusive small and micro enterprises, and continuously reducing the weighted average interest rate of new inclusive small and micro enterprise loans in the first half of the year. The minimum interest rate for small and micro enterprises in key areas advocated by the State is 3.7%. The financing cost of small and micro enterprises will be further reduced in combination of freeing the account management fee, small amount management fee, cancellation fee of corporate account and other free policies provided for small and micro enterprises, as well as the preferential treatment of relevant expenses incurred by small and micro customers when handling loans.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.4.2 Credit card center

During the Reporting Period, the credit card center of the Bank focused on its function as a “profit centre” and focused on controlling risks, strengthening management and increasing scale to consolidate the foundation of business development, deepen comprehensive risk management, increase the scale of target customers and interest-earning assets, and continuously improve customer operating results and value contribution. First is to control risk. We improved the whole process of intelligent risk control system, optimised and iterated risk control strategies and models, deployed anti-fraud system, enriched external risk data and improved automatic approval efficiency; strengthened in-lending control, closely followed early overdue tracking, disposed of medium and high-risk customers and strictly controlled new non-performing risks; improved the omni-channel collection system, launched a collection system, activated the management pool of outsourced institutions and improved collection efficiency; increased the recovery rate of large outstanding accounts through public security cases + civil litigation and resolved the stock of non-performing risks. Second is to enhance management. We improved the organizational structure of departments, and restructured risk lines; improved the internal control management system, strengthened the construction of compliance, and promoted the regular learning and inspection of the system; accelerated the construction of efficient teams, adhered to cultural guidance, built a learning organization, and improved the full-scale market-oriented evaluation and performance distribution mechanism of the whole organization. Third is to increase scale. We launched consumer credit, expanded the proportion of interest-earning assets, promoted large amount installment pre-credit projects for existing customers, implemented one policy for Beijing, Tianjin and Shanghai, and launched preferential installment products to help consumption recovery; improved the four-dimensional integrated customer acquisition marketing system, improved the unit output and efficiency of direct selling, focused on the borrowing to loan of key customer groups of distribution, strengthened the leading Internet cooperation, deepened e-marketing and innovation to assist in customer acquisition, and increased the proportion of target customers; built a customer + business + brand ecosystem, built a system of thousands of preferential merchants in Shenyang, carried out the “being spree together (9要一起嗨)” preferential activities for the benefit of the people, issued living consumption vouchers, invigorated potential customers, strengthened long tail customer marketing of remote to leverage the full life cycle operation and service efficiency of customers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 30 June 2022, there were in aggregate 1,962,800 credit cards issued by the Bank, representing an increase of 118,700 credit cards from the number at the beginning of the year; the transaction amount reached RMB19,502 million in the first half of 2022, representing a decrease of 0.9% over the same period of previous year; the balance of existing credit card loans amounted to RMB7,897 million, representing an increase of RMB561 million from the beginning of the year.

3.3.4.3 Shengjing Bank Consumer Finance Co., Ltd.

Shengjing Bank Consumer Finance Co., Ltd. was the first consumer financial company established by the Bank as its major contributor and was approved to start business in February 2016.

During the Reporting Period, Shengjing Bank Consumer Finance Co., Ltd. was firmly rooted in Liaoning and Shenyang based on universal benefits, and made every effort to promote the high-quality development of the Company's various operations. Firstly, the Company focused on key projects, accelerated system construction and strengthened its management foundation to ensure the stable development of its business in a compliant manner. Secondly, the Company continued to build a diversified product and service marketing system and an intelligent technology risk control capability, strengthen the whole process of risk management and improve the overall risk management system. Thirdly, the Company accelerated business transformation and development, innovated channels and product models, and continued to develop specialised self-operated business products to meet the differentiated financial needs of customers. Fourthly, the Company actively contributed to the revitalisation of villages, contributed to public welfare and fulfilled our social responsibility, so as to become a quality consumer finance company with a warm, responsible and trustworthy character.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.3.4.4 Village banks

As of 30 June 2022, the Bank was the principal contributor to jointly establish six village banks, four of which are located in Shenyang City in Liaoning Province, being Shenyang Shenbei Fumin Village Bank, Shenyang Xinmin Fumin Village Bank, Shenyang Faku Fumin Village Bank, Shenyang and Liaozhong Fumin Village Bank, the other two being Ningbo Jiangbei Fumin Village Bank in Ningbo, Zhejiang Province and Shanghai Baoshan Fumin Village Bank in Shanghai. All of the six village banks are independent legal entities.

The Bank established a management mode of local branches under the leadership of the risk line of the head office. Shenyang Branch supported four village banks in Shenyang, and Shanghai Branch supported two village banks in Shanghai and Ningbo. During the Reporting Period, the Bank actively fulfilled the responsibilities and obligations of the main issuing bank. Through the efficient cooperation of the head office and branches, the Bank guided and helped village banks strengthen system construction, team construction and cultural construction, continuously improved corporate governance, implemented regulatory rectification opinions, strictly enforced internal risk control management, focused on strengthening the monitoring of public opinion risk and liquidity risk of rural banks; with the guidance and help from branches, village banks adhered to the market positioning of supporting agriculture and small enterprises to return to their origin, focused on the main business, and deeply cultivated the local and sink to the low-tier market to ensure the stable and healthy operation of village banks.

3.3.5 Distribution Channels

3.3.5.1 *Offline Channels*

The Bank continued to accelerate the outlet transformation, with the goal of improving the level of serving the real economy to strengthen the layout of outlets in areas with weak financial services, and promoted the rational distribution and sustainable development of institutional outlets, as a result, the coverage of outlet services continued to be expanded, and regional influence continued to be enhanced. At the same time, the Bank is committed to improving the use efficiency of self-service equipment and the service contribution of self-service equipment to promote the construction of self-service equipment comprehensive operation management platform. As of 30 June 2022, the Bank has established 214 institutional outlets, including 1 head office, 3 branch-level specialised institutions, 18 branches, 187 traditional sub-branches, and 5 small sub-branches, and had CRSs, intelligent counters, portable card issuing machines, VTMs, high-speed CRSs, interactive desktops and other advanced self-service terminal devices.

3.3.5.2 *Electronic Banking*

1. *Enterprise Online Banking*

For better meeting the needs of corporate customers, the Bank sped up the construction of corporate business channels, and continuously enriched online products and functions. In the first half of 2022, enterprise online banking continued to optimize functions such as transfer, payroll and electronic bills, which improved the Bank's online operation service capability and customer service experience. As of 30 June 2022, there were 57,300 corporate online banking customers in total, representing an increase of 10% from that at the end of the previous year. There were 2,406,900 transactions, with an accumulated transaction value of RMB1,588.423 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. *Mobile Banking*

Focusing on the user experience, the Bank continuously promoted the optimization and upgrade of mobile banking and steadily increased the number of active users of mobile banking; The Bank enhanced the service of special customers and launch special zones for veterans and MGM to help the operation of retail customers; New mobile financial functions such as tobacco e-loan and trade union payment are added to continuously improve the mobile banking service capability; The Bank deepened its online channel marketing capabilities and strengthened the promotion of financial product marketing. The proportion of wealth management and fund transactions in mobile banking channels exceeded 90%. As of 30 June 2022, there were 3.657 million mobile banking customers in total, and there were 7.475 million transactions in total in the first half of 2022, with an accumulated transaction value of RMB395.196 billion.

3.3.6 **Information Technology and R&D**

During the Reporting Period, the Bank continued to optimize the application architecture of information system, improve the functions of information system, strengthen the ability to deliver business needs, and promote the Bank's digital transformation work by focusing on the basic strategy of "developing the Bank through technology", with the premise of ensuring the smooth operation of information system and the objective of enhancing the operation and maintenance capabilities and governance capabilities of information technology.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Firstly, the Bank continuously improved its system capacity planning, realized automatic allocation and dynamic adjustment of server resources, unified management and synchronized policies of multi-center firewalls, and continuously improved the level of automatic operation and maintenance, with an availability rate of 99.99% for important information systems. Secondly, the Bank has established the whole-process management system of information technology system with “determination, learning, use and inspection” as its core; and established an enterprise-level project management system and an enterprise-level test management system, comprehensively coordinate project progress, risks and problems, and continuously improved the quality of scientific and technological projects. Thirdly, the Bank completed the commissioning of major projects such as enterprise-level general ledger system and customer information management system, and the transformation of information system architecture was carried out in an orderly manner; The electronic banking channel has added functions such as “fast payment service” and service of corporate accounts, which will be interfaced with government platforms such as “one-code pass city” and “good policy” platforms to promote digital business development.

3.4 RISK MANAGEMENT

In the first half of 2022, facing the severe situation at home and abroad, guided by the strategic vision of “being a sound bank” and the Action Plan of Shengjing Bank on Strengthening Comprehensive Risk Management and Internal Control Compliance (2021–2023), the Bank adhered to the “prudent and stable” risk management strategy around the Bank’s business development strategy, further built a comprehensive risk management system suitable for the Bank’s business development, improved the risk management level, and actively responded to and prevented various risks. Firstly, the Bank improved the risk appetite index system and optimized the top-level design of risk management; Secondly, the Bank improved the risk management policy system and strengthened policy guidance and institutional constraints; Thirdly, the Bank developed and operated a brand-new platform system of credit business, effectively promoted the construction of risk management system clusters, and accelerated the improvement of digital and intelligent risk management.

3.4.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The credit risk exposure of the Bank mainly exists in the credit business and treasury business.

During the Reporting Period, the Bank adhered to the management philosophy of “compliance as a key foundation of the Bank”, and implemented the business development philosophy of “increasing scale, improving quality, preventing risks, stabilizing expectations and strengthening style”. The Bank focused on high-quality industries and mainstream customers, steadily pushed forward the transformation of existing businesses, continuously optimized the asset structure of the Bank and kept the asset business running smoothly. Firstly, the credit management mechanism has been continuously improved and the policy guidance and control has been strengthened. Focusing on the credit policy objectives of “stable asset quality, development of regional difference, solid customer base, steady growth in scale and optimization of asset portfolio”, the Bank refined the industry, regional, customer and resource allocation strategic arrangements and updated the annual credit policy in a timely manner; The Bank improved the differentiated authorization management system to guide the steady development of credit business. Secondly, the Bank consolidated the re-inspection of credit business to gradually improve the asset quality. Focusing on the key objectives of the “Year of Asset Quality Improvement”, and adhering to the principles of truthfulness, objectivity and seeking truth from facts, the Bank completed the whole-process credit re-inspection of all financing business in the past three years. The Bank regularly re-inspected the credit business on a rolling basis, optimized the asset quality assessment system, and maintained the intensity of asset quality control. Thirdly, in order to meet regulatory requirements and business development needs, the Bank continuously promoted the construction and improvement of process system of credit business to realize electronic and refined management covering all customers, products and processes, and continuously improve the level of credit risk management. Fourthly, the Bank practically implemented the “three checks” of loans and continuously improved the level of refined credit risk management. The Bank carried out hierarchical management of customers according to the top ten preferred industries, formulated characteristic marketing plans for strategic customers, key customers and basic customers according to the industry attributes. The Bank selected core subjects to establish business cooperation to ensure that the subjects are qualified, the trade background is true, the capital demand is matched, and the business development is carried out in compliance, strictly controlling the entrance check. At the same time, for existing customers, and combined with the change trend of customer risk, the Bank took the initiative to reduce or eliminate risks to ensure the safety of credit assets to the greatest extent.

3.4.2 Operational Risk Management

Operational risk refers to the risk of loss caused by inadequate or problematic internal procedures, personnel and information technology systems as well as external events.

During the Reporting Period, the Bank gave full play to the role of internal control management, continuously identified potential risks in key areas, optimised risk control and mitigation measures, and improved the level of operational risk control. First is to strengthen internal control management. The Bank built a scientific and reasonable institutional framework with clear levels and feasible operation, set up key institutional system, and dynamically adjusted the authorisation to ensure that the rights and responsibilities are equal, reasonable and appropriate, laying a solid foundation for internal control and compliance management. Second is to strengthen internal control process control. Focusing on high-risk business areas, the Bank comprehensively arranged the internal control process, identified management loopholes in the business process, uncovered problems at the system, process and institutional mechanisms levels, formulated risk mitigation measures in a timely manner, embedded risk management and internal control compliance requirements in the business process, and fundamentally resolved operational risks. Third is to improve the ability to prevent operational risks. The Bank continuously carried out operational risk monitoring, effectively carried out risk investigation, thoroughly investigated and strictly correct management loopholes, investigated irregularities such as misconduct of personnel in important positions and sensitive links, took timely corrective and warning actions, and realized operational risk process management and behavior control.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.4.3 Market Risk Management

Market risk refers to the risk of losses in the Bank's on-balance sheet and off-balance sheet business due to adverse changes of market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk can be divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk. The market risk mentioned in this section refers to the market risk other than the interest rate risk of the bank account book.

During the Reporting Period, the Bank established a market risk management system with clear division of labor and clear responsibilities to control market risks within an affordable range. The Bank measured and monitored the market risk by comprehensively using tools such as sensitivity analysis, duration and value at risk (VaR) to control the scale of possible losses. The Bank continuously evaluated the quota indicators such as exposure limit, risk limit and stop loss limit, conducted market value revaluation and indicator monitoring on a daily basis, regularly evaluated the implementation of market risk limit, conducted market risk stress testing on a quarterly basis, carried out post-work review and continuously improved the effectiveness of market risk monitoring. During the Reporting Period, all market risk indicators operated stably and did not exceed the limits.

3.4.4 Bank Account Book Interest Rate Risk

Bank account book interest rate risk refers to the adverse changes in the level of interest rate, term structure and other factors which lead to loss on the economic value and overall revenue of bank account books, including gap risk, benchmark risk and optional risk. Among which, gap risk is the main interest rate risk faced by the Bank. The Bank mainly adopted various methods such as gap analysis, scenario simulation and stress testing to measure, monitor and analyze interest rate risk in bank accounts.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the world's economic growth slowed down significantly due to unexpected factors such as the resurgence of pandemic and the conflict between Russia and Ukraine. In the face of downward economic pressure, China has made great efforts to consolidate and expand the achievements in pandemic prevention and control as well as economic and social development. In terms of interest rate control, it has established a sound market-based interest rate formation and transmission mechanism, reduced LPR quotation twice to continue to release the effectiveness of LPR reform and promote further marketization of deposit rates. In response, the Bank carefully assessed the negative impact of the change in interest rates on the current profit and loss and economic value, and orderly promoted the related risk management since early 2022: Firstly, we strengthened the monitoring and research of the interest rate environment in the external market. We paid close attention to the macroeconomic and financial situation, regulatory policies and changes in the interest rate market, and made timely adjustments to our interest rate risk management and operational strategies based on scientific analysis of market interest rate trends to enhance the proactiveness and foresight of interest rate risk management in our bank account book. Secondly, we optimized the asset and liability repricing strategy. We adjusted the repricing term strategy of the asset and liability business under the condition of a decline in the certainty of loan interest rates in combination with the annual asset and liability business plan, so as to appropriately lengthen the liability side, shorten the asset side repricing cycle and proactively reduce the positive gap of interest-sensitive assets and liabilities. Thirdly, we strengthened the stress testing, assessed the losses caused by extreme adverse scenarios to the Bank, conducted a back testing for the stress testing, and evaluated and improved the measurement model based on the test results to enhance the scientific and effective monitoring of interest rate risks in the Bank account book.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3.4.5 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

During the Reporting Period, the Bank maintained a prudent and stable liquidity risk appetite. Firstly, we continued to improve our liquidity management system covering the entire Group, both on and off-balance sheet, and across all currencies, and strictly arranged the use of funds by source of funds to achieve a balance of total assets and liabilities and a sustainable optimization of the maturity structure. Secondly, we strengthened liquidity risk monitoring and early warning, accelerated the construction of information system and improved the level of refined liquidity risk management. Thirdly, we continued to promote deposit growth, steadily improved the stability and sustainability of debt funding and strengthened the foundation of liquidity. Fourthly, we deepened cooperation with our peers to facilitate the replenishment of contingency funds, accelerated the flow of asset business and enhanced the emergency disposal capability of liquid assets.

3.4.6 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

During the Reporting Period, the Bank further improved the information security management system, strictly implemented the network security responsibility system, and consolidated the main responsibility for network security at all levels to ensure the safe and stable operation of important information system. Firstly, we strengthened the construction of a security compliance system and revised and improved the information security management system. Secondly, we implemented the detection and disposal of software and hardware vulnerabilities in network equipment, servers, operating system and databases. Thirdly, we conducted special risk checks and rectification work for network system, host servers, outsourced services and software development. Fourthly, we strengthened the security control of development projects, standardized the security management process and tasks at all stages of project requirements, development and design, testing and acceptance, as well as production launch, and enhanced the security

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

of new system. Fifthly, we engaged a professional security assessment organisation to carry out security assessment, penetration testing, code audit, vulnerability scanning and security evaluation of important system. Sixthly, we organized security training and education for all staff on security system construction, security risks and prevention, network security awareness, network security laws and regulations, financial information protection and network security operation.

3.4.7 Reputational Risk Management

Reputational risk refers to the risk that may cause negative comments on the Bank from the stakeholders, the public, and the media due to the acts relating to the conduct of the Bank, staff or other external incidents, and hence damage the brand value of the Bank, adversely impact the normal operation, and even affect the market stability and social stability.

During the Reporting Period, the Bank strengthened the management of the whole process and the normalised construction before, during and after reputational risks in accordance with the requirement in the Administrative Measures of Reputational Risk of Banking and Insurance Institutions (Trial). Firstly, the Bank realised reputational risks on a timely manner, persisted on real-time monitoring and reporting the public opinion, kept the internal and external linkage effective, responded and handled on a timely manner. Secondly, the Bank adhered to the “four persistence” working requirement and strategic vision of “being a sound bank”, launched the well-planned, step-by-step positive promotion, raised the influence of the brand proactively and built good image. Thirdly, the Bank clarified false information on a timely manner, took initiative to lead the public opinion, and handled negative opinion effectively. Fourthly, the Bank organised and started training on reputational risk, strengthened the building of team, raised the awareness of prevention and control of reputational risk and the ability to response and handle.

3.4.8 Compliance Risk Management

Compliance risk refers to the risk of suffering from legal sanction, regulatory punishment, significant financial loss or reputation loss due to failure to comply with relevant laws, rules and codes of conduct.

The Bank advocates the principle of compliance first and deepens the concept of taking compliance as the foundation. Sticking to high level compliance with provisions of laws, regulations and regulatory requirements and rules and regulations of the Bank, the Bank conducts various operation management activities on basis of precautionary operation to effectively strengthen the concept of internal control and compliance in “management institutionalization, system streamlining, and process informatization”, perfect the “comprehensive, highly involved, whole process, whole system” internal control management mechanism, promote the quality improvement of the internal control and compliance of the Bank, and promote operation compliance and high quality development. Firstly, the Bank improved the compliance risk management system. The Bank strengthened internal control measures, strictly implemented the compliance risk management policy of the Bank, adhered to compliance operation and bottom line thinking, and implemented construction of whole process compliance mechanism, so as to achieve effective identification and management of compliance risks. Secondly, the Bank consolidated the foundation for compliance. The Bank improved the institutional framework, constructed scientific and reasonable, operational feasible system and structure with clear hierarchy, preliminarily constructed the system of ten aspects, including corporate governance, risk management, internal control and compliance, financial accounting, and implemented effectively “internalization of external regulations” at the same time, clarified the red line of compliance, and improved the refined authorization system to provide guarantee for the steady development of compliance. Thirdly, the action of the Bank was oriented by regulatory advice. The Bank promoted the quality improvement of internal control through consolidating the achievements in rectification of chaotic practice, and promoted the high quality development of business through the sound result of the rectification work. Fourthly, the Bank advanced the construction of compliance culture. The Bank created gradually a “prudent, steady, comprehensive and proactive” risk internal control culture of Shengjing Bank by carrying out various forms of compliance training, warning education and compliance publicity and constructing a long-lasting mechanism to promote and implement the compliance culture.

3.4.9 Money Laundering Risk Management

Money laundering risk refers to the risk of loss to the Bank through disguising and concealing the source and nature of the money laundering by various means, and flowing the illegal income and the income generated by it into the Bank.

During the Reporting Period, the Bank strictly complied with national anti-money laundering laws and regulations and solidly performed statutory obligations and social responsibilities in respect of anti-money laundering. The Bank continued to deepen the management of money laundering risk, put effort to improve scientific and technological support capacity, further improved the governance of the customer information and continuously improved the effectiveness of money laundering risk management. Firstly, the Bank continued to improve the management system of anti-money laundering, strengthened the study and judgement of the anti-money laundering regulatory policy in combination with the needs of the Bank's business development and risk management, and deeply implemented the requirements of various laws and regulations on anti-money laundering. Secondly, the Bank continued to optimize the anti-money laundering risk monitoring system, strengthened the scientific and technological support capacity, further improve the technical support to the anti-money laundering management platform and business system, optimized the monitoring model indicators to improve continuously the monitoring and analysis capacity of the system. Thirdly, the Bank solidly carried out anti-money laundering training, and established a regular training mechanism for anti-money laundering, practically implemented anti-money laundering talent reserve and professional echelon construction, and improved performance ability of business personnel and anti-money laundering personnel. Fourthly, the Bank promoted the continuous publicity work and normalized development, deepened the offline publicity and widened the online promotion channel, strictly implemented the fight against telecommunications network fraud, and constantly improved the public's awareness of money laundering risk prevention. Fifthly, the Bank implemented the risk-based principle, intensified the effort to conduct due diligence of customers' identities, continued to strengthen the measures for risk management to improve constantly the ability of risk control.

3.4.10 Country-specific Risk Management

Country-specific risks represent the risks of economic, political and social changes and developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfil their obligations to banking financial institutions, or incur loss to commercial presences of banking financial institutions in that country or region, or other loss to banking financial institutions. It mainly exists in business activities such as credit, international capital market business, establishment of overseas institutions, agency transactions, and outsourcing services provided by overseas service providers.

During the Reporting Period, the Bank comprehensively promoted country-specific risk management. Firstly, the Bank paid close attention to the international economic and political situation and conflicts in local politics to understand, analyze and determine the political direction of our country to other country and proactively understand and determine the country-specific risk impact on the Bank from domestic and foreign situation. Secondly, the Bank improved the country-specific risk management system by further building a scientific and reasonable country-specific risk organization management structure with clear responsibility to intensify the control of country-specific risk. Thirdly, the Bank launched the pressure test for country-specific risk and optimized the management procedure of country-specific risk comprehensively to raise the ability to realize, calculate, monitor, and control the country-specific risk.

3.5 FUTURE PROSPECTS AND DEVELOPMENT STRATEGY

Since the beginning of the year, the downward pressure on China's economy has increased under the influence of such unexpected factors as the complex and changeable international environment and the spread of domestic pandemic. However, with the positive results achieved in the pandemic prevention and control, the State Council's package of policies and measures to solidly stabilise the economy has been implemented at a faster pace, and the economic operation has shown a trend of stabilisation and recovery, creating a relatively stable external environment for the high-quality development of banks.

In the second half of 2022, the international economic and financial environment will still face many challenges due to the slowdown of global economic growth, high inflation and the continuation of geopolitical conflicts. The foundation of domestic economic recovery still needs to be reinforced, but the long-term economic fundamentals remain unchanged. In the next stage, the state will adhere to the principle of maintaining stability, seeking progress while maintaining stability, and strengthening risk prevention and control in key areas, maintain reasonable and sufficient liquidity, make better use of the financial countercyclical regulatory role, and strive to improve the quality and efficiency of financial services to the real economy.

The Bank will actively integrate into the overall situation of national and regional development, return to its roots and focus on its main business. Guided by the strategic vision of "building a sound bank", the Bank will strengthen its market positioning of "serving the local economy, serving small, medium and micro enterprises, and serving urban and rural residents", thoroughly implement the business strategy of "focusing on deposit growth, customer base building, value creation, and capacity enhancement", comprehensively strengthen Party building, team building, system building, cultural construction and scientific and technological construction, unswervingly transform to large retail and inclusive financial business, and strive to build a sound bank in a new era with customer satisfaction, shareholder satisfaction, regulatory satisfaction, peer satisfaction, employee satisfaction and community satisfaction.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

As at 30 June 2022, the Bank had a total of 8,796,680,200 Shares, comprising 6,455,937,700 Domestic Shares and 2,340,742,500 H Shares. During the Reporting Period, there was no change in the shareholding.

| | At 31 December 2021 | | Change during the Reporting Period | | | At 30 June 2022 | |
|---|-----------------------------|----------------------|------------------------------------|-------------------|-------------------|-----------------------------|----------------------|
| | Number | Percentage (%) | Issue of new shares | Others | Sub-total | Number | Percentage (%) |
| 1. Shareholding of Domestic Shares by legal persons | 6,334,384,089 | 72.01 | Nil | Nil | Nil | 6,334,384,089 | 72.01 |
| Of which: | | | | | | | |
| 1.1 Shareholding of state-owned legal persons | 2,685,567,665 | 30.53 | Nil | Nil | Nil | 2,685,567,665 | 30.53 |
| 1.2 Shareholding of private legal persons | 3,648,816,424 | 41.48 | Nil | Nil | Nil | 3,648,816,424 | 41.48 |
| 2. Shareholding of Domestic Shares by natural persons | 121,553,611 | 1.38 | Nil | Nil | Nil | 121,553,611 | 1.38 |
| 3. H Shares | <u>2,340,742,500</u> | <u>26.61</u> | <u>Nil</u> | <u>Nil</u> | <u>Nil</u> | <u>2,340,742,500</u> | <u>26.61</u> |
| Total | <u>8,796,680,200</u> | <u>100.00</u> | <u>Nil</u> | <u>Nil</u> | <u>Nil</u> | <u>8,796,680,200</u> | <u>100.00</u> |

Notes:

- Percentage figures in the table have been adjusted by rounding. Therefore, the total figures shown in the table are not necessarily the arithmetical sum of their previous figures.
- As of 30 June 2022, the Bank had 3,454 holders of Domestic Shares and 149 holders of H Shares. In respect of the holders of Domestic Shares, 37 are state-owned Shareholders, 106 are private corporate Shareholders and 3,311 are natural person Shareholders.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.1 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF DOMESTIC SHARES OF THE BANK

As at 30 June 2022, the top ten Shareholders of the Domestic Shares of the Bank are as follows:

| No. | Name of Shareholder | Nature of Shareholder | Total number of Shares held | Percentage of the total share capital of the Bank (%) | Number of Shares pledged |
|--------------|---|-----------------------|-----------------------------|---|--------------------------|
| 1 | Shenyang Shengjing Finance Investment Group Co., Ltd. (瀋陽盛京金控投資集團有限公司) ("Shengjing Finance Holdings") | State-owned | 1,829,225,327 | 20.79 | 0 |
| 2 | Evergrande Group (Nan Chang) Co., Ltd. (恒大集團(南昌)有限公司) ("Evergrande Nan Chang") | Private | 1,281,855,435 | 14.57 | 0 |
| 3 | Shenyang Hengxin | State-owned | 479,836,334 | 5.45 | 0 |
| 4 | Liaoning Huibao International Investment Group Co., Ltd. (遼寧匯寶國際投資集團有限公司) ("Huibao International") | Private | 400,000,000 | 4.55 | 400,000,000 |
| 5 | Xinhu Zhongbao Co., Ltd. (新湖中寶股份有限公司) | Private | 300,000,000 | 3.41 | 80,000,000 |
| 6 | Founder Securities Co., Ltd. (方正證券股份有限公司) ("Founder Securities") | Private | 300,000,000 | 3.41 | 0 |
| 7 | Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司) | Private | 200,000,000 | 2.27 | 0 |
| 8 | Lianmei Group Co., Ltd. (聯美集團有限公司) ("Lianmei Group") | Private | 200,000,000 | 2.27 | 0 |
| 9 | Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. (瀋陽中油天寶(集團)物資裝備有限公司) ("Zhongyou Tianbao") | Private | 190,000,000 | 2.16 | 0 |
| 10 | Northeast Pharmaceutical Group Co., Ltd. (東北製藥集團有限公司) ("Northeast Pharmaceutical Group") | State-owned | 137,833,335 | 1.57 | 0 |
| Total | | | 5,318,750,431 | 60.46 | 480,000,000 |

Note: Percentage figures in the table have been subject to rounding adjustments. Therefore, the total figures shown in the table are not necessarily the arithmetical sum of their previous figures.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.2 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

1. Interests of Substantial Domestic Shareholders

As at 30 June 2022, to the knowledge of the Directors after making reasonable enquiries, the following persons (not being Directors, Supervisors or chief executives of the Bank) had interests or short positions in the Domestic Shares and underlying Domestic Shares, which would fall to be disclosed to the Bank and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name of Shareholder | Nature of Interests | Number of Domestic Shares held | Percentage of the total number of Domestic Shares of the Bank (%) | Percentage of the total share capital of the Bank (%) |
|--|--------------------------------------|----------------------------------|---|---|
| Shengjing Finance Holdings ⁽¹⁾ | Beneficial owner | 1,829,225,327 (Long position) | 28.33 | 20.79 |
| China Evergrande Group ⁽²⁾ | Interest of a controlled corporation | 1,281,855,435 (Long position) | 19.86 | 14.57 |
| Shenyang Hengxin ⁽³⁾ | Beneficial owner | 479,836,334 (Long position) | 7.43 | 5.45 |
| Shenyang Industrial Investment Development Group Co., Ltd (瀋陽產業投資發展集團有限公司) ⁽³⁾ | Interest of a controlled corporation | 479,836,334 (Long position) | 7.43 | 5.45 |
| Huibao International ⁽⁴⁾ | Beneficial owner | 400,000,000 (Long position) | 6.20 | 4.55 |
| Chenjingyi (Beijing) Cultural Development Co., Ltd (辰景怡(北京)文化發展有限公司) ⁽⁴⁾ | Interest of a controlled corporation | 400,000,000 (Long position) | 6.20 | 4.55 |
| Li Yuguo (李玉國) ⁽⁴⁾ | Interest of a controlled corporation | 400,000,000 (Long position) | 6.20 | 4.55 |

Notes:

- (1) According to the register of shareholders of the Bank as at 30 June 2022, Shengjing Finance Holdings held 1,829,225,327 Domestic Shares. Shengjing Finance Holdings was held as to 67.42% by Shenyang SASAC. By virtue of the SFO, Shenyang SASAC is deemed to be interested in the Shares held by Shengjing Finance Holdings.
- (2) China Evergrande Group (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,281,855,435 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Nan Chang.
- (3) According to the register of shareholders of the Bank as at 30 June 2022, Shenyang Hengxin held 479,836,334 Domestic Shares. Shenyang Hengxin was wholly-owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). Shenyang Industrial Investment Development Group Co., Ltd. was held as to 98.16% by Shenyang SASAC. By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. and Shenyang SASAC are deemed to be interested in the Shares held by Shenyang Hengxin.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (4) According to the register of Shareholders of the Bank as of 30 June 2022, Huibao International held 400,000,000 Domestic Shares. Huibao International was wholly-owned by Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司), which was in turn controlled by Mr. Li Yuguo (李玉國) as Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司) is accustomed to acting in accordance with Mr. Li Yuguo's (李玉國) direction pursuant to a relevant agreement entered into between Mr. Li Yuguo (李玉國) and Chenjingyi (Beijing) Cultural Development Co., Ltd. By virtue of the SFO, Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司) and Mr. Li Yuguo (李玉國) are deemed to be interested in the Shares held by Huibao International.

2. Interests of Substantial H Shareholders

As at 30 June 2022, to the knowledge of the Directors after making reasonable enquiries, the following persons (not being Directors, Supervisors or chief executives of the Bank) had interests or short positions in the H Shares and underlying H Shares, which would fall to be disclosed to the Bank and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name of Shareholder | Nature of Interests | Number of H Shares held | Percentage of the total number of H Shares of the Bank (%) | Percentage of the total share capital of the Bank (%) |
|--|---|--------------------------------|--|---|
| Zhengbo Holdings Limited ⁽¹⁾ | Beneficial owner | 400,000,000 (Long position) | 17.09 | 4.55 |
| Suen Cho Hung, Paul ⁽¹⁾ | Interest of a controlled corporation/ Beneficial owner | 420,898,500 (Long position) | 17.98 | 4.78 |
| Future Capital Group Limited ⁽²⁾ | Beneficial owner | 400,000,000 (Long position) | 17.09 | 4.55 |
| Cordoba Homes Limited ⁽²⁾ | Interest of a controlled corporation/ Beneficial owner | 406,761,000 (Long position) | 17.38 | 4.62 |
| Cheung Chung Kiu ⁽³⁾ | Interest of a controlled corporation/ Beneficial owner | 324,651,500 (Long position) | 13.87 | 3.69 |
| Oshidori International Holdings Limited ⁽⁴⁾ | Interest of a controlled corporation | 293,034,000 (Long position) | 12.52 | 3.33 |
| Murtsa Capital Limited ⁽⁵⁾ | Beneficial owner | 203,676,000 (Long position) | 8.70 | 2.32 |

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

| Name of Shareholder | Nature of Interests | Number of H Shares held | Percentage of the total number of H Shares of the Bank (%) | Percentage of the total share capital of the Bank (%) |
|---|---|--------------------------------|--|---|
| Satinu Resources Group Ltd. ⁽⁵⁾ | Interest of a controlled corporation | 204,284,000 (Long position) | 8.73 | 2.32 |
| Cheng Yu Tung Family (Holdings II) Limited ⁽⁶⁾ | Interest of a controlled corporation | 179,518,060 (Long position) | 7.67 | 2.04 |
| Cheng Yu Tung Family (Holdings) Limited ⁽⁶⁾ | Interest of a controlled corporation | 179,518,060 (Long position) | 7.67 | 2.04 |
| Chow Tai Fook (Holding) Limited ⁽⁶⁾ | Interest of a controlled corporation | 179,518,060 (Long position) | 7.67 | 2.04 |
| Chow Tai Fook Capital Limited ⁽⁶⁾ | Interest of a controlled corporation | 179,518,060 (Long position) | 7.67 | 2.04 |
| Chow Tai Fook Nominee Limited ⁽⁶⁾ | Interest of a controlled corporation/ Beneficial owner | 179,518,060 (Long position) | 7.67 | 2.04 |

Notes:

- (1) Suen Cho Hung, Paul directly held 20,898,500 H Shares of the Bank. Zhengbo Holdings Limited held 400,000,000 H Shares of the Bank. Zhengbo Holdings Limited was wholly-owned by Suen Cho Hung, Paul. By virtue of the SFO, Suen Cho Hung, Paul is deemed to be interested in the Shares held by Zhengbo Holdings Limited.
- (2) Cordoba Homes Limited held 6,761,000 H Shares of the Bank through Cordoba Homes Treasury Limited (registered in British Virgin Islands), its wholly owned subsidiary; Cordoba Homes Limited is 61.98% controlled by Terra Firma Cordoba Limited; Terra Firma Cordoba Limited is wholly owned by Terra Firma Holdings Limited; Terra Firma Holdings Limited is wholly owned by PEAK TRUST COMPANY – NV. By virtue of the SFO, Cordoba Homes Limited, Terra Firma Cordoba Limited, Terra Firma Holdings Limited and PEAK TRUST COMPANY – NV are deemed to be interested in the Shares held by Cordoba Homes Limited.

Future Capital Group held 400,000,000 H Shares of the Bank. Future Capital Group Limited is wholly owned by Core Heaven Group Limited; Core Heaven Group Limited is wholly owned by Cordoba Homes Treasury Limited (registered in Liberia); Cordoba Homes Treasury Limited (registered in Liberia) is wholly owned by Cordoba Homes Limited. By virtue of the SFO, Core Heaven Group Limited, Cordoba Homes Treasury Limited (registered in Liberia) and Cordoba Homes Limited are deemed to be interested in the Shares held by Future Capital Group Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (3) Cheung Chung Kiu directly held 299,651,500 H Shares of the Bank. Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly-owned by Mighty Gain Enterprise Limited; Mighty Gain Enterprises Limited was wholly-owned by C C Land Holdings Limited; C C Land Holdings Limited was held as to 52.99% by Fame Seeker Holdings Limited; Fame Seeker Holdings Limited was wholly-owned by Windsor Dynasty Limited; Windsor Dynasty Limited was wholly-owned by Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Fame Seeker Holdings Limited, Windsor Dynasty Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.
- (4) Smart Jump Corporation (incorporated in British Virgin Islands) held 3,034,000 H Shares of the Bank. Smart Jump Corporation (incorporated in British Virgin Islands) was wholly-owned by Smart Jump Corporation (incorporated in Cayman Islands); Smart Jump Corporation (incorporated in Cayman Islands) was wholly-owned by Smart Jump Corporation (incorporated in Marshall Islands); Smart Jump Corporation (incorporated in Marshall Islands) was wholly-owned by Win Wind Capital Limited; Win Wind Capital Limited was wholly-owned by Oshidori International Holdings Limited. By virtue of the SFO, Smart Jump Corporation (incorporated in Cayman Islands), Smart Jump Corporation (incorporated in Marshall Islands), Win Wind Capital Limited and Oshidori International Holdings Limited are deemed to be interested in the Shares held by Smart Jump Corporation (incorporated in British Virgin Islands).
- Nu Kenson Limited held 190,000,000 H Shares of the Bank. Nu Kenson Limited was wholly-owned by Win Wind Intermediary Financial Services Limited; Win Wind Intermediary Financial Services Limited was wholly-owned by Win Wind Capital Limited; Win Wind Capital Limited was wholly-owned by Oshidori International Holdings Limited. By virtue of the SFO, Win Wind Intermediary Financial Services Limited, Win Wind Capital Limited and Oshidori International Holdings Limited are deemed to be interested in the Shares held by Nu Kenson Limited.
- Kenson Investment Limited held 100,000,000 H Shares of the Bank. Kenson Investment Limited is wholly owned by Uptown WW Holdings Limited; Uptown WW Holdings Limited is wholly owned by Uptown WW Capital Group Limited (registered in British Virgin Islands); Uptown WW Capital Group Limited (registered in British Virgin Islands) is wholly owned by Uptown WW Capital Group Limited (Registered in Cayman Islands); Uptown WW Capital Group Limited (Registered in Cayman Islands) is wholly owned by Enerchina Investments Limited; Enerchina Investments Limited is wholly owned by Oshidori International Holdings Limited. By virtue of the SFO, Uptown WW Holdings Limited, Uptown WW Capital Group Limited (registered in British Virgin Islands), Uptown WW Capital Group Limited (registered in Cayman Islands), Enerchina Investments Limited and Oshidori International Holdings Limited are deemed to be interested in the shares held by Kenson Investment Limited.
- (5) Murtsa Capital Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Limited was wholly-owned by Satinu Capital (HK) Limited; Satinu Capital (HK) Limited was wholly-owned by Satinu Holdings Limited; Satinu Holdings Limited was wholly-owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Capital (HK) Limited, Satinu Holdings Limited and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Murtsa Capital Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Satinu Markets Limited held 608,000 H Shares of the Bank. Satinu Markets Limited was wholly-owned by Satinu Holdings Limited; Satinu Holdings Limited was wholly-owned by HEC Securities Company Limited; HEC Securities Company Limited was wholly-owned by Satinu Resources Group Ltd. By virtue of SFO, Satinu Holdings Limited, HEC Securities Company Limited and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Satinu Markets Limited.

- (6) Acemax Enterprises Limited held 50,776,620 H Shares of the Bank. Acemax Enterprises Limited was wholly-owned by Chow Tai Fook Nominee Limited. By virtue of the SFO, Chow Tai Fook Nominee Limited is deemed to be interested in the Shares held by Acemax Enterprises Limited.

Oceanic Fortress Limited held 76,164,940 H Shares of the Bank. Oceanic Fortress Limited was wholly-owned by Chow Tai Fook Nominee Limited. By virtue of the SFO, Chow Tai Fook Nominee Limited is deemed to be interested in the Shares held by Oceanic Fortress Limited.

Chow Tai Fook Nominee Limited directly held 52,576,500 H Shares of the Bank. Chow Tai Fook Nominee Limited was held as to 99.90% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 81.03% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited respectively. By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited.

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying Shares of the Bank as at 30 June 2022 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

4.3 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Shengjing Finance Holdings, Evergrande Nan Chang and Shenyang Hengxin held 1,829,225,327 Domestic Shares, 1,281,855,435 Domestic Shares and 479,836,334 Domestic Shares of the Bank respectively, representing 20.79%, 14.57% and 5.45% of the Bank's total share capital, respectively.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.4 INFORMATION ON SUBSTANTIAL SHAREHOLDERS AND DE FACTO CONTROLLERS OF DOMESTIC SHARES

Below is the information on the Bank's substantial Shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries as at the end of the Report Period. For the definition of relevant concepts, please see the relevant requirements of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC.

| No. | Name of shareholder | Number of Shares held | Shareholding percentage | Reasons of being a substantial shareholder | Number of shares pledged (number) | Controlling shareholder | De facto controller | Parties acting in concert | Ultimate beneficial owner |
|-----|---|-----------------------|-------------------------|---|-----------------------------------|---|---------------------|---------------------------|---------------------------------------|
| 1 | Shengjing Finance Holdings | 1,829,225,327 | 20.79% | Holding 5% or more of the Bank's shares, being appointed supervisor | 0 | Shenyang SASAC | Shenyang SASAC | Nil | Shengjing Finance Holdings |
| 2 | Evergrande Nan Chang | 1,281,855,435 | 14.57% | Holding 5% or more of the Bank's shares | 0 | China Evergrande Group | Hui Ka Yan | Nil | Evergrande Nan Chang |
| 3 | Shenyang Hengxin | 479,836,334 | 5.45% | Holding 5% or more of the Bank's shares, being appointed director | 0 | Shenyang Industrial Investment Development Group Co., Ltd (瀋陽產業投資發展集團有限公司) | Shenyang SASAC | Nil | Shenyang Hengxin |
| 4 | Founder Securities | 300,000,000 | 3.41% | Appointed director | 0 | Peking University Founder Group Co., Ltd (北大方正集團有限公司) | Peking University | Nil | Founder Securities |
| 5 | Zhongyou Tianbao | 190,000,000 | 2.16% | Appointed director | 0 | Liu Xinfu | Liu Xinfu | Nil | Zhongyou Tianbao |
| 6 | Liaoning Huafeng Investment Co., Ltd. (遼寧華峰投資有限公司) | 100,000,000 | 1.14% | Appointed director | 0 | Bao Lijun | Bao Lijun | Nil | Liaoning Huafeng Investment Co., Ltd. |

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

4.5 ISSUANCE OF DEBT SECURITIES

1. Debt Securities Issued

As at the end of the Reporting Period, details of the bonds issued by the Bank are set out in the “Debt Securities Issued” section of chapter 3.2.2.2 of this report and the note 29 of the financial statement in the “Notes to the Interim Financial Report” section.

2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2020 annual general meeting of the Bank held on 25 May 2021 that, subject to necessary governmental and regulatory authorities, the Bank will issue financial bonds in the aggregate principal amount of up to RMB30 billion to members of the interbank bond market in China, among which, capital bonds with no fixed term shall not exceed RMB15 billion, and other types of financial bonds shall not exceed RMB15 billion. The bonds with no fixed term will have no fixed term, with the date of triggering event being the date of maturity, while the maturity of other types of financial bonds has a term of not more than 10 years (inclusive). The interest rate of the bonds will be determined based on the market interest rate. The proceeds from the issuance of the bonds will be used to optimise the structure of the Bank’s assets and liabilities, stabilise the medium and long term funding sources and support the medium and long-term asset business, and will be used to issue loans to customers such as green finance, small and micro enterprises and mass entrepreneurship and innovation enterprises. The funds raised from the capital bonds with no fixed term will be used to supplement tier-one capital of the Bank, optimise the capital structure of the Bank and improve the level of capital adequacy, thereby supporting the sustainable and stable development of the business.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

4.6 PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, redeemed or sold any of the Bank’s listed securities.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

5.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of 30 June 2022, the Directors, Supervisors and senior management of the Bank comprised:

| Name | Age | Position |
|--|-----|---|
| Mr. QIU Huofa (邱火發) | 62 | Executive Director, Chairman of the Board |
| Mr. SHEN Guoyong (沈國勇) | 51 | Executive Director, President |
| Ms. LIU Xu (柳旭) ^{Note 1} | 54 | Executive Director, Executive Vice President |
| Mr. SHI Yang (石陽) | 57 | Executive Director, member of the Party committee |
| Ms. LI Ying (李穎) ^{Note 2} | 54 | Executive Director, Vice President and Chief Risk Officer |
| Mr. SU Qingxiang (蘇慶祥) ^{Note 3} | 56 | Non-executive Director, Vice Chairman of the Board |
| Mr. LIANG Zhifang (梁志方) | 50 | Non-executive Director |
| Mr. WANG Jun (王軍) ^{Note 4} | 57 | Non-executive Director |
| Mr. JIANG Aiguo (江愛國) ^{Note 5} | 49 | Non-executive Director |
| Mr. NI Guoju (倪國巨) ^{Note 6} | 68 | Independent Non-executive Director |
| Mr. KEUNG Chak (姜策) ^{Note 7} | 62 | Independent Non-executive Director |
| Mr. TAI Kwok Leung, Alexander (戴國良) | 64 | Independent Non-executive Director |
| Mr. XING Tiancai (邢天才) | 60 | Independent Non-executive Director |
| Mr. LI Jinyi (李進一) | 58 | Independent Non-executive Director |
| Mr. WANG Mo (王沫) ^{Note 8} | 57 | Independent Non-executive Director |
| Ms. LV Dan (呂丹) ^{Note 9} | 44 | Independent Non-executive Director |
| Mr. HAN Li (韓力) | 60 | Shareholder Representative Supervisor, Chief Supervisor |
| Ms. YANG Xiu (楊秀) | 51 | Shareholder Representative Supervisor |
| Mr. YUEN Wing Shing (袁永誠) | 75 | Shareholder Representative Supervisor |
| Mr. BA Junyu (巴俊宇) | 67 | External Supervisor |
| Mr. SUN Hang (孫航) | 56 | External Supervisor |
| Ms. CHENG Hua (程華) | 42 | External Supervisor |
| Mr. YU Xiaolong (于小龍) | 44 | Employee Representative Supervisor |
| Mr. NIU Jiao (牛角) | 46 | Employee Representative Supervisor |
| Ms. XU Li (徐麗) | 50 | Employee Representative Supervisor |
| Mr. WANG Yigong (王亦工) | 56 | Vice President |
| Mr. ZHANG Xuewen (張學文) | 54 | Vice President |
| Ms. Zhang Jun (張琚) | 51 | Vice President |
| Mr. ZHU Yanbing (朱延冰) ^{Note 10} | 45 | Vice President |
| Mr. SUN Yingpin (孫英品) ^{Note 11} | 48 | Assistant to President |
| Mr. BAO Hong(包宏) | 50 | Chief Financial Officer |
| Mr. YANG Liya (楊利亞) | 58 | Chief Approval Officer |
| Mr. ZHOU Zhi (周峙) | 53 | Secretary to the Board |
| Mr. WU Tienan (吳鐵男) ^{Note 12} | 52 | Chief Information Officer |

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

- Note 1:* The eligibility of Ms. LIU Xu as an executive Director and the vice president is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 2:* The eligibility of Ms. LI Ying as the vice president is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 3:* The eligibility of Mr. SU Qingxiang as the vice chairman of the Board is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 4:* The eligibility of Mr. WANG Jun as a non-executive Director is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 5:* The eligibility of Mr. JIANG Aiguo as a non-executive Director is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 6:* Mr. NI Guoju's resignation from the position of an independent non-executive Director was approved by the Board on 11 May 2022. Mr. NI Guoju will continue to perform his duty as an independent non-executive Director prior to the approval of the qualifications of Mr. WANG Mo and Ms. LV Dan as independent non-executive Directors by the CBIRC Liaoning Bureau.
- Note 7:* Mr. KEUNG Chak's resignation from the position of an independent non-executive Director was approved by the Board on 11 May 2022. Mr. KEUNG Chak will continue to perform his duty as an independent non-executive Director prior to the approval of the qualifications of Mr. WANG Mo and Ms. LV Dan as independent non-executive Directors by the CBIRC Liaoning Bureau.
- Note 8:* The eligibility of Mr. WANG Mo as an independent non-executive Director is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 9:* The eligibility of Ms. LV Dan as an independent non-executive Director is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 10:* The eligibility of Mr. ZHU Yanbing as the vice president is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 11:* The eligibility of Mr. SUN Yingpin as an assistant to president is subject to formal approval by the CBIRC Liaoning Bureau.
- Note 12:* The eligibility of Mr. WU Tienan as the chief information officer is subject to formal approval by the CBIRC Liaoning Bureau.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

5.2 DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2022, to the knowledge of the Directors after making reasonable enquiries, the interests or short positions of the Directors, the Supervisors and the chief executives of the Bank and their respective associates in the shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO, or 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 for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Domestic Shares

| Name | Positions held at the Bank | Nature of interests | Number of Domestic Shares of the Bank held (share) | Representing | Representing |
|------------------|----------------------------|---------------------|---|---|---|
| | | | | percentage with respect to Domestic Shares of the Bank (%) | percentage with respect to the total share capital of the Bank (%) |
| SHI Yang (石陽) | Executive Director | Beneficial owner | 107,684 | 0.0017 | 0.0012 |
| | | Interest of spouse | 5,722 | 0.0001 | 0.0001 |
| | | | <u>113,406</u> | <u>0.0018</u> | <u>0.0013</u> |

Save as disclosed above, none of the Directors, the Supervisors, or the chief executives and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 30 June 2022 which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO, or 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 for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

5.3 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Reference is made to the announcement of the Bank dated 30 March 2022 regarding (1) Mr. ZHU Jialin's resignation as a non-executive Director, a member of the Audit Committee and a member of the Nomination and Remuneration Committee of the Bank due to personal work changes; (2) Mr. JI Kun's resignation as a non-executive Director and a member of the risk control and consumers' rights protection committee of the Bank due to personal work changes; and (3) Mr. PAN Darong's resignation as a proposed non-executive Director due to personal work arrangement.

Reference is made to the announcement of the Bank dated 11 May 2022 regarding (1) Ms. ZHANG Jun has resigned from the positions of an executive Director and the vice chairman of the Related Party Transactions Control Committee of the Board due to the adjustment to work arrangement; (2) Mr. NI Guoju has resigned from the positions of an independent non-executive Director, chairman of the Nomination and Remuneration Committee of the Board and a member of Related Party Transactions Control Committee of the Board due to his desire to devote more time to his personal affairs; (3) Mr. KEUNG Chak has resigned from the positions of an independent non-executive Director, a member of Audit Committee and a member of Nomination and Remuneration Committee of the Board due to personal work arrangement; (4) Mr. PAN Wenge has resigned from the position of the shareholder representative supervisor of the Bank and a member of Supervision Committee under the board of supervisors of the Bank due to personal work arrangement. At the meeting of the Board and the Board of Supervisors held on 11 May 2022, the Board approved: (1) to nominate Ms. LIU Xu as a candidate for executive Director and Executive Vice President; (2) to nominate Mr. WANG Jun as a candidate for non-executive Director; (3) to nominate Mr. JIANG Aiguo as a candidate for non-executive Director; (4) to nominate Mr. WANG Mo as a candidate for independent non-executive Director; (5) to nominate Ms. LV Dan as a candidate for independent non-executive Director; and the Board of Supervisors approved (6) to elect Ms. YANG Xiu as the shareholder representative Supervisor. At the 2021 Annual General Meeting of the Bank held on 27 May 2022, the shareholders approved (1) to elect Ms. LIU Xu as executive Director; (2) to elect Mr. WANG Jun as non-executive Director; (3) to elect Mr. JIANG Aiguo as non-executive Director; (4) to elect Mr. WANG Mo as independent non-executive Director; (5) to elect Ms. LV Dan as independent non-executive Director; and (6) to elect Ms. YANG Xiu as the shareholder representative Supervisor. The eligibility of (1) Ms. LIU Xu as the Executive Director and Executive Vice President; (2) Mr. WANG Jun as non-executive Director; (3) Mr. JIANG Aiguo as non-executive Director; (4) Mr. WANG Mo as independent non-executive Director; and (5) Ms. LV Dan as independent non-executive Director is subject to formal approval by the CBIRC Liaoning Bureau.

Mr. NI Guoju and Mr. KEUNG Chak will continue to perform their duty as independent non-executive Director before the eligibility of Mr. WANG Mo and Ms. LV Dan as independent non-executive Director is approved by the CBIRC Liaoning Bureau.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

5.4 SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not less exacting than the required standard in the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors of the Bank has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

5.5 EMPLOYEES, EMPLOYEES’ COMPENSATION POLICIES AND TRAINING SCHEMES

As of 30 June 2022, the Bank had a total of 8,111 employees.

The Bank has established a compensation system that is consistent with corporate governance requirements, compatible with sustainable development of the Bank and balanced between short-term incentives and long-term incentives. Employee compensation consists of fixed salary, variable salary, and welfare income. It is determined by employee ability and results of performance assessment, which gives play to the incentive and bounding functions of performance and compensation and takes into account external competitiveness and internal equity. The Bank contributes to its employees’ social insurance and provides housing funds company pension, supplementary medical insurance and other employee benefit in accordance with the provisions of PRC laws, rules and regulations. The Bank has adhered to the operating concept of “developing the Bank through talents”, aimed to continuously improve the comprehensive quality and professional competence of its employees, and effectively conducted training activities at each hierarchy level, focusing on compliance management, risk prevention and control, and marketing capability, practically carried out training activities of all levels. Through improving training and management system, the Bank strengthened the establishment of training management team and internal trainer team, formulated training books and testing questions, built “mobile learning platform of Shengjing Bank” and expanded training channels. A total of 13,490 sessions, 12,881 hours and 281,861 person-times training was carried out throughout the first half of the year.

SIGNIFICANT EVENTS

6.1 CORPORATE GOVERNANCE CODE

The Bank strives to improve the transparency and accountability of corporate governance and ensure high standards of corporate governance to safeguard Shareholders' interests and enhance its enterprise value and commitment.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of insider information.

6.2 EARNINGS AND DIVIDENDS

The Bank's revenue for the six months ended 30 June 2022 and the Bank's financial position as at the same date are set out in the section headed "Interim Financial Statements".

Upon consideration and approval at the Bank's 2021 annual general meeting held on 27 May 2022, the Bank decided that no final dividend for 2021 would be distributed to all Shareholders.

The Bank will not distribute any interim dividend for the first six months of 2022 or convert any capital reserve into share capital.

6.3 RELATED PARTY TRANSACTIONS

No material related party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

6.4 MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

6.5 PLEDGE OF ASSETS

Details of the Bank's pledge of assets for the six months ended 30 June 2022 are set out in the financial statement.

6.6 PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Bank, the Directors, the Supervisors or the senior management of the Bank was subject to any investigation, administrative penalty or public criticism by the CSRC, or any public censure by any securities exchange, or any punishment by any other regulatory authorities which would have a material impact on the Bank's operations.

6.7 REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN

Reference is made to pages 164 to 165 of the prospectus of the Bank dated 15 December 2014 (the "Prospectus") in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as "Other Receivables" as the loan is interest-free) (the "Relevant Receivables") owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) ("Shenyang City Construction") in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the "Lock-up Period"). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank's written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

SIGNIFICANT EVENTS (CONTINUED)

Reference is further made to (i) the announcement of the Bank dated 31 March 2017 in relation to the withdrawal of its A-share listing application; and (ii) the announcement of the Bank dated 13 April 2017 in relation to the repayment of the Relevant Receivables by Shenyang Hengxin. The Bank and Shenyang Hengxin have been proactively pushing forward the relevant work related to the repayment of the Relevant Receivables, including but not limited to, going through the relevant approval procedures in accordance with the applicable PRC laws and regulations, with a view to implement the repayment of the Relevant Receivables.

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables was approximately RMB654 million, and the balance of the impairment provision was RMB260 million.

6.8 REVIEW OF THE INTERIM RESULTS ANNOUNCEMENT

Financial statements disclosed in this announcement have not been audited. The interim financial statements for the six months ended 30 June 2022 prepared by the Bank in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board have been reviewed by Crowe (HK) CPA Limited in accordance with International Standard on Review Engagements 2410.

The Board and the Audit Committee of the Board of the Bank have reviewed and approved the interim results announcement of the Bank.

6.9 PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This results announcement was published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.shengjingbank.com.cn). The 2022 interim report prepared in accordance with the Listing Rules and the IFRSs will be released on the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.shengjingbank.com.cn), and will be dispatched to the holders of H Shares of the Bank in due course.

This report is prepared in both English and Chinese versions. In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

INDEPENDENT AUDITOR'S REPORT ON REVIEW



國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

Review report to the Board of Directors of Shengjing Bank Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 93 to 234 which comprises the consolidated statement of financial position of Shengjing Bank Co., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) as of 30 June 2022 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, “Interim financial reporting”, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the International Auditing and Assurance Standards Board. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

INDEPENDENT AUDITOR'S REPORT ON REVIEW (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim financial reporting".

Crowe (HK) CPA Limited

Certified Public Accountants

Hong Kong, 23 August 2022

Chan Wai Dune, Charles

Parctising Certificate Number P00712

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022
(Expressed in thousands of RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|--------------------------------------|------|--------------------------|---------------------|
| | | 2022 | 2021 |
| Interest income | | 21,042,514 | 21,177,436 |
| Interest expense | | <u>(14,986,222)</u> | <u>(14,546,398)</u> |
| Net interest income | 5 | <u>6,056,292</u> | <u>6,631,038</u> |
| Fee and commission income | | 372,802 | 733,639 |
| Fee and commission expense | | <u>(318,030)</u> | <u>(567,555)</u> |
| Net fee and commission income | 6 | <u>54,772</u> | <u>166,084</u> |
| Net trading gains/(losses) | 7 | 225,651 | (456,479) |
| Net gains arising from investments | 8 | 1,727,718 | 2,153,465 |
| Other operating income | 9 | <u>16,636</u> | <u>14,148</u> |
| Operating income | | 8,081,069 | 8,508,256 |
| Operating expenses | 10 | (2,678,598) | (2,490,900) |
| Impairment losses on assets | 11 | <u>(4,471,632)</u> | <u>(5,102,544)</u> |
| Profit before taxation | | 930,839 | 914,812 |
| Income tax credit | 12 | <u>33,016</u> | <u>131,489</u> |
| Profit for the period | | <u>963,855</u> | <u>1,046,301</u> |
| Net profit attributable to: | | | |
| Equity shareholders of the Bank | | 944,113 | 1,030,360 |
| Non-controlling interests | | <u>19,742</u> | <u>15,941</u> |
| | | <u>963,855</u> | <u>1,046,301</u> |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2022

(Expressed in thousands of RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-----------|
| | | 2022 | 2021 |
| Net profit | | 963,855 | 1,046,301 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss | | | |
| – Remeasurement of net defined benefit liability | | – | (2,512) |
| – Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling) | | (3,653) | (18,117) |
| Items that may be reclassified subsequently to profit or loss | | | |
| – Financial assets at fair value through other comprehensive income: | | | |
| – net movement in the fair value reserve | | (68,999) | (38,820) |
| – net movement in the provision reserve | | 157,290 | 53,976 |
| Other comprehensive income/(loss) net of tax | | 84,638 | (5,473) |
| Total comprehensive income | | 1,048,493 | 1,040,828 |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Bank | | 1,028,751 | 1,024,887 |
| Non-controlling interests | | 19,742 | 15,941 |
| | | 1,048,493 | 1,040,828 |
| Basic and diluted earnings per share (<i>in RMB</i>) | 13 | 0.11 | 0.12 |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022
(Expressed in thousands of RMB, unless otherwise stated)

| | Note | 30 June 2022 | 31 December 2021 |
|---|-------|----------------------|----------------------|
| Assets | | | |
| Cash and deposits with central bank | 14 | 83,290,159 | 72,330,736 |
| Deposits with banks and other financial institutions | 15 | 11,254,486 | 8,842,567 |
| Placements with banks and other financial institutions | 16 | 3,616,294 | 1,250,301 |
| Derivative financial assets | 17 | 619,407 | 574,444 |
| Financial assets held under resale agreements | 18 | 3,604,321 | 2,261,877 |
| Loans and advances to customers | 19 | 609,547,176 | 583,443,518 |
| Financial investments: | | | |
| Financial assets at fair value through profit or loss | 20(a) | 96,258,180 | 93,378,132 |
| Financial assets at fair value through other comprehensive income | 20(b) | 50,209,442 | 34,165,805 |
| Financial assets measured at amortised cost | 20(c) | 169,287,538 | 184,456,811 |
| Property and equipment | 21 | 5,210,143 | 5,376,309 |
| Deferred tax assets | 22 | 8,393,135 | 7,289,160 |
| Other assets | 23 | 14,978,106 | 12,756,593 |
| Total assets | | 1,056,268,387 | 1,006,126,253 |

The notes on pages 93 to 103 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2022

(Expressed in thousands of RMB, unless otherwise stated)

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|--|-------------|--------------------|---------------------|
| Liabilities | | | |
| Borrowings from central bank | 24 | 953,503 | 1,631,922 |
| Deposits from banks and other financial institutions | 25 | 40,422,755 | 59,942,166 |
| Placements from banks and other financial institutions | 26 | 3,174,039 | 581,595 |
| Financial liabilities at fair value through profit or loss | | – | 6,504,990 |
| Derivative financial liabilities | 17 | 628,402 | 564,291 |
| Financial assets sold under repurchase agreements | 27 | 76,625,349 | 89,271,137 |
| Deposits from customers | 28 | 826,903,041 | 754,880,674 |
| Income tax payable | | 1,161,688 | 804,983 |
| Debt securities issued | 29 | 20,960,362 | 8,427,431 |
| Other liabilities | 30 | 3,887,814 | 3,014,123 |
| Total liabilities | | 974,716,953 | 925,623,312 |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 30 June 2022
(Expressed in thousands of RMB, unless otherwise stated)*

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|---|-------------|-----------------|---------------------|
| Equity | | | |
| Share capital | 31 | 8,796,680 | 8,796,680 |
| Capital reserve | 32(a) | 26,931,360 | 26,931,360 |
| Surplus reserve | 32(b) | 7,447,212 | 7,319,347 |
| General reserve | 32(c) | 14,022,964 | 14,013,554 |
| Fair value reserve | 32(d) | (889,358) | (816,706) |
| Provision reserve | 32(e) | 1,019,418 | 862,128 |
| Deficit on remeasurement of net defined benefit liability | 32(f) | (24,638) | (24,638) |
| Retained earnings | | 23,604,515 | 22,797,677 |
| Total equity attributable to equity shareholders of the Bank | | 80,908,153 | 79,879,402 |
| Non-controlling interests | | 643,281 | 623,539 |
| Total equity | | 81,551,434 | 80,502,941 |
| Total liabilities and equity | | 1,056,268,387 | 1,006,126,253 |

Approved and authorised for issue by the board of directors on 23 August 2022.

Qiu Huofa
Chairman of Board of Directors

Shen Guoyong
President

Bao Hong
Chief Financial Officer

Xi Yang
*Person in Charge of Accounting
Institution*

Company chop

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

(Expressed in thousands of RMB, unless otherwise stated)

| | Attributable to equity shareholders of the Bank | | | | | | | | | | | |
|---|---|------------------|-------------------|------------------|-------------------|--------------------|-------------------|---|-------------------|-------------------|---------------------------|-------------------|
| | Note | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Provision reserve | Deficit on remeasurement of net defined benefit liability | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 1 J January 2022 | | 8,796,680 | 26,931,360 | 7,319,347 | 14,013,554 | (816,706) | 862,128 | (24,638) | 22,797,677 | 79,879,402 | 623,539 | 80,502,941 |
| Profit for the period | | - | - | - | - | - | - | - | 944,113 | 944,113 | 19,742 | 963,855 |
| Other comprehensive income | | - | - | - | - | (72,652) | 157,290 | - | - | 84,638 | - | 84,638 |
| Total comprehensive income | | - | - | - | - | (72,652) | 157,290 | - | 944,113 | 1,028,751 | 19,742 | 1,048,493 |
| Appropriation of profit: | | | | | | | | | | | | |
| - Appropriation to surplus reserve | | - | - | 127,865 | - | - | - | - | (127,865) | - | - | - |
| - Appropriation to general reserve (Note i) | 33 | - | - | - | 9,410 | - | - | - | (9,410) | - | - | - |
| Subtotal | | - | - | 127,865 | 9,410 | - | - | - | (137,275) | - | - | - |
| Balance at 30 June 2022 | | 8,796,680 | 26,931,360 | 7,447,212 | 14,022,964 | (889,358) | 1,019,418 | (24,638) | 23,604,515 | 80,908,153 | 643,281 | 81,551,434 |

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB9.41 million.

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

*For the year ended 31 December 2021
(Expressed in thousands of RMB, unless otherwise stated)*

| | Attributable to equity shareholders of the Bank | | | | | | | | | | | |
|---|---|------------------|-------------------|------------------|-------------------|--------------------|-------------------|---|-------------------|-------------------|---------------------------|-------------------|
| | Note | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Provision reserve | Deficit on remeasurement of net defined benefit liability | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 1 January 2021 | | 8,796,680 | 26,931,360 | 7,283,589 | 13,676,444 | (633,509) | 645,432 | (16,648) | 22,768,584 | 79,451,932 | 594,617 | 80,046,549 |
| Profit for the period | | - | - | - | - | - | - | - | 1,030,360 | 1,030,360 | 15,941 | 1,046,301 |
| Other comprehensive income | | - | - | - | - | (56,937) | 53,976 | (2,512) | - | (5,473) | - | (5,473) |
| Total comprehensive income | | - | - | - | - | (56,937) | 53,976 | (2,512) | 1,030,360 | 1,024,887 | 15,941 | 1,040,828 |
| Appropriation of profit: | | | | | | | | | | | | |
| – Appropriation to surplus reserve | | - | - | 100,390 | - | - | - | - | (100,390) | - | - | - |
| – Appropriation to general reserve (Note i) | 33 | - | - | - | 337,110 | - | - | - | (337,110) | - | - | - |
| Subtotal | | - | - | 100,390 | 337,110 | - | - | - | (437,500) | - | - | - |
| Balance at 30 June 2021 | | <u>8,796,680</u> | <u>26,931,360</u> | <u>7,383,979</u> | <u>14,013,554</u> | <u>(690,446)</u> | <u>699,408</u> | <u>(19,160)</u> | <u>23,361,444</u> | <u>80,476,819</u> | <u>610,558</u> | <u>81,087,377</u> |

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB33.38 million.

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021 (continued)
(Expressed in thousands of RMB, unless otherwise stated)

| Note | Attributable to equity shareholders of the Bank | | | | | | | | | | Total equity |
|------------------------------------|---|-------------------|------------------|-------------------|--------------------|-------------------|--|-------------------|-------------------|---------------------------|-------------------|
| | Share capital | Capital reserve | Surplus reserve | General reserve | Fair value reserve | Provision reserve | Deficit on remeasurement of netdefined benefit liability | Retained earnings | Total | Non-controlling interests | |
| Balance at 1 July 2021 | 8,796,680 | 26,931,360 | 7,383,979 | 14,013,554 | (690,446) | 699,408 | (19,160) | 23,361,444 | 80,476,819 | 610,558 | 81,087,377 |
| Profit for the period | - | - | - | - | - | - | - | (628,399) | (628,399) | 12,981 | (615,418) |
| Other comprehensive income | - | - | - | - | (126,260) | 162,720 | (5,478) | - | 30,982 | - | 30,982 |
| Total comprehensive income | - | - | - | - | (126,260) | 162,720 | (5,478) | (628,399) | (597,417) | 12,981 | (584,436) |
| Appropriation of profit: | | | | | | | | | | | |
| – Appropriation to surplus reserve | 33 | - | (64,632) | - | - | - | - | 64,632 | - | - | - |
| Subtotal | | - | (64,632) | - | - | - | - | 64,632 | - | - | - |
| Balance at 31 December 2021 | 8,796,680 | 26,931,360 | 7,319,347 | 14,013,554 | (816,706) | 862,128 | (24,638) | 22,797,677 | 79,879,402 | 623,539 | 80,502,941 |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022
(Expressed in thousands of RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|---------------------|
| | | 2022 | 2021 |
| Cash flows from operating activities | | | |
| Profit before taxation | | 930,839 | 914,812 |
| <i>Adjustments for:</i> | | | |
| Impairment losses on assets | | 4,471,632 | 5,102,544 |
| Depreciation and amortisation | | 294,918 | 307,814 |
| Interest element of lease rentals paid | | 16,970 | 11,567 |
| Net losses/(gains) on unrealised foreign exchange | | 20,687 | (8,630) |
| Net losses on disposal of property and equipment | | 255 | 48 |
| Dividend income | | (83,341) | (55,920) |
| Net trading losses of financial assets at fair value through profit or loss | | 81,343 | 141,747 |
| Net gains on disposal of financial investment | | (1,725,720) | (2,084,288) |
| Interest expense on debt securities issued | | 229,166 | 921,589 |
| Interest income on financial investments | | (3,176,030) | (4,873,671) |
| | | <u>1,060,719</u> | <u>377,612</u> |
| <i>Changes in operating assets</i> | | | |
| Net increase in deposits with central banks | | (2,080,453) | (5,201,707) |
| Net (increase)/decrease in deposits and placements with bank and other financial institutions | | (2,019,121) | 1,839,548 |
| Net increase in loans and advances to customers | | (28,552,916) | (40,977,898) |
| Net increase in other operating assets | | (2,606,577) | (962,229) |
| | | <u>(35,259,067)</u> | <u>(45,302,286)</u> |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2022

(Expressed in thousands of RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|---------------------|
| | | 2022 | 2021 |
| <i>Changes in operating liabilities</i> | | | |
| Net (decrease)/increase in borrowings from central bank | | (678,419) | 2,998,022 |
| Net decrease in deposits and placements from banks and other financial institutions | | (16,926,967) | (39,406,161) |
| Net decrease in financial assets sold under repurchase agreements | | (12,645,788) | (27,759,265) |
| Net increase in deposits from customers | | 72,022,367 | 47,557,872 |
| Income tax paid | | (745,061) | (1,636,879) |
| Net increase in other operating liabilities | | 814,899 | 479,074 |
| | | <u>41,841,031</u> | <u>(17,767,337)</u> |
| Net cash flows generated from/(used in) operating activities | | <u>7,642,683</u> | <u>(62,692,011)</u> |
| Cash flows from investing activities | | | |
| Proceeds from disposal and redemption of investments | | 410,782,894 | 310,946,907 |
| Proceeds from disposal of property and equipment | | 6 | 477 |
| Payments on acquisition of investments | | (411,295,026) | (251,564,962) |
| Payments on acquisition of property and equipment, intangible assets and other assets | | (106,092) | (44,330) |
| Net cash flows (used in)/generated from investing activities | | <u>(618,218)</u> | <u>59,338,092</u> |

The notes on pages 104 to 234 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2022
(Expressed in thousands of RMB, unless otherwise stated)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|--------------|
| | | 2022 | 2021 |
| Cash flows from financing activities | | | |
| Net proceeds from new debt securities issued | | 24,731,907 | 13,488,501 |
| Repayment of debt securities issued | | (18,850,934) | (18,054,514) |
| Interest paid on debt securities issued | | (82,199) | (188,482) |
| Payment of lease liabilities | | (99,858) | (75,467) |
| Net cash flows generated from/(used in) financing activities | | 5,698,916 | (4,829,962) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 258,988 | (140,876) |
| Net increase/(decrease) in cash and cash equivalents | | 12,982,369 | (8,324,757) |
| Cash and cash equivalents as at 1 January | | 24,289,535 | 49,207,489 |
| Cash and cash equivalents as at 30 June | 34 | 37,271,904 | 40,882,732 |
| Net cash flows generated from operating activities include: | | | |
| Interest received | | 9,581,941 | 11,616,463 |
| Interest paid (excluding interest expense on debt securities issued) | | (15,721,412) | (13,021,969) |

The notes on pages 104 to 234 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of RMB, unless otherwise stated)

1 REPORTING ENTITY

Shengjing Bank Co., Ltd. (the “Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). These consolidated interim financial statements (the “interim financial report”) as at and for the six months ended 30 June 2022 comprise the Bank and its subsidiaries (together referred to as the “Group”). The principal activities of the Group are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the China Bank Insurance Regulatory Commission (the “CBIRC”). The Bank mainly operated in mainland China, which, for the purpose of this interim financial report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

As at 30 June 2022, details of the subsidiaries are as follows:

| | Date of incorporation | Place of incorporation, registration and operations | Registered capital | Percentage owned by the Bank | Business sector | Economic nature/type |
|--|-----------------------|---|--------------------|------------------------------|------------------|----------------------|
| Shenyang Shenbei Fumin Village Bank Co., Ltd. (“Shenyang Shenbei”) | 09/02/2009 | Liaoning, China | 150,000 | 20% | Banking | Incorporated company |
| Shenyang Xinmin Fumin Village Bank Co., Ltd. (“Shenyang Xinmin”) | 25/06/2010 | Liaoning, China | 30,000 | 20% | Banking | Incorporated company |
| Shenyang Faku Fumin Village Bank Co., Ltd. (“Shenyang Faku”) | 26/10/2010 | Liaoning, China | 30,000 | 20% | Banking | Incorporated company |
| Shenyang Liaozhong Fumin Village Bank Co., Ltd. (“Shenyang Liaozhong”) | 26/11/2010 | Liaoning, China | 30,000 | 20% | Banking | Incorporated company |
| Ningbo Jiangbei Fumin Village Bank Co., Ltd. (“Ningbo Jiangbei”) | 17/08/2011 | Zhejiang, China | 100,000 | 30% | Banking | Incorporated company |
| Shanghai Baoshan Fumin Village Bank Co., Ltd. (“Shanghai Baoshan”) | 09/09/2011 | Shanghai, China | 150,000 | 40% | Banking | Incorporated company |
| Shengjing Bank Consumer Finance Co., Ltd. (“Shengjing Consumer”) | 25/02/2016 | Liaoning, China | 300,000 | 60% | Consumer finance | Limited company |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, “Interim financial reporting”, issued by the International Accounting Standards Board (the “IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by Crowe (HK) CPA Limited in accordance with International Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the International Auditing and Assurance Standards Board.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

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

| | |
|---|--|
| Amendments to IFRS 3, | Reference to the Conceptual Framework |
| Amendments to IAS 16, | Property, Plant and Equipment: Proceeds before Intended Use |
| Amendments to IAS 37, | Onerous Contracts – Cost of Fulfilling a Contract |
| Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41, | Annual Improvements to IFRSs 2018–2020 |

The changes in accounting policies are also expected to be reflected in the Group's annual financial statements for the year ending December 31, 2022.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING

(a) Business Segment

The Group manages its business by business lines and geographical areas. 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 and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, and remittance and settlement services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, wealth management services, remittance and settlement services, and collection and payment agency services.

Treasury business

This segment covers the Group's treasury business including inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others

Others represent equity investment and related income and any other business which cannot form a single reportable segment.

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, with the exception of deferred income tax assets. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long term assets.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

| | Six months ended 30 June 2022 | | | | |
|---|-------------------------------|--------------------|----------------------|---------------|--------------------|
| | Corporate banking | Retail banking | Treasury business | Others | Total |
| Operating income | | | | | |
| External net interest income/ (expense) | 9,962,045 | (5,473,365) | 1,567,612 | – | 6,056,292 |
| Internal net interest (expense)/ income | <u>(5,098,070)</u> | <u>6,658,885</u> | <u>(1,560,815)</u> | – | – |
| Net interest income | 4,863,975 | 1,185,520 | 6,797 | – | 6,056,292 |
| Net fee and commission income/ (expense) | 135,725 | (98,721) | 17,768 | – | 54,772 |
| Net trading gains | – | – | 225,651 | – | 225,651 |
| Net gains arising from investments | – | – | 1,644,377 | 83,341 | 1,727,718 |
| Other operating income | <u>3,606</u> | <u>47</u> | <u>–</u> | <u>12,983</u> | <u>16,636</u> |
| Operating income | 5,003,306 | 1,086,846 | 1,894,593 | 96,324 | 8,081,069 |
| Operating expenses | (1,678,326) | (912,043) | (87,425) | (804) | (2,678,598) |
| Impairment losses on assets | <u>(1,290,892)</u> | <u>(1,246,950)</u> | <u>(1,933,790)</u> | – | <u>(4,471,632)</u> |
| Profit/(loss) before taxation | <u>2,034,088</u> | <u>(1,072,147)</u> | <u>(126,622)</u> | <u>95,520</u> | <u>930,839</u> |
| Other segment information | | | | | |
| – Depreciation and amortisation | <u>184,852</u> | <u>104,890</u> | <u>7,196</u> | – | <u>296,938</u> |
| – Capital expenditure | <u>13,769</u> | <u>7,813</u> | <u>536</u> | – | <u>22,118</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

| | 30 June 2022 | | | | Total |
|---------------------------------------|----------------------|--------------------|----------------------|----------------|-----------------------------|
| | Corporate banking | Retail banking | Treasury business | Others | |
| Segment assets | 583,205,736 | 105,664,679 | 359,004,837 | - | 1,047,875,252 |
| Deferred tax assets | | | | | <u>8,393,135</u> |
| Total assets | | | | | <u><u>1,056,268,387</u></u> |
| Segment liabilities/Total liabilities | <u>329,652,358</u> | <u>502,622,941</u> | <u>142,314,729</u> | <u>126,925</u> | <u>974,716,953</u> |
| Credit commitments | <u>107,458,379</u> | <u>18,420,448</u> | <u>-</u> | <u>-</u> | <u>125,878,827</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

| | Six months ended 30 June 2021 | | | | |
|---|-------------------------------|-------------------|----------------------|---------------|--------------------|
| | Corporate banking | Retail banking | Treasury business | Others | Total |
| Operating income | | | | | |
| External net interest income/ (expense) | 8,408,073 | (4,332,315) | 2,555,280 | – | 6,631,038 |
| Internal net interest (expense)/ income | <u>(3,109,006)</u> | <u>5,387,775</u> | <u>(2,278,769)</u> | – | – |
| Net interest income | 5,299,067 | 1,055,460 | 276,511 | – | 6,631,038 |
| Net fee and commission income/ (expense) | 279,603 | (110,851) | (2,668) | – | 166,084 |
| Net trading losses | – | – | (456,479) | – | (456,479) |
| Net gains arising from investments | – | – | 2,097,545 | 55,920 | 2,153,465 |
| Other operating income | <u>4,144</u> | <u>169</u> | <u>–</u> | <u>9,835</u> | <u>14,148</u> |
| Operating income | 5,582,814 | 944,778 | 1,914,909 | 65,755 | 8,508,256 |
| Operating expenses | (1,505,422) | (743,704) | (232,853) | (8,921) | (2,490,900) |
| Impairment losses on assets | <u>(4,414,237)</u> | <u>(491,626)</u> | <u>(196,681)</u> | – | <u>(5,102,544)</u> |
| Profit/(loss) before taxation | <u>(336,845)</u> | <u>(290,552)</u> | <u>1,485,375</u> | <u>56,834</u> | <u>914,812</u> |
| Other segment information | | | | | |
| – Depreciation and amortisation | <u>199,098</u> | <u>99,126</u> | <u>9,590</u> | – | <u>307,814</u> |
| – Capital expenditure | <u>28,673</u> | <u>14,276</u> | <u>1,381</u> | – | <u>44,330</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

| | 30 June 2021 | | | | Total |
|---------------------------------------|----------------------|--------------------|----------------------|----------------|-----------------------------|
| | Corporate banking | Retail banking | Treasury business | Others | |
| Segment assets | 552,241,575 | 111,482,854 | 345,933,257 | – | 1,009,657,686 |
| Deferred tax assets | | | | | <u>6,845,812</u> |
| Total assets | | | | | <u><u>1,016,503,498</u></u> |
| Segment liabilities/Total liabilities | <u>349,098,935</u> | <u>400,602,809</u> | <u>185,596,372</u> | <u>118,005</u> | <u>935,416,121</u> |
| Credit commitments | <u>155,199,824</u> | <u>19,294,553</u> | <u>–</u> | <u>–</u> | <u>174,494,377</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information

The Group operates principally in mainland China with eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Northeast China” refers to headquarter and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong and Shengjing Consumer;
- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information (Continued)

| | Operating income | |
|-----------------|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2022 | 2021 |
| Northeast China | 7,863,609 | 8,294,367 |
| North China | 175,489 | 165,766 |
| Others | 41,971 | 48,123 |
| Total | 8,081,069 | 8,508,256 |

| | Non-current assets (Note i) | |
|-----------------|-----------------------------|-------------|
| | 30 June | 31 December |
| | 2022 | 2021 |
| Northeast China | 6,084,600 | 6,181,396 |
| North China | 259,589 | 215,781 |
| Others | 39,163 | 29,666 |
| Total | 6,383,352 | 6,426,843 |

Note:

- (i) Non-current assets include property and equipment, intangible assets, right-of-use assets and land use rights.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2022 | 2021 |
| Interest income arising from | | |
| Deposits with central bank | 517,433 | 599,591 |
| Deposits and placements with banks and other financial institutions | 86,957 | 58,677 |
| Loans and advances to customers | | |
| – Corporate loans and advances | 13,488,283 | 11,997,818 |
| – Personal loans and advances | 2,777,977 | 2,782,634 |
| – Discounted bills | 769,800 | 708,822 |
| Financial assets held under resale agreements | 226,034 | 156,223 |
| Financial investments | 3,176,030 | 4,873,671 |
| | <u>21,042,514</u> | <u>21,177,436</u> |
| Subtotal | 21,042,514 | 21,177,436 |
| Interest expense arising from | | |
| Borrowings from central bank | (42,885) | (50,117) |
| Deposits and placements from banks and other financial institutions | (1,215,542) | (1,257,737) |
| Deposits from customers | (12,665,522) | (11,205,787) |
| Financial assets sold under repurchase agreements | (833,107) | (1,111,168) |
| Debt securities issued | (229,166) | (921,589) |
| | <u>(14,986,222)</u> | <u>(14,546,398)</u> |
| Subtotal | (14,986,222) | (14,546,398) |
| Net interest income | <u>6,056,292</u> | <u>6,631,038</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

6 NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---------------------------------------|--------------------------|-----------|
| | 2022 | 2021 |
| Fee and commission income | | |
| Agency and custody services fees | 255,461 | 593,660 |
| Bank card services fees | 92,114 | 85,637 |
| Settlement and clearing services fees | 25,227 | 54,342 |
| Subtotal | 372,802 | 733,639 |
| Fee and commission expense | (318,030) | (567,555) |
| Net fee and commission income | 54,772 | 166,084 |

7 NET TRADING GAINS/(LOSSES)

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2022 | 2021 |
| Net (losses)/gains from debt securities | (112) | 3,093 |
| Net foreign exchange gains/(losses) | 229,977 | (130,673) |
| Net losses from derivatives and others | (4,214) | (328,899) |
| Total | 225,651 | (456,479) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

8 NET GAINS ARISING FROM INVESTMENTS

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2022 | 2021 |
| Net gains on disposal of financial assets measured at amortised cost | 1,198,858 | 1,674,500 |
| Net gains on financial assets at fair value through profit or loss | 352,596 | 322,052 |
| Net gains on disposal of financial assets at fair value through other comprehensive income | 92,923 | 100,993 |
| Dividends from designated as financial assets at fair value through other comprehensive income | 83,341 | 55,920 |
| Total | <u>1,727,718</u> | <u>2,153,465</u> |

9 OTHER OPERATING INCOME

| | Six months ended 30 June | |
|------------------------|--------------------------|---------------|
| | 2022 | 2021 |
| Rental income | 6,019 | 4,112 |
| Handling charge income | 47 | 169 |
| Others | 10,570 | 9,867 |
| Total | <u>16,636</u> | <u>14,148</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

10 OPERATING EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2022 | 2021 |
| Staff costs | | |
| – Salaries, bonuses and allowances | 1,131,016 | 1,056,184 |
| – Social insurance and housing allowances | 314,602 | 311,222 |
| – Supplementary retirement benefits | 2,660 | 3,277 |
| – Others | 95,446 | 86,757 |
| Subtotal | 1,543,724 | 1,457,440 |
| Depreciation and amortisation | 211,020 | 229,731 |
| Office expenses | 142,048 | 125,608 |
| Tax and surcharges | 147,698 | 118,871 |
| Depreciation of the right-of-use assets | 85,918 | 78,083 |
| Rental and property management expenses <i>(Note(a))</i> | 47,284 | 51,486 |
| Interest expense of the lease liabilities | 17,130 | 11,567 |
| Other general and administrative expenses | 483,776 | 418,114 |
| Total | 2,678,598 | 2,490,900 |

Note:

- (a) Rental and property management expenses include expenses relating to short-term leases and expenses relating to low-value assets.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

| | Six months ended 30 June | |
|---|--------------------------|-------------------------|
| | 2022 | 2021 |
| Loans and advances to customers | 2,297,910 | 4,863,288 |
| Deposits and placements with banks and other financial institutions | 1,864 | (375) |
| Financial investments | 1,930,635 | 199,341 |
| Financial assets held under resale agreements | 516 | (2,285) |
| Credit commitment | (37,138) | 42,859 |
| Others | 277,845 | (284) |
| | <u>4,471,632</u> | <u>5,102,544</u> |
| Total | <u><u>4,471,632</u></u> | <u><u>5,102,544</u></u> |

12 INCOME TAX CREDIT

(a) Income tax for the period:

| | Six months ended 30 June | |
|--------------------------------|--------------------------|-------------------------|
| | 2022 | 2021 |
| Current tax | 1,099,226 | 1,171,630 |
| Under-provision in prior years | – | 17,590 |
| Deferred tax | (1,132,242) | (1,320,709) |
| | <u>(33,016)</u> | <u>(131,489)</u> |
| Total | <u><u>(33,016)</u></u> | <u><u>(131,489)</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

12 INCOME TAX CREDIT (CONTINUED)

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

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2022 | 2021 |
| Profit before taxation | 930,839 | 914,812 |
| Statutory tax rate | 25% | 25% |
| Income tax calculated at statutory tax rate | 232,710 | 228,703 |
| Non-deductible expenses | | |
| – Entertainment expenses | 2,199 | 2,746 |
| – Others | 1,487 | 2,173 |
| | 3,686 | 4,919 |
| Non-taxable income | (269,412) | (382,701) |
| Subtotal | (33,016) | (149,079) |
| Under-provision in prior years | – | 17,590 |
| Income tax | (33,016) | (131,489) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2022 | 2021 |
| Net profit attributable to equity shareholders of the Bank | 944,113 | 1,030,360 |
| Weighted average number of ordinary shares (in thousands) | 8,796,680 | 8,796,680 |
| Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB) | 0.11 | 0.12 |

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK

| | Note | 30 June 2022 | 31 December 2021 |
|------------------------------|-------|-----------------|---------------------|
| Cash on hand | | 739,463 | 914,758 |
| Deposits with central bank | | | |
| – Statutory deposit reserves | 14(a) | 62,195,156 | 60,043,992 |
| – Surplus deposit reserves | 14(b) | 20,046,764 | 10,992,499 |
| – Fiscal deposits | | 279,869 | 348,629 |
| Subtotal | | 82,521,789 | 71,385,120 |
| Add: interest receivable | | 28,907 | 30,858 |
| Total | | 83,290,159 | 72,330,736 |

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

| | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Reserve ratio for RMB deposits | 7.75% | 8.00% |
| Reserve ratio for foreign currency deposits | 8.50% | 9.00% |

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|---------------------------------------|--------------------------|-------------------------|
| Deposits in mainland China | | |
| – Banks | 7,516,869 | 5,823,036 |
| – Other financial institutions | 177,077 | 265,011 |
| Deposits outside mainland China | | |
| – Banks | <u>3,546,697</u> | <u>2,752,095</u> |
| Subtotal | 11,240,643 | 8,840,142 |
| Add: interest receivable | 16,327 | 4,038 |
| Less: provision for impairment losses | <u>(2,484)</u> | <u>(1,613)</u> |
| Total | <u><u>11,254,486</u></u> | <u><u>8,842,567</u></u> |

(b) Movements of provision for impairment losses

| | 2022 | 2021 |
|--|---------------------|---------------------|
| As at 1 January | 1,613 | 494,241 |
| Net charge/(release) for the period/year | <u>871</u> | <u>(492,628)</u> |
| As at 30 June/31 December | <u><u>2,484</u></u> | <u><u>1,613</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|---------------------------------------|-------------------------|-------------------------|
| Placements in mainland China | | |
| – Banks | 374,769 | – |
| – Other financial institutions | <u>3,369,230</u> | <u>1,400,000</u> |
| Subtotal | 3,743,999 | 1,400,000 |
| Add: interest receivable | 23,565 | 578 |
| Less: provision for impairment losses | <u>(151,270)</u> | <u>(150,277)</u> |
| Total | <u><u>3,616,294</u></u> | <u><u>1,250,301</u></u> |

(b) Movements of provision for impairment losses

| | 2022 | 2021 |
|--|-----------------------|-----------------------|
| As at 1 January | 150,277 | 150,542 |
| Net charge/(release) for the period/year | <u>993</u> | <u>(265)</u> |
| As at 30 June/31 December | <u><u>151,270</u></u> | <u><u>150,277</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

(a) Analysed by nature of contract

| | 30 June 2022 | | |
|---------------------|--------------------|----------------|------------------|
| | Notional amount | Fair value | |
| | | Assets | Liabilities |
| Option contracts | 466,117,420 | 286,990 | (278,940) |
| Interest rate swaps | 49,180,000 | 330,294 | (304,744) |
| Currency swaps | 2,375,836 | 2,123 | (44,718) |
| Total | 517,673,256 | 619,407 | (628,402) |

| | 31 December 2021 | | |
|----------------------------|--------------------|----------------|------------------|
| | Notional amount | Fair value | |
| | | Assets | Liabilities |
| Option contracts | 338,644,614 | 122,449 | (94,276) |
| Interest rate swaps | 49,280,000 | 438,971 | (409,283) |
| Precious metal derivatives | 6,586,619 | 13,024 | (60,732) |
| Total | 394,511,233 | 574,444 | (564,291) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Analysed by credit risk-weighted amount

| | 30 June 2022 | 31 December 2021 |
|----------------------------|------------------|---------------------|
| Option contracts | 1,165,293 | 846,612 |
| Precious metal derivatives | – | 16,466 |
| Currency swaps | 5,940 | – |
| Total | <u>1,171,233</u> | <u>863,078</u> |

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the former CBRC.

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|---------------------------------------|------------------|---------------------|
| In mainland China | | |
| – Banks | 3,215,000 | 2,262,136 |
| – Other financial institutions | 389,880 | – |
| Subtotal | <u>3,604,880</u> | <u>2,262,136</u> |
| Add: interest receivable | 232 | 16 |
| Less: provision for impairment losses | (791) | (275) |
| Total | <u>3,604,321</u> | <u>2,261,877</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

| | 30 June 2022 | 31 December 2021 |
|--|------------------|---------------------|
| Debt securities held under resale agreements | 3,604,880 | 270,000 |
| Bill held under resale agreements | – | 1,992,136 |
| Add: interest receivable | 232 | 16 |
| Less: provision for impairment losses | (791) | (275) |
| Total | <u>3,604,321</u> | <u>2,261,877</u> |

(c) Movements of provision for impairment losses

| | 2022 | 2021 |
|--|------------|------------|
| As at 1 January | 275 | 2,918 |
| Net charge/(release) for the period/year | 516 | (2,643) |
| As at 30 June/31 December | <u>791</u> | <u>275</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

| | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Measured at amortised cost: | | |
| Corporate loans and advances | 423,100,980 | 405,257,641 |
| Personal loans and advances | | |
| – Residential mortgage | 57,715,553 | 57,516,140 |
| – Personal consumption loans | 20,812,726 | 28,329,721 |
| – Personal business loans | 7,412,617 | 7,542,819 |
| – Credit cards | 7,897,048 | 7,335,915 |
| – Others | 373 | 458 |
| Subtotal | 93,838,317 | 100,725,053 |
| Gross loans and advances to customers measured at amortised cost | 516,939,297 | 505,982,694 |
| Measured at fair value through other comprehensive income: | | |
| – Corporate loans and advances | 9,726,198 | 14,879,025 |
| – Discounted bills | 78,190,278 | 65,170,949 |
| Gross loans and advances to customers measured at fair value through other comprehensive income | 87,916,476 | 80,049,974 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysed by nature (continued)

| | 30 June 2022 | 31 December 2021 |
|---|---------------------------|---------------------------|
| Gross loans and advances to customers | 604,855,773 | 586,032,668 |
| Add: interest receivable | 31,589,546 | 22,082,972 |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost | <u>(26,898,143)</u> | <u>(24,672,122)</u> |
| Net loans and advances to customers | <u><u>609,547,176</u></u> | <u><u>583,443,518</u></u> |

As at 30 June 2022, the Group's provision amount for loans and advances to customers measured at fair value through other comprehensive income is RMB305.80 million (31 December 2021: RMB451.64 million), as detailed in Note 19(f).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector

| | 30 June 2022 | | |
|---|--------------|------------|---|
| | Amount | Percentage | Loans and advances secured by collaterals |
| Wholesale and retail trade | 150,582,777 | 25% | 74,036,766 |
| Renting and business activities | 99,337,022 | 17% | 55,548,118 |
| Real estate | 79,108,710 | 13% | 44,992,706 |
| Manufacturing | 36,767,221 | 6% | 9,638,510 |
| Construction | 34,964,345 | 6% | 24,790,131 |
| Transportation, storage and postal services | 8,432,308 | 1% | 426,486 |
| Production and supply of electricity, heat, gas and water | 3,009,432 | 1% | 539,750 |
| Accommodation and catering | 2,864,199 | 0% | 2,158,248 |
| Mining | 1,407,002 | 0% | 390,310 |
| Household and other services | 1,216,850 | 0% | 1,208,850 |
| Culture, sports and entertainment | 999,631 | 0% | 49,400 |
| Agriculture, forestry, animal husbandry and fishery | 608,794 | 0% | 222,136 |
| Others | 13,528,887 | 2% | 6,072,395 |
| Subtotal of corporate loans and advances | 432,827,178 | 71% | 220,073,806 |
| Personal loans and advances | 93,838,317 | 16% | 60,707,597 |
| Discounted bills | 78,190,278 | 13% | 78,190,278 |
| Gross loans and advances to customers | 604,855,773 | 100% | 358,971,681 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector (continued)

| | 31 December 2021 | | |
|---|--------------------|-------------|---|
| | Amount | Percentage | Loans and advances secured by collaterals |
| Wholesale and retail trade | 150,601,899 | 26% | 69,025,486 |
| Renting and business activities | 100,283,745 | 17% | 53,071,003 |
| Real estate | 69,734,707 | 12% | 39,563,951 |
| Manufacturing | 39,005,576 | 7% | 7,104,668 |
| Construction | 28,848,272 | 5% | 19,849,802 |
| Transportation, storage and postal services | 8,304,991 | 1% | 404,532 |
| Production and supply of electricity, heat, gas and water | 3,337,573 | 1% | 522,664 |
| Accommodation and catering | 2,945,073 | 1% | 2,238,034 |
| Mining | 2,139,442 | 0% | 113,597 |
| Culture, sports and entertainment | 1,078,195 | 0% | 148,000 |
| Agriculture, forestry, animal husbandry and fishery | 632,694 | 0% | 172,236 |
| Household and other services | 360,300 | 0% | 360,300 |
| Others | 12,864,199 | 2% | 4,771,957 |
| Subtotal of corporate loans and advances | 420,136,666 | 72% | 197,346,230 |
| Personal loans and advances | 100,725,053 | 17% | 62,037,631 |
| Discounted bills | 65,170,949 | 11% | 65,170,949 |
| Gross loans and advances to customers | <u>586,032,668</u> | <u>100%</u> | <u>324,554,810</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

| | 30 June 2022 | 31 December 2021 |
|---|---------------------------|---------------------------|
| Unsecured loans | 45,479,212 | 58,923,026 |
| Guaranteed loans | 200,404,881 | 202,554,832 |
| Loans secured by tangible assets other than monetary assets | 229,383,081 | 222,873,962 |
| Loans secured by intangible assets or monetary assets | <u>129,588,599</u> | <u>101,680,848</u> |
| Gross loans and advances to customers | <u>604,855,773</u> | <u>586,032,668</u> |
| Add: interest receivable | 31,589,546 | 22,082,972 |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost | <u>(26,898,143)</u> | <u>(24,672,122)</u> |
| Net loans and advances to customers | <u><u>609,547,176</u></u> | <u><u>583,443,518</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

| | 30 June 2022 | | | | Total |
|---|---|--|---|-------------------------------------|-------------------|
| | Overdue within three months (inclusive) | Overdue more than three months to one year (inclusive) | Overdue more than one year to three years (inclusive) | Overdue more than three years | |
| Unsecured loans | 1,224,844 | 594,009 | 293,649 | 42,751 | 2,155,253 |
| Guaranteed loans | 2,659,104 | 735,748 | 5,118,745 | 4,663,243 | 13,176,840 |
| Loans secured by tangible assets other than monetary assets | 2,692,379 | 319,362 | 3,869,337 | 2,780,605 | 9,661,683 |
| Loans secured by intangible assets or monetary assets | <u>3,008,792</u> | <u>401,177</u> | <u>21,941</u> | <u>79,738</u> | <u>3,511,648</u> |
| Total | <u>9,585,119</u> | <u>2,050,296</u> | <u>9,303,672</u> | <u>7,566,337</u> | <u>28,505,424</u> |
| As a percentage of gross loans and advances to customers | <u>1.58%</u> | <u>0.34%</u> | <u>1.54%</u> | <u>1.25%</u> | <u>4.71%</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period (Continued)

| | 31 December 2021 | | | | 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 | 300,412 | 420,383 | 377,407 | 32,841 | 1,131,043 |
| Guaranteed loans | 8,006,563 | 1,873,515 | 5,174,617 | 3,215,382 | 18,270,077 |
| Loans secured by tangible assets other than monetary assets | 2,194,443 | 1,868,964 | 2,714,762 | 2,295,963 | 9,074,132 |
| Loans secured by intangible assets or monetary assets | <u>1,418,482</u> | <u>363,447</u> | <u>331</u> | <u>79,458</u> | <u>1,861,718</u> |
| Total | <u>11,919,900</u> | <u>4,526,309</u> | <u>8,267,117</u> | <u>5,623,644</u> | <u>30,336,970</u> |
| As a percentage of gross loans and advances to customers | <u>2.04%</u> | <u>0.77%</u> | <u>1.41%</u> | <u>0.96%</u> | <u>5.18%</u> |

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses

- (i) As at 30 June 2022, detailed information of loans and advances to customers and provision for impairment losses is as follows:

| | 30 June 2022 | | | Total |
|---|---|--|--|---------------------|
| | Loans and advances that are assessed for expected credit losses over the next 12 months | Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss | Credit-impaired loans and advances that are assessed for lifetime expected credit loss | |
| Gross loans and advances to customers | 545,659,752 | 32,620,119 | 26,575,902 | 604,855,773 |
| Add: interest receivable | 29,511,559 | 2,077,987 | – | 31,589,546 |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost | <u>(6,942,347)</u> | <u>(6,819,086)</u> | <u>(13,136,710)</u> | <u>(26,898,143)</u> |
| Net loans and advances to customers | <u>568,228,964</u> | <u>27,879,020</u> | <u>13,439,192</u> | <u>609,547,176</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses (Continued)

- (ii) As at 31 December 2021, detailed information of loans and advances to customers and provision for impairment losses is as follows:

| | 31 December 2021 | | | 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 | |
| Gross loans and advances to customers | 529,424,257 | 30,528,616 | 26,079,795 | 586,032,668 |
| Add: interest receivable | 20,595,310 | 1,487,662 | – | 22,082,972 |
| Less: provision for impairment losses on loans and advances to customers measured at amortised cost | (6,421,176) | (7,417,897) | (10,833,049) | (24,672,122) |
| Net loans and advances to customers | <u>543,598,391</u> | <u>24,598,381</u> | <u>15,246,746</u> | <u>583,443,518</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses

As at 30 June 2022, the movements of provision for loans and advances to customers are as follows:

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

| | Six months ended 30 June 2022 | | | Total |
|--|--------------------------------|--|--|-------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired loans | Lifetime ECL- credit- impaired loans | |
| As at 1 January | 6,421,176 | 7,417,897 | 10,833,049 | 24,672,122 |
| Transferred: | | | | |
| – to ECL over the next 12 months | 110,431 | (103,712) | (6,719) | – |
| – to lifetime ECL- not credit-impaired loans | (50,413) | 50,413 | – | – |
| – to lifetime ECL- credit- impaired loans | (8,373) | (101,200) | 109,573 | – |
| – Net charge/(release) for the period | 469,526 | (444,312) | 2,418,531 | 2,443,745 |
| Write-offs | – | – | (223,237) | (223,237) |
| Recoveries | – | – | 5,513 | 5,513 |
| As at 30 June | <u>6,942,347</u> | <u>6,819,086</u> | <u>13,136,710</u> | <u>26,898,143</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

| | Six months ended 30 June 2022 | | | Total |
|----------------------------|-------------------------------|---|-------------------------------------|-----------|
| | ECL over the next 12 months | Lifetime ECL- not credit-impaired loans | Lifetime ECL- credit-impaired loans | |
| As at 1 January | 451,638 | – | – | 451,638 |
| Net release for the period | (145,835) | – | – | (145,835) |
| As at 30 June | 305,803 | – | – | 305,803 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

As at 31 December 2021, the movements of provision for loans and advances to customers are as follows:

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

| | Year ended 31 December 2021 | | | Total |
|---|-----------------------------------|--|---|-------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired loans | Lifetime ECL- credit-impaired loans | |
| As at 1 January | 7,337,769 | 6,987,110 | 6,010,909 | 20,335,788 |
| Transferred: | | | | |
| – to ECL over the next 12 months | 2,198,461 | (1,383,837) | (814,624) | – |
| – to lifetime ECL- not credit-impaired loans | (218,136) | 405,529 | (187,393) | – |
| – to lifetime ECL- credit-impaired loans | (44,732) | (1,885,448) | 1,930,180 | – |
| Net charge/(release) for the year | (2,852,186) | 3,294,543 | 6,272,198 | 6,714,555 |
| Transfer out | – | – | (2,236,251) | (2,236,251) |
| Write-offs | – | – | (146,435) | (146,435) |
| Recoveries | – | – | 4,465 | 4,465 |
| As at 31 December | <u>6,421,176</u> | <u>7,417,897</u> | <u>10,833,049</u> | <u>24,672,122</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

| | Year ended 31 December 2021 | | | Total |
|-------------------------|-----------------------------------|--|---|-----------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired loans | Lifetime ECL- credit-impaired loans | |
| As at 1 January | 217,718 | – | – | 217,718 |
| Net charge for the year | <u>233,920</u> | <u>–</u> | <u>–</u> | <u>233,920</u> |
| As at 31 December | <u><u>451,638</u></u> | <u><u>–</u></u> | <u><u>–</u></u> | <u><u>451,638</u></u> |

Provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are recognised in other comprehensive income, while the impairment losses are recognised in profit or loss. Besides, the carrying amount of the financial assets presented in the balance sheet are not reduced.

20 FINANCIAL INVESTMENTS

| | Note | 30 June 2022 | 31 December 2021 |
|--|-------|---------------------------|---------------------------|
| Financial assets at fair value through profit or loss | 20(a) | 96,258,180 | 93,378,132 |
| Financial assets at fair value through other comprehensive income | 20(b) | 50,209,442 | 34,165,805 |
| Financial assets measured at amortised cost | 20(c) | <u>169,287,538</u> | <u>184,456,811</u> |
| Total | | <u><u>315,755,160</u></u> | <u><u>312,000,748</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

| | 30 June 2022 | 31 December 2021 |
|---|--------------------------|--------------------------|
| Debt securities at fair value listed outside Hong Kong | | |
| – Banks and other financial institutions | 4,865,093 | 553,165 |
| – Corporate | <u>1,030,961</u> | <u>1,030,961</u> |
| Subtotal | <u>5,896,054</u> | <u>1,584,126</u> |
| Wealth management plan | 58,441,025 | 60,142,337 |
| Investment funds | <u>31,746,068</u> | <u>31,477,776</u> |
| Subtotal | <u>90,187,093</u> | <u>91,620,113</u> |
| Equity investment | | |
| – Listed | 123,549 | 122,409 |
| – Unlisted | <u>51,484</u> | <u>51,484</u> |
| Subtotal | <u>175,033</u> | <u>173,893</u> |
| Total | <u><u>96,258,180</u></u> | <u><u>93,378,132</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

| | 30 June 2022 | 31 December 2021 |
|---|-------------------|---------------------|
| Debt securities at fair value listed outside Hong Kong | | |
| – Government | 15,432,101 | 18,148,592 |
| – Policy banks | 23,547,636 | 4,918,953 |
| – Banks and other financial institutions | 442,431 | 517,889 |
| – Corporate | 2,095,784 | 2,163,398 |
| | <u>41,517,952</u> | <u>25,748,832</u> |
| Subtotal | 41,517,952 | 25,748,832 |
| Commercial banks undated capital bonds | 1,028,168 | 1,020,044 |
| Equity investments | | |
| – Listed | 187,059 | 200,053 |
| – Unlisted | 6,721,761 | 6,721,875 |
| | <u>7,936,988</u> | <u>7,941,972</u> |
| Subtotal | 7,936,988 | 7,941,972 |
| Add: interest receivable | 754,502 | 475,001 |
| | <u>754,502</u> | <u>475,001</u> |
| Total | <u>50,209,442</u> | <u>34,165,805</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

The movements of provision for financial assets at fair value through other comprehensive income are as follows:

| | Six months ended 30 June 2022 | | | Total |
|---------------------------|--------------------------------|--|----------------------------------|-------------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit-impaired | |
| As at 1 January | 889 | – | 696,978 | 697,867 |
| Net charge for the period | <u>1,606</u> | <u>–</u> | <u>353,949</u> | <u>355,555</u> |
| As at 30 June | <u><u>2,495</u></u> | <u><u>–</u></u> | <u><u>1,050,927</u></u> | <u><u>1,053,422</u></u> |

| | Year ended 31 December 2021 | | | Total |
|-----------------------------------|--------------------------------|--|----------------------------------|-----------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit-impaired | |
| As at 1 January | 1,019 | – | 641,840 | 642,859 |
| Net (release)/charge for the year | <u>(130)</u> | <u>–</u> | <u>55,138</u> | <u>55,008</u> |
| As at 31 December | <u><u>889</u></u> | <u><u>–</u></u> | <u><u>696,978</u></u> | <u><u>697,867</u></u> |

Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses or gains from impairment are included in profit or loss. Besides, the book value of the financial assets presented in the balance sheet are not reduced.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost

| | 30 June 2022 | 31 December 2021 |
|---|--------------------|---------------------|
| Debt securities at fair value listed outside Hong Kong | | |
| – Government | 49,239,733 | 39,096,660 |
| – Policy banks | 28,952,900 | 55,696,204 |
| – Banks and other financial institutions | 300,000 | 300,000 |
| – Corporate | 5,720,794 | 5,649,801 |
| | <u>84,213,427</u> | <u>100,742,665</u> |
| Subtotal | 84,213,427 | 100,742,665 |
| Wealth management plan | 4,607,608 | 3,815,274 |
| Beneficial investment of trust | 82,393,657 | 80,554,015 |
| | <u>87,001,265</u> | <u>84,369,289</u> |
| Subtotal | 87,001,265 | 84,369,289 |
| Add: interest receivable | 4,258,844 | 3,955,775 |
| Less: provision for impairment losses | (6,185,998) | (4,610,918) |
| | <u>(6,185,998)</u> | <u>(4,610,918)</u> |
| Total | <u>169,287,538</u> | <u>184,456,811</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost (Continued)

The movements of provision for financial assets at amortised cost are as follows:

| | Six months ended 30 June 2022 | | | Total |
|---|--------------------------------|--|----------------------------------|-------------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit-impaired | |
| As at 1 January | 719,400 | 1,103,626 | 2,787,892 | 4,610,918 |
| Transferred: | | | | |
| – to lifetime ECL – credit-impaired investments | (8,458) | – | 8,458 | – |
| Net charge for the period | <u>9,056</u> | <u>447,281</u> | <u>1,118,743</u> | <u>1,575,080</u> |
| As at 30 June | <u><u>719,998</u></u> | <u><u>1,550,907</u></u> | <u><u>3,915,093</u></u> | <u><u>6,185,998</u></u> |

| | Year ended 31 December 2021 | | | Total |
|--|--------------------------------|--|----------------------------------|-------------------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit-impaired | |
| As at 1 January | 1,640,198 | 151,576 | 1,621,314 | 3,413,088 |
| Transferred: | | | | |
| – to ECL over the next 12 months investments | 417,900 | – | (417,900) | – |
| – to lifetime ECL- not credit-impaired investments | (50,848) | 50,848 | – | – |
| – to lifetime ECL – credit-impaired investments | (647,943) | – | 647,943 | – |
| Net charge/(release) for the year | <u>(639,907)</u> | <u>901,202</u> | <u>936,535</u> | <u>1,197,830</u> |
| As at 31 December | <u><u>719,400</u></u> | <u><u>1,103,626</u></u> | <u><u>2,787,892</u></u> | <u><u>4,610,918</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 PROPERTY AND EQUIPMENT

| | Premises | Leasehold improvement | CIP | Office equipment | Others | Total |
|--|-------------|--------------------------|-----------|---------------------|----------|-------------|
| Cost | | | | | | |
| As at 1 January 2021 | 4,463,679 | 1,175,403 | 2,269,709 | 1,059,319 | 88,193 | 9,056,303 |
| Additions | 7,335 | 5,143 | 21,881 | 51,452 | – | 85,811 |
| CIP transfers | – | 4,356 | (4,831) | 475 | – | – |
| Disposals | (690) | – | – | (23,159) | – | (23,849) |
| As at 31 December 2021 and 1 January 2022 | 4,470,324 | 1,184,902 | 2,286,759 | 1,088,087 | 88,193 | 9,118,265 |
| Additions | – | 2,167 | – | 18,703 | – | 20,870 |
| Disposals | – | – | – | (5,971) | (5,172) | (11,143) |
| As at 30 June 2022 | 4,470,324 | 1,187,069 | 2,286,759 | 1,100,819 | 83,021 | 9,127,992 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2021 | (1,723,987) | (782,355) | – | (767,396) | (82,795) | (3,356,533) |
| Additions | (193,216) | (101,149) | – | (112,855) | (1,236) | (408,456) |
| Disposals | 669 | – | – | 22,364 | – | 23,033 |
| As at 31 December 2021 and 1 January 2022 | (1,916,534) | (883,504) | – | (857,887) | (84,031) | (3,741,956) |
| Additions | (94,014) | (40,845) | – | (51,792) | (380) | (187,031) |
| Disposals | – | – | – | 6,075 | 5,063 | 11,138 |
| As at 30 June 2022 | (2,010,548) | (924,349) | – | (903,604) | (79,348) | (3,917,849) |
| Net book value | | | | | | |
| As at 31 December 2021 | 2,553,790 | 301,398 | 2,286,759 | 230,200 | 4,162 | 5,376,309 |
| As at 30 June 2022 | 2,459,776 | 262,720 | 2,286,759 | 197,215 | 3,673 | 5,210,143 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED TAX ASSETS AND LIABILITIES

(a) Analysed by nature

| | 30 June 2022 | | 31 December 2021 | |
|---|--|--|--|--|
| | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) |
| Allowance for impairment losses | 32,326,046 | 8,057,727 | 30,321,284 | 7,580,321 |
| Change in fair value of financial assets at fair value through other comprehensive income | 1,185,817 | 296,454 | 1,088,940 | 272,237 |
| Supplementary retirement benefits | 102,905 | 25,726 | 102,248 | 25,560 |
| Change in fair value of derivative financial instruments | 8,995 | 2,249 | (2,440) | (610) |
| Change in fair value of financial assets at fair value through profit or loss | 43,915 | 10,979 | (2,353,392) | (588,348) |
| Net deferred income tax | <u>33,667,678</u> | <u>8,393,135</u> | <u>29,156,640</u> | <u>7,289,160</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement

| | At 1 January 2022 | Recognised in profit or loss | Recognised in other comprehensive income | At 30 June 2022 |
|---|----------------------|---------------------------------|---|------------------|
| Allowance for impairment losses | 7,580,321 | 477,406 | – | 8,057,727 |
| Change in fair value of financial assets at fair value through other comprehensive income | 272,237 | – | 24,217 | 296,454 |
| Supplementary retirement benefits | 25,560 | 166 | – | 25,726 |
| Change in fair value of derivative financial instruments | (610) | 2,859 | – | 2,249 |
| Change in fair value of financial assets at fair value through profit or loss | (588,348) | 599,327 | – | 10,979 |
| Net deferred income tax | <u>7,289,160</u> | <u>1,079,758</u> | <u>24,217</u> | <u>8,393,135</u> |

| | At 1 January 2021 | Recognised in profit or loss | Recognised in other comprehensive income | At 31 December 2021 |
|---|----------------------|---------------------------------|---|------------------------|
| Allowance for impairment losses | 5,998,448 | 1,581,873 | – | 7,580,321 |
| Change in fair value of financial assets at fair value through other comprehensive income | 211,170 | – | 61,067 | 272,237 |
| Supplementary retirement benefits | 23,619 | (722) | 2,663 | 25,560 |
| Change in fair value of derivative financial instruments | (51,522) | 50,912 | – | (610) |
| Change in fair value of financial assets at fair value through profit or loss | (658,436) | 70,088 | – | (588,348) |
| Net deferred income tax | <u>5,523,279</u> | <u>1,702,151</u> | <u>63,730</u> | <u>7,289,160</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|----------------------------------|-------------|-------------------|---------------------|
| Settlement and clearing accounts | | 6,957,005 | 5,961,623 |
| Reposessed assets | 23(a) | 1,575,992 | 1,580,262 |
| Interest receivable | 23(b) | 2,410,399 | 1,118,882 |
| Right-of-use assets | 23(c) | 806,654 | 678,629 |
| Intangible assets | 23(d) | 298,882 | 303,297 |
| Land use rights | | 67,673 | 68,608 |
| Prepayments | | 55,432 | 68,266 |
| Others | 23(e) | <u>2,806,069</u> | <u>2,977,026</u> |
| Total | | <u>14,978,106</u> | <u>12,756,593</u> |

(a) Reposessed assets

| | 30 June 2022 | 31 December 2021 |
|-------------------------------|------------------|---------------------|
| Land use rights and buildings | 1,635,432 | 1,639,702 |
| Less: impairment allowance | <u>(59,440)</u> | <u>(59,440)</u> |
| Total | <u>1,575,992</u> | <u>1,580,262</u> |

(b) Interest receivable

| | 30 June 2022 | 31 December 2021 |
|-----------------------------------|------------------|---------------------|
| Interest receivable arising from: | | |
| – Loans and advances to customers | <u>2,410,399</u> | <u>1,118,882</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(c) Right-of-use assets

| | Leased properties and buildings |
|---|---------------------------------------|
| Cost | |
| As at 1 January 2021 | 921,848 |
| Additions | 221,456 |
| Disposals | <u>(20,095)</u> |
| As at 31 December 2021 and 1 January 2022 | 1,123,209 |
| Additions | <u>213,943</u> |
| As at 30 June 2022 | <u>1,337,152</u> |
| Accumulated depreciation | |
| As at 1 January 2021 | (316,122) |
| Additions | (148,553) |
| Disposals | <u>20,095</u> |
| As at 31 December 2021 and 1 January 2022 | (444,580) |
| Additions | <u>(85,918)</u> |
| As at 30 June 2022 | <u>(530,498)</u> |
| Carrying amount: | |
| As at 31 December 2021 | <u>678,629</u> |
| As at 30 June 2022 | <u>806,654</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(d) Intangible assets

| | 30 June 2022 | 31 December 2021 |
|---------------------------------|------------------|---------------------|
| Cost | | |
| As at 1 January | 497,869 | 381,683 |
| Additions | <u>19,476</u> | <u>116,186</u> |
| As at 30 June/31 December | <u>517,345</u> | <u>497,869</u> |
| Accumulated amortisation | | |
| As at 1 January | (194,572) | (156,848) |
| Additions | <u>(23,891)</u> | <u>(37,724)</u> |
| As at 30 June/31 December | <u>(218,463)</u> | <u>(194,572)</u> |
| Net value | | |
| As at 1 January | <u>303,297</u> | <u>224,835</u> |
| As at 30 June/31 December | <u>298,882</u> | <u>303,297</u> |

Intangible assets of the Group mainly represent computer software.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(e) Others

| | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-------------------------|
| Receivable due from disposal of non-performing assets (<i>Note (i)</i>) | 653,754 | 653,754 |
| Others | <u>4,482,072</u> | <u>4,375,026</u> |
| Subtotal | 5,135,826 | 5,028,780 |
| Less: impairment allowance | <u>(2,329,757)</u> | <u>(2,051,754)</u> |
| Total | <u><u>2,806,069</u></u> | <u><u>2,977,026</u></u> |

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd..

24 BORROWINGS FROM CENTRAL BANK

| | 30 June 2022 | 31 December 2021 |
|--------------------------------|-----------------------|-------------------------|
| Borrowings (<i>Note (a)</i>) | 952,891 | 1,630,812 |
| Add: interest payable | <u>612</u> | <u>1,110</u> |
| Total | <u><u>953,503</u></u> | <u><u>1,631,922</u></u> |

Note:

- (a) Borrowings from central bank mainly include Medium-term Lending Facility and open market operations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|--------------------------------|--------------------------|--------------------------|
| Deposits in mainland China | | |
| – Banks | 16,791,553 | 21,777,947 |
| – Other financial institutions | <u>23,540,818</u> | <u>38,043,592</u> |
| Subtotal | 40,332,371 | 59,821,539 |
| Add: interest payable | <u>90,384</u> | <u>120,627</u> |
| Total | <u><u>40,422,755</u></u> | <u><u>59,942,166</u></u> |

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|--------------------------------|-------------------------|-----------------------|
| Placements in mainland China | | |
| – Banks | 2,566,769 | 430,000 |
| – Other financial institutions | <u>600,000</u> | <u>100,000</u> |
| Subtotal | 3,166,769 | 530,000 |
| Add: interest payable | <u>7,270</u> | <u>51,595</u> |
| Total | <u><u>3,174,039</u></u> | <u><u>581,595</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

| | 30 June 2022 | 31 December 2021 |
|--------------------------------|--------------------------|--------------------------|
| In mainland China | | |
| – Banks | 59,705,130 | 60,189,882 |
| – Other financial institutions | <u>16,896,718</u> | <u>29,043,518</u> |
| Subtotal | 76,601,848 | 89,233,400 |
| Add: interest payable | <u>23,501</u> | <u>37,737</u> |
| Total | <u><u>76,625,349</u></u> | <u><u>89,271,137</u></u> |

(b) Analysed by type of security held

| | 30 June 2022 | 31 December 2021 |
|--|--------------------------|--------------------------|
| Debt securities sold under repurchase agreements | 41,430,339 | 64,000,434 |
| Bills sold under repurchase agreements | <u>35,171,509</u> | <u>25,232,966</u> |
| Subtotal | 76,601,848 | 89,233,400 |
| Add: interest payable | <u>23,501</u> | <u>37,737</u> |
| Total | <u><u>76,625,349</u></u> | <u><u>89,271,137</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

| | 30 June 2022 | 31 December 2021 |
|---|---------------------------|---------------------------|
| Demand deposits | | |
| – Corporate deposits | 167,059,711 | 139,501,418 |
| – Personal deposits | <u>52,893,707</u> | <u>52,119,182</u> |
| Subtotal | <u>219,953,418</u> | <u>191,620,600</u> |
| Time deposits | | |
| – Corporate deposits | 114,315,957 | 136,060,819 |
| – Personal deposits | <u>433,707,200</u> | <u>367,723,470</u> |
| Subtotal | <u>548,023,157</u> | <u>503,784,289</u> |
| Pledged deposits | | |
| – Acceptances | 28,329,091 | 30,115,039 |
| – Letters of credit | 2,336,369 | 3,133,042 |
| – Letters of guarantees | 1,801,049 | 3,984,421 |
| – Others | <u>594,336</u> | <u>445,045</u> |
| Subtotal | <u>33,060,845</u> | <u>37,677,547</u> |
| Inward and outward remittances | <u>8,956,391</u> | <u>3,950,506</u> |
| Total deposits from customers at amortised cost | 809,993,811 | 737,032,942 |
| Add: interest payable | <u>16,909,230</u> | <u>17,847,732</u> |
| Total | <u><u>826,903,041</u></u> | <u><u>754,880,674</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEBT SECURITIES ISSUED

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|--|-------------|--------------------------|-------------------------|
| Tier two capital fixed rate debts maturing in December 2027 | 29(a) | 6,000,000 | 6,000,000 |
| Certificates of interbank deposit | 29(b) | <u>14,803,272</u> | <u>2,417,309</u> |
| Subtotal | | 20,803,272 | 8,417,309 |
| Add: interest payable | | <u>157,090</u> | <u>10,122</u> |
| Total | | <u><u>20,960,362</u></u> | <u><u>8,427,431</u></u> |

Notes:

- (a) Tier two capital fixed rate debts of RMB6.0 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) As at 30 June 2022, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB14,757 million (31 December 2021: RMB2,396 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|---|-------------|------------------|---------------------|
| Taxes payable | 30(a) | 789,975 | 598,371 |
| Expected credit loss of credit commitment | 30(b) | 567,630 | 604,768 |
| Lease liabilities | 30(c) | 720,761 | 624,831 |
| Payment and collection clearance accounts | | 709,452 | 147,120 |
| Accrued staff cost | 30(d) | 183,881 | 227,339 |
| Dividend payable | | 108,000 | 108,291 |
| Dormant accounts | | 69,334 | 68,239 |
| Others | | 738,781 | 635,164 |
| | | <u>3,887,814</u> | <u>3,014,123</u> |
| Total | | <u>3,887,814</u> | <u>3,014,123</u> |

(a) Taxes payable

| | 30 June 2022 | 31 December 2021 |
|--|-----------------|---------------------|
| Value-added tax and surcharges payable | 760,360 | 524,012 |
| Others | 29,615 | 74,359 |
| | <u>789,975</u> | <u>598,371</u> |
| Total | <u>789,975</u> | <u>598,371</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(b) Expected credit loss of credit commitment

| | Six months ended 30 June 2022 | | | Total |
|--|-----------------------------------|--|--------------------------------------|-----------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit- impaired | |
| As at 1 January | 540,322 | 10,495 | 53,951 | 604,768 |
| Transferred: | | | | |
| – to ECL over the next 12 months | 747 | (169) | (578) | – |
| – to lifetime ECL- not credit-impaired | (1) | 24 | (23) | – |
| – to lifetime ECL- credit-impaired | (2) | (402) | 404 | – |
| Net (release)/charge for the period | <u>21,707</u> | <u>(9,460)</u> | <u>(49,385)</u> | <u>(37,138)</u> |
| As at 30 June | <u>562,773</u> | <u>488</u> | <u>4,369</u> | <u>567,630</u> |

| | Year ended 31 December 2021 | | | Total |
|--|-----------------------------------|--|--------------------------------------|----------------|
| | ECL over the next 12 months | Lifetime ECL- not credit- impaired | Lifetime ECL- credit- impaired | |
| As at 1 January | 534,975 | 3,018 | 6,518 | 544,511 |
| Transferred: | | | | |
| – to ECL over the next 12 months | 1,014 | (372) | (642) | – |
| – to lifetime ECL- not credit-impaired | (7,151) | 7,151 | – | – |
| – to lifetime ECL- credit-impaired | (9) | (140) | 149 | – |
| Net charge for the year | <u>11,493</u> | <u>838</u> | <u>47,926</u> | <u>60,257</u> |
| As at 31 December | <u>540,322</u> | <u>10,495</u> | <u>53,951</u> | <u>604,768</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(c) Maturity analysis of contractual undiscounted cash flows of lease liabilities

| | 30 June 2022 | 31 December 2021 |
|--|------------------|---------------------|
| Within one year | 207,712 | 134,205 |
| Between one year and two years | 185,967 | 126,799 |
| Between two years and three years | 147,178 | 104,204 |
| Between three years and five years | 225,582 | 160,349 |
| More than five years | 285,715 | 188,053 |
| Contractual undiscounted cash flows of lease liabilities | <u>1,052,154</u> | <u>713,610</u> |
| Ending balance of lease liabilities | <u>720,761</u> | <u>624,831</u> |

(d) Accrued staff cost

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|---|-------------|-----------------|---------------------|
| Salary, bonuses and allowances payable | | 37,526 | 80,322 |
| Supplementary retirement benefits payable | 30(d)(i) | 102,905 | 102,248 |
| Housing allowances payable | | 30,177 | 30,174 |
| Pension and annuity payable | 30(d)(ii) | 8,231 | 4,324 |
| Other social insurance payable | | 1,560 | 6,410 |
| Others | | 3,482 | 3,861 |
| Total | | <u>183,881</u> | <u>227,339</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(i) *Supplementary retirement benefits*

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation.

The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the supplementary retirement benefits were assessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd..

(1) The balances of supplementary retirement benefits of the Group are as follows:

| | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Present value of early retirement plan | 15,069 | 17,072 |
| Present value of supplementary retirement plan | 87,836 | 85,176 |
| Total | 102,905 | 102,248 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(i) Supplementary retirement benefits (Continued)

Supplementary retirement plan (Continued)

- (2) The movements of supplementary retirement benefits of the Group are as follows:

| | 2022 | 2021 |
|---|----------------|----------------|
| As at 1 January | 102,248 | 94,481 |
| Benefits paid during the period/year | (2,930) | (7,309) |
| Defined benefit cost recognised in profit or loss | 3,587 | 4,423 |
| Defined benefit cost recognised in other comprehensive income | – | 10,653 |
| As at 30 June/31 December | <u>102,905</u> | <u>102,248</u> |

- (3) Principal actuarial assumptions of the Group are as follows:

| | 30 June 2022 | 31 December 2021 |
|---|---------------------------------|---------------------------------|
| Early retirement plan | | |
| Discount rate | 2.50% | 2.50% |
| Mortality | <i>Note 30 (d)(i)(3)(l)</i> | <i>Note 30 (d)(i)(3)(l)</i> |
| Retired age | | |
| – Male | 60 | 60 |
| – Female | 55 | 55 |
| Annual increase rate of internal salary | <u>4.00%</u> | <u>4.00%</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(i) Supplementary retirement benefits (Continued)

Supplementary retirement plan (Continued)

(3) Principal actuarial assumptions of the Group are as follows: (Continued)

| | 30 June 2022 | 31 December 2021 |
|--------------------------------------|---------------------------------|---------------------------------|
| Supplementary retirement plan | | |
| Discount rate | 3.25% | 3.25% |
| Mortality | <i>Note 30 (d)(i)(3)(l)</i> | <i>Note 30 (d)(i)(3)(l)</i> |
| Turnover rate | 3.00% | 3.00% |
| Retired age | | |
| – Male | 60 | 60 |
| – Female | 55 | 55 |

Note:

- (l) As at 30 June 2022, Mortality assumptions are based on China Life Insurance Annuity Table (2010-2013) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC), which are published historical statistics in China.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(i) Supplementary retirement benefits (Continued)

Supplementary retirement plan (Continued)

- (4) The sensitivity of the present value of supplementary retirement benefit obligations to changes in the weighted principal:

| | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-------------------------|
| Change in present value of the defined benefit plan obligation | Increase/ (decrease) | Increase/ (decrease) |
| Up 25 bps in discount rate | (4,074) | (3,964) |
| Down 25 bps in discount rate | 4,364 | 4,245 |

(ii) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to the total salaries and bonuses of employees, which are charged to profit or loss when the contributions are made.

The contributions of the above social pension schemes and annuity plan are managed and supervised by the relevant authorities or the qualified trustee in China, and the Group is not allowed to confiscate any relevant contributions. Therefore, the Group has no forfeited contributions available to reduce the existing level of contributions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 SHARE CAPITAL

Issued share capital

| | 30 June 2022 | 31 December 2021 |
|--|-----------------|---------------------|
| Number of shares, issued and fully paid at par value (in thousands) | 8,796,680 | 8,796,680 |

32 RESERVES

(a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

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

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”) after making good prior year’s accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

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

(c) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF on 30 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2022.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 RESERVES (CONTINUED)

(d) Fair value reserve

| | 2022 | 2021 |
|--|-----------|-----------|
| As at 1 January | (816,706) | (633,509) |
| Changes in fair value recognised in fair value reserve | (91,044) | (169,714) |
| Transfer to profit or loss upon disposal | (5,825) | (74,550) |
| Less: income tax | 24,217 | 61,067 |
| Subtotal | (72,652) | (183,197) |
| As at 30 June/31 December | (889,358) | (816,706) |

(e) Provision reserve

| | 2022 | 2021 |
|---|-----------|----------|
| As at 1 January | 862,128 | 645,432 |
| Changes in fair value recognised in provision reserve | 209,720 | 288,928 |
| Less: income tax | (52,430) | (72,232) |
| As at 30 June/31 December | 1,019,418 | 862,128 |

(f) Deficit on remeasurement of net defined benefit liability

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

33 PROFIT DISTRIBUTION

- (a) In accordance with the resolution of the Bank's 2021 Annual General Meeting held on 27 May 2022, the shareholders approved the following profit distribution plan for the year ended 31 December 2021 is as follows:
- Appropriate RMB35.76 million to the statutory surplus reserve fund;
- (b) In accordance with the resolution of the Bank's 2020 Annual General Meeting held on 25 May 2021, the shareholders approved the following profit distribution plan for the year ended 31 December 2020 is as follows:
- Appropriate RMB116.66 million to the statutory surplus reserve fund;
 - Appropriate RMB303.73 million to the general reserve.

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

| | 30 June 2022 | 31 December 2021 |
|---|-------------------|---------------------|
| Cash on hand | 739,463 | 914,758 |
| Deposits with central bank other than restricted deposits | 20,046,764 | 10,992,499 |
| Deposits with banks and other financial institutions with original maturity of three months or less | 11,240,643 | 8,720,142 |
| Placements with banks and other financial institutions with original maturity of three months or less | 1,640,154 | 1,400,000 |
| Financial assets held under resale agreements with original maturity of three months or less | 3,604,880 | 2,262,136 |
| Total | <u>37,271,904</u> | <u>24,289,535</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

| Company Name | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Shenyang Shengjing Financial Holdings Investment Co., Ltd. | 20.79% | 20.79% |
| Evergrande Group (Nanchang) Co., Ltd. | 14.57% | 14.57% |
| Shenyang Hengxin State-Owned Asset Management Group Co., Ltd. | 5.45% | 5.45% |
| Founder Securities Co., Ltd. | 3.41% | 3.41% |
| Shenyang Zhongyou Tipo (Group) Material Equipment Co., Ltd. | 2.16% | 2.16% |
| Liaoning Huafeng Investment Co., Ltd. | 1.14% | 1.14% |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Main condition of major shareholders:

| Company Name | Registered Address | Main business | Company nature | Legal Representative |
|---|--------------------|--|---------------------------|----------------------|
| Shenyang Shengjing Financial Holdings Investment Co., Ltd. | Shenyang | Industrial investment; investment management | Limited Liability Company | Shao Wenlong |
| Evergrande Group (Nanchang) Co., Ltd. | Nanchang | Industrial investment; investment management | Limited Liability Company | Zhong Wenyan |
| Shenyang Hengxin State-Owned Asset Management Co., Ltd. | Shenyang | Management and operation of asset | Limited Liability Company | Wang Jun |
| Founder Securities Co., Ltd. | Changsha | Share broking; asset management | Company Limited by Shares | Shi Hua |
| Shenyang Zhongyou Tipo (Group) Material Equipment Co., Ltd. | Shenyang | Metal materials, electromechanical equipment | Limited Liability Company | Liu Xinfu |
| Liaoning Huafeng Investment Co., Ltd. | Shenyang | Project investment and project management | Limited Liability Company | Bao Lijun |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Registered capital of major shareholders:

| Company Name | Currency | 30 June 2022 | 31 December 2021 |
|---|----------|-----------------|---------------------|
| Shenyang Shengjing Financial Holdings Investment Co., Ltd. | RMB | 2,105,300 | 2,105,300 |
| Evergrande Group (Nanchang) Co., Ltd. | RMB | 99,984,980 | 99,984,980 |
| Shenyang Hengxin State-Owned Asset Management Co., Ltd. | RMB | 10,000,000 | 10,000,000 |
| Founder Securities Co., Ltd. | RMB | 8,232,101 | 8,232,000 |
| Shenyang Zhongyou Tipo (Group) Material Equipment Co., Ltd. | RMB | 20,000 | 20,000 |
| Liaoning Huafeng Investment Co., Ltd. | RMB | 50,000 | 50,000 |

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 1.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 30(d)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(i) Transactions between the Bank and major shareholders

(1) Deposits from customers

| | 30 June 2022 | 31 December 2021 |
|--|------------------|---------------------|
| Shenyang Shengjing Financial Holdings Investment Co., Ltd. | 2,700,379 | 2,220,859 |
| Evergrande Group (Nanchang) Co., Ltd. | 21 | 21 |
| Shenyang Hengxin State-Owned Asset Management Co., Ltd. | 4,003 | 2,476 |
| Shenyang Zhongyou Tipo (Group) Material Equipment Co., Ltd. | 11 | 11 |
| Liaoning Huafeng Investment Co., Ltd. | 17 | 13 |
| Total | <u>2,704,431</u> | <u>2,223,380</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(i) Transactions between the Bank and major shareholders (Continued)

(2) Guarantees received

| | 30 June 2022 | 31 December 2021 |
|---|------------------|---------------------|
| Shenyang Hengxin State-Owned Asset Management Co., Ltd. | 1,008,500 | 1,118,250 |
| Total | <u>1,008,500</u> | <u>1,118,250</u> |

(3) Interest expense

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2022 | 2021 |
| Shenyang Shengjing Financial Holdings Investment Co., Ltd. | 5,963 | – |
| Founder Securities Co., Ltd. | – | 1,311 |
| Shenyang Hengxin State-Owned Asset Management Co., Ltd. | 24 | 279 |
| Evergrande Group (Nanchang) Co., Ltd. | – | 1 |
| Total | <u>5,987</u> | <u>1,591</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(ii) Transactions between the Bank and subsidiaries

| | 30 June 2022 | 31 December 2021 |
|--|----------------------------------|---------------------|
| Balances at the end of the period/year: | | |
| Deposits from banks and other financial institutions | 1,293,996 | 1,409,385 |
| Deposits with banks and other financial institutions | – | 345 |
| Placements with banks and other financial institutions | 3,500,000 | 3,790,000 |
| | | |
| | Six months ended 30 June 2022 | 2021 |
| Transactions during the period: | | |
| Interest income | 67,600 | 67,447 |
| Interest expense | 3,996 | 6,120 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) Transactions between the Bank and other related parties

| | 30 June 2022 | 31 December 2021 |
|---|----------------------------------|---------------------|
| Balances at the end of the period/year: | | |
| Financial assets measured at amortised cost | 7,540,838 | 10,034,838 |
| Loans and advances to customers | 10,512,017 | 8,140,674 |
| Deposits from customers | 2,398,945 | 3,424,054 |
| Guarantees received | 12,079,043 | 9,245,777 |
| | | |
| | Six months ended 30 June 2022 | 2021 |
| Transactions during the period: | | |
| Interest income | 453,023 | 910,485 |
| Interest expense | 6,895 | 56,942 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

(i) Key management personnel remuneration

| | Six months ended 30 June | |
|----------------------------------|--------------------------|---------------|
| | 2022 | 2021 |
| Salaries and other emoluments | 12,379 | 10,235 |
| Discretionary bonuses | 2,616 | 7,361 |
| Contributions to pension schemes | 983 | 632 |
| Total | <u>15,978</u> | <u>18,228</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

(ii) Transactions between the Bank and key management personnel

| | 30 June 2022 | 31 December 2021 |
|-------------------------------------|----------------------------------|---------------------|
| Balances at the end of period/year: | | |
| Deposits from customers | 19,470 | 26,137 |
| Loans and advances to customers | 352 | 417 |
| | | |
| | Six months ended 30 June 2022 | 2021 |
| Transactions during the period: | | |
| Interest income | 10 | 13 |
| Interest expense | 88 | 129 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through Risk Control and Consumer Rights Protection Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control and Consumer Rights Protection Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(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 debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Risk Management Department and the Credit Approval Department are responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Capital Operation Center carry out credit businesses according to the Group's risk management policies and procedures.

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss 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:

- Probability of default (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.
- Exposure at default (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.
- Loss given default (LGD) refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. Loss given default varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

The Group determines the expected credit losses 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 expected credit losses for the future years. The results of calculation for each year are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime probability of default is to deduce the marginal probability of default by using supervisory formula or conditional probability formula.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different due 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 over-limit 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 balance sheet date by the credit conversion factor (CCF).
- The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affect post-default recovery. LGD for different product types are different.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

- As to financial assets classified as guarantees, the Group determines the loss given default (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 loss given default (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 probability of default, exposure at default and loss given default.

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

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

- 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 expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Treasury Business

The Group's treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 38(a).

(ii) *Loans and advances to customers*

Loans and advances to customers were analysed as follows as at 30 June 2022:

| | 30 June 2022 | 31 December 2021 |
|--|--------------------|---------------------|
| Gross balance of loans and advances to customers | | |
| – ECL over the next 12 months | 545,659,752 | 529,424,257 |
| – Lifetime ECL – not credit-impaired loans | 32,620,119 | 30,528,616 |
| – Lifetime ECL – credit-impaired loans | <u>26,575,902</u> | <u>26,079,795</u> |
| | <u>604,855,773</u> | <u>586,032,668</u> |
| Add: Interest receivable | | |
| – ECL over the next 12 months | 29,511,559 | 20,595,310 |
| – Lifetime ECL – not credit-impaired loans | <u>2,077,987</u> | <u>1,487,662</u> |
| | <u>31,589,546</u> | <u>22,082,972</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

| | 30 June 2022 | 31 December 2021 |
|--|---------------------|---------------------|
| Less: allowance for impairment losses | | |
| – ECL over the next 12 months | (6,942,347) | (6,421,176) |
| – Lifetime ECL – not credit-impaired loans | (6,819,086) | (7,417,897) |
| – Lifetime ECL – credit-impaired loans | <u>(13,136,710)</u> | <u>(10,833,049)</u> |
| | <u>(26,898,143)</u> | <u>(24,672,122)</u> |
| Net balance | | |
| – ECL over the next 12 months | 568,228,964 | 543,598,391 |
| – Lifetime ECL – not credit-impaired loans | 27,879,020 | 24,598,381 |
| – Lifetime ECL – credit-impaired loans | <u>13,439,192</u> | <u>15,246,746</u> |
| | <u>609,547,176</u> | <u>583,443,518</u> |

(a) ECL over the next 12 months loans

| | 30 June 2022 | 31 December 2021 |
|------------------------------|--------------------|---------------------|
| Corporate loans and advances | 453,779,822 | 430,514,863 |
| Personal loans and advances | <u>91,879,930</u> | <u>98,909,394</u> |
| Total gross balance | <u>545,659,752</u> | <u>529,424,257</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(b) Lifetime ECL – not credit-impaired loans

| | 30 June 2022 | | | |
|------------------------------|-------------------|-------------------------------------|---------------------------------|-------------------|
| | Not overdue | Less than 1 month (inclusive) | 1 to 3 months (inclusive) | Total |
| Corporate loans and advances | 29,417,214 | 552,997 | 2,313,106 | 32,283,317 |
| Personal loans and advances | – | 67,360 | 269,442 | 336,802 |
| Total gross balance | 29,417,214 | 620,357 | 2,582,548 | 32,620,119 |

| | 31 December 2021 | | | |
|------------------------------|-------------------|-------------------------------------|---------------------------------|-------------------|
| | Not overdue | Less than 1 month (inclusive) | 1 to 3 months (inclusive) | Total |
| Corporate loans and advances | 26,399,951 | 2,262,746 | 1,645,666 | 30,308,363 |
| Personal loans and advances | – | 56,577 | 163,676 | 220,253 |
| Total gross balance | 26,399,951 | 2,319,323 | 1,809,342 | 30,528,616 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

(b) Lifetime ECL – not credit-impaired loans (Continued)

Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired was analysed as follows:

| | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired | 32,437,414 | 21,715,488 |

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(c) Lifetime ECL – credit-impaired loans

| | 30 June 2022 | 31 December 2021 |
|--|--------------------------|--------------------------|
| Corporate loans and advances | 24,954,316 | 24,484,389 |
| Personal loans and advances | <u>1,621,586</u> | <u>1,595,406</u> |
| Total gross balance | <u><u>26,575,902</u></u> | <u><u>26,079,795</u></u> |
| % of total loans and advances | <u>4.39%</u> | <u>4.45%</u> |
| Allowance for impairment losses | | |
| – Corporate loans and advances | 12,145,602 | 9,727,771 |
| – Personal loans and advances | <u>991,108</u> | <u>1,105,278</u> |
| Total | <u><u>13,136,710</u></u> | <u><u>10,833,049</u></u> |
| Fair value of collateral held against credit-impaired loans and advances | <u>49,726,483</u> | <u>47,693,656</u> |

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iii) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

| | 30 June 2022 | 31 December 2021 |
|-------------------------------|-------------------|---------------------|
| Carrying amount | | |
| Neither overdue nor impaired | | |
| – grade A to AAA | 16,084,642 | 12,198,598 |
| – grade B to BBB | 1,185,000 | 1 |
| – unrated (<i>Note (1)</i>) | 1,019,880 | 3,679 |
| Impaired | | |
| – grade C to CCC | 300,000 | 300,000 |
| | <u>18,589,522</u> | <u>12,502,278</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iii) Amounts due from banks and other financial institutions (Continued)

| | 30 June 2022 | 31 December 2021 |
|-------------------------------------|-----------------|---------------------|
| Add: interest receivable | | |
| – ECL over the next 12 months | 40,124 | 4,632 |
| Less: provision for impairment loss | | |
| – ECL over the next 12 months | (4,545) | (2,165) |
| – Lifetime ECL – credit-impaired | (150,000) | (150,000) |
| | (154,545) | (152,165) |
| Net balance | | |
| – ECL over the next 12 months | 18,325,101 | 12,204,745 |
| – Lifetime ECL – credit-impaired | 150,000 | 150,000 |
| | 18,475,101 | 12,354,745 |

Note:

- (1) All unrated carrying amount are pledged by government debt securities or policy banks debt securities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

| | 30 June 2022 | 31 December 2021 |
|--|--------------------|---------------------|
| Gross balance of debt securities investments | | |
| – ECL over the next 12 months | | |
| – Government | 64,671,834 | 57,245,252 |
| – Policy banks | 52,500,536 | 60,615,157 |
| – Banks and other financial institutions | 5,607,524 | 1,371,054 |
| – Corporate | 4,479,212 | 4,840,742 |
| – Lifetime ECL – credit-impaired | | |
| – Corporate | 4,368,327 | 4,003,418 |
| | <u>131,627,433</u> | <u>128,075,623</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments (Continued)

| | 30 June 2022 | 31 December 2021 |
|---------------------------------------|---------------------------|---------------------------|
| Less: allowance for impairment losses | | |
| – ECL over the next 12 months | (9,051) | (7,337) |
| – Lifetime ECL – credit-impaired | <u>(2,128,900)</u> | <u>(1,255,025)</u> |
| | <u><u>(2,137,951)</u></u> | <u><u>(1,262,362)</u></u> |
| Net balance | | |
| – ECL over the next 12 months | 127,250,055 | 124,064,868 |
| – Lifetime ECL – credit-impaired | <u>2,239,427</u> | <u>2,748,393</u> |
| | <u><u>129,489,482</u></u> | <u><u>126,813,261</u></u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(v) *Financial assets measured at amortised cost*

| | 30 June 2022 | 31 December 2021 |
|--|--------------------|---------------------|
| Gross balance of financial assets measured at amortised cost | | |
| – ECL over the next 12 months | 146,075,746 | 159,966,046 |
| – Lifetime ECL – not credit-impaired investments | 13,604,710 | 13,601,010 |
| – Lifetime ECL – credit-impaired investments | <u>11,534,236</u> | <u>11,544,898</u> |
| | <u>171,214,692</u> | <u>185,111,954</u> |
| Add: Interest receivable | <u>4,258,844</u> | <u>3,955,775</u> |
| Less: allowance for impairment losses | | |
| – ECL over the next 12 months | (719,998) | (719,400) |
| – Lifetime ECL – not credit-impaired investments | (1,550,907) | (1,103,626) |
| – Lifetime ECL – credit-impaired investments | <u>(3,915,093)</u> | <u>(2,787,892)</u> |
| | <u>(6,185,998)</u> | <u>(4,610,918)</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(v) Financial assets measured at amortised cost (Continued)

| | 30 June 2022 | 31 December 2021 |
|--|--------------------|---------------------|
| Net balance | | |
| – ECL over the next 12 months | 149,618,292 | 163,202,421 |
| – Lifetime ECL – not credit-impaired investments | 12,050,103 | 12,497,384 |
| – Lifetime ECL – credit-impaired investments | <u>7,619,143</u> | <u>8,757,006</u> |
| | <u>169,287,538</u> | <u>184,456,811</u> |

(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, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control and Consumer Interest Protection Committee to supervise the market risk management conducted by the senior management. The Risk Management Department of the Bank is responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines, providing various data on market risks and other technical support.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) 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 treasury position.

(1) Repricing risk

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

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

| | 30 June 2022 | | | | | |
|--|----------------------|----------------------|------------------------------------|---|---|----------------------|
| | Total | Non-interest bearing | Less than three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| Assets | | | | | | |
| Cash and deposits with central bank | 83,290,159 | 768,370 | 82,521,789 | - | - | - |
| Deposits with banks and other financial institutions | 11,254,486 | 16,328 | 11,238,158 | - | - | - |
| Placements with banks and other financial institutions | 3,616,294 | 173,565 | 3,442,729 | - | - | - |
| Financial assets held under resale agreements | 3,604,321 | 232 | 3,604,089 | - | - | - |
| Loans and advances to customers <i>(Note (i))</i> | 609,547,176 | 31,589,545 | 194,034,914 | 181,399,996 | 130,395,927 | 72,126,794 |
| Financial investments <i>(Note (ii))</i> | 315,755,160 | 19,196,987 | 147,364,477 | 18,995,408 | 65,361,552 | 64,836,736 |
| Others | 29,200,791 | 28,581,383 | 71,893 | 244,107 | 301,190 | 2,218 |
| Total assets | 1,056,268,387 | 80,326,410 | 442,278,049 | 200,639,511 | 196,058,669 | 136,965,748 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

| | 30 June 2022 | | | | | |
|--|----------------------|----------------------|------------------------------------|---|---|----------------------|
| | Total | Non-interest bearing | Less than three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| Liabilities | | | | | | |
| Borrowings from central bank | (953,503) | (2,842) | (452,799) | (497,862) | - | - |
| Deposits from banks and other financial institutions | (40,422,755) | (90,383) | (27,997,372) | (12,335,000) | - | - |
| Placements from banks and other financial institutions | (3,174,039) | (7,270) | (866,769) | (2,300,000) | - | - |
| Financial assets sold under repurchase agreements | (76,625,349) | (287,181) | (42,337,390) | (34,000,778) | - | - |
| Deposits from customers | (826,903,041) | (16,909,231) | (365,070,613) | (237,481,961) | (199,494,426) | (7,946,810) |
| Debt securities issued | (20,960,362) | (157,089) | (6,668,090) | (8,135,183) | - | (6,000,000) |
| Others | (5,677,904) | (3,887,814) | (1,225,223) | (323,974) | (238,675) | (2,218) |
| Total liabilities | <u>(974,716,953)</u> | <u>(21,341,810)</u> | <u>(444,618,256)</u> | <u>(295,074,758)</u> | <u>(199,733,101)</u> | <u>(13,949,028)</u> |
| Asset-liability gap | <u>81,551,434</u> | <u>58,984,600</u> | <u>(2,340,207)</u> | <u>(94,435,247)</u> | <u>(3,674,432)</u> | <u>123,016,720</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

| | 31 December 2021 | | | | | |
|--|----------------------|----------------------|------------------------------------|---|---|----------------------|
| | Total | Non-interest bearing | Less than three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| Assets | | | | | | |
| Cash and deposits with central bank | 72,330,736 | 945,616 | 71,385,120 | - | - | - |
| Deposits with banks and other financial institutions | 8,842,567 | 4,038 | 8,838,529 | - | - | - |
| Placements with banks and other financial institutions | 1,250,301 | 150,578 | 1,099,723 | - | - | - |
| Financial assets held under resale agreements | 2,261,877 | 16 | 2,261,861 | - | - | - |
| Loans and advances to customers (Note (i)) | 583,443,518 | 22,082,972 | 125,173,604 | 236,218,504 | 128,286,560 | 71,681,878 |
| Financial investments (Note (ii)) | 312,000,748 | 13,391,350 | 158,339,342 | 37,881,004 | 65,506,773 | 36,882,279 |
| Others | 25,996,506 | 25,422,062 | - | 10 | 571,863 | 2,571 |
| Total assets | 1,006,126,253 | 61,996,632 | 367,098,179 | 274,099,518 | 194,365,196 | 108,566,728 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

| | 31 December 2021 | | | | | |
|--|-----------------------------|----------------------------|------------------------------------|---|---|---------------------------|
| | Total | Non-interest bearing | Less than three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years |
| Liabilities | | | | | | |
| Borrowings from central bank | (1,631,922) | (1,110) | (361,637) | (1,269,175) | - | - |
| Deposits from banks and other financial institutions | (59,942,166) | (120,627) | (58,186,539) | (1,635,000) | - | - |
| Placements from banks and other financial institutions | (581,595) | (51,595) | (430,000) | (100,000) | - | - |
| Financial assets sold under repurchase agreements | (89,271,137) | (37,737) | (77,711,057) | (11,522,343) | - | - |
| Deposits from customers | (754,880,674) | (17,847,732) | (291,718,575) | (211,362,289) | (233,952,078) | - |
| Debt securities issued | (8,427,431) | (10,122) | (1,574,494) | (842,815) | - | (6,000,000) |
| Others | (10,888,387) | (3,014,123) | (4,562,147) | (2,762,062) | (547,484) | (2,571) |
| Total liabilities | <u>(925,623,312)</u> | <u>(21,083,046)</u> | <u>(434,544,449)</u> | <u>(229,493,684)</u> | <u>(234,499,562)</u> | <u>(6,002,571)</u> |
| Asset-liability gap | <u>80,502,941</u> | <u>40,913,586</u> | <u>(67,446,270)</u> | <u>44,605,834</u> | <u>(40,134,366)</u> | <u>102,564,157</u> |

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 30 June 2022 included overdue amounts (net of provision for impairment losses) of RMB15,369 million (31 December 2021: RMB15,353 million).
- (ii) Financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis

| | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-------------------------|
| | Increase/ (decrease) | Increase/ (decrease) |
| Change in profit after taxation | | |
| Up 100 bps parallel shift in yield curves | (171,311) | (378,330) |
| Down 100 bps parallel shift in yield curves | 171,311 | 378,330 |
| | <u>171,311</u> | <u>378,330</u> |
| | | |
| | 30 June 2022 | 31 December 2021 |
| | Increase/ (decrease) | Increase/ (decrease) |
| Change in equity | | |
| Up 100 bps parallel shift in yield curves | (508,802) | (939,354) |
| Down 100 bps parallel shift in yield curves | 509,621 | 988,605 |
| | <u>509,621</u> | <u>988,605</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis (Continued)

The sensitivity analysis above is based on simplified scenarios. 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 apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;
- 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 profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies, setting limits on synthetic positions in the settlement and sale of foreign exchange, and setting country risk quota, etc.

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

| | RMB | 30 June 2022 | | Total (RMB Equivalent) |
|--|----------------------|----------------------------|-------------------------------|------------------------------|
| | | USD (RMB Equivalent) | Others (RMB Equivalent) | |
| Assets | | | | |
| Cash and deposits with central bank | 82,832,318 | 436,743 | 21,098 | 83,290,159 |
| Deposits with banks and other financial institutions | 6,211,871 | 3,819,642 | 1,222,973 | 11,254,486 |
| Placements with banks and other financial institutions | 2,572,380 | 1,043,914 | – | 3,616,294 |
| Financial assets held under resale agreements | 3,604,321 | – | – | 3,604,321 |
| Loans and advances to customers | 608,262,851 | 1,082,839 | 201,486 | 609,547,176 |
| Financial investments (Note (i)) | 315,755,160 | – | – | 315,755,160 |
| Others | 28,942,072 | 258,719 | – | 29,200,791 |
| Total assets | 1,048,180,973 | 6,641,857 | 1,445,557 | 1,056,268,387 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

| | 30 June 2022 | | | |
|--|----------------------|------------------------------------|---------------------------------------|--------------------------------------|
| | RMB | USD <i>(RMB Equivalent)</i> | Others <i>(RMB Equivalent)</i> | Total <i>(RMB Equivalent)</i> |
| Liabilities | | | | |
| Borrowings from central bank | (953,503) | – | – | (953,503) |
| Deposits from banks and other financial institutions | (40,422,755) | – | – | (40,422,755) |
| Placements from banks and other financial institutions | (3,147,221) | (26,818) | – | (3,174,039) |
| Financial assets sold under repurchase agreements | (76,625,349) | – | – | (76,625,349) |
| Deposits from customers | (822,439,957) | (4,394,648) | (68,436) | (826,903,041) |
| Debt securities issued | (20,960,362) | – | – | (20,960,362) |
| Others | <u>(5,383,304)</u> | <u>(294,600)</u> | <u>–</u> | <u>(5,677,904)</u> |
| Total liabilities | <u>(969,932,451)</u> | <u>(4,716,066)</u> | <u>(68,436)</u> | <u>(974,716,953)</u> |
| Net position | <u>78,248,522</u> | <u>1,925,791</u> | <u>1,377,121</u> | <u>81,551,434</u> |
| Off-balance sheet credit commitments | <u>122,614,013</u> | <u>3,176,724</u> | <u>88,090</u> | <u>125,878,827</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

| | 31 December 2021 | | | |
|--|--------------------|----------------------------|-------------------------------|------------------------------|
| | RMB | USD (RMB Equivalent) | Others (RMB Equivalent) | Total (RMB Equivalent) |
| Assets | | | | |
| Cash and deposits with central bank | 71,883,116 | 426,599 | 21,021 | 72,330,736 |
| Deposits with banks and other financial institutions | 2,826,862 | 5,398,850 | 616,855 | 8,842,567 |
| Placements with banks and other financial institutions | 1,250,301 | – | – | 1,250,301 |
| Financial assets held under resale agreements | 2,261,877 | – | – | 2,261,877 |
| Loans and advances to customers | 582,016,632 | 848,070 | 578,816 | 583,443,518 |
| Financial investments (Note (i)) | 312,000,748 | – | – | 312,000,748 |
| Others | 23,882,952 | 12,934 | 2,100,620 | 25,996,506 |
| Total assets | 996,122,488 | 6,686,453 | 3,317,312 | 1,006,126,253 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

| | 31 December 2021 | | | |
|---|----------------------|----------------------------|-------------------------------|------------------------------|
| | RMB | USD (RMB Equivalent) | Others (RMB Equivalent) | Total (RMB Equivalent) |
| Liabilities | | | | |
| Borrowings from central bank | (1,631,922) | – | – | (1,631,922) |
| Deposits from banks and other financial institutions | (59,942,166) | – | – | (59,942,166) |
| Placements from banks and other financial institutions | (581,595) | – | – | (581,595) |
| Financial assets sold under repurchase agreements | (89,271,137) | – | – | (89,271,137) |
| Deposits from customers | (749,528,816) | (5,082,263) | (269,595) | (754,880,674) |
| Debt securities issued | (8,427,431) | – | – | (8,427,431) |
| Others | (6,655,461) | (1,206,745) | (3,026,181) | (10,888,387) |
| Total liabilities | <u>(916,038,528)</u> | <u>(6,289,008)</u> | <u>(3,295,776)</u> | <u>(925,623,312)</u> |
| Net position | <u>80,083,960</u> | <u>397,445</u> | <u>21,536</u> | <u>80,502,941</u> |
| Off-balance sheet credit commitments | <u>168,114,973</u> | <u>3,939,498</u> | <u>205,034</u> | <u>172,259,505</u> |

Note:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

| | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-------------------------|
| | Increase/ (decrease) | Increase/ (decrease) |
| Change in profit after taxation and equity | | |
| Up 100 bps parallel shift in yield curves | 381 | 493 |
| Down 100 bps parallel shift in yield curves | (381) | (493) |

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

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group centrally manages the Bank's liquidity risk at the head office through a liquidity risk governance structure consisting of Board of Directors, Board of Supervisors, senior management, as well as the liquidity risk management structure consisting of the Asset and Liability Management Committee, Planning and Financial Department and Risk Management Department:

- The Asset and Liability Management Committee is the Bank's liquidity risk management body that is responsible for developing, and regularly assessing and monitoring the implementation of liquidity risk management policies and measures;
- As the leading department in liquidity risk management, the Planning and Financial Department is responsible for developing and implementing the relevant system; identifying, measuring and monitoring the liquidity risk and the implementation of limitations; performing stress testing, risk analysis and reporting; as well as organizing the daily management of the liquidity risk by business departments;
- The Risk Management Department includes liquidity risk in a comprehensive risk management system, initiates ideas on limitation management of the liquidity risk, and arranges for performance evaluation.

The Group manages liquidity risk by managing the term structure of assets and liabilities, as well as dynamically monitoring liquidity indicators such as loan-to-deposit ratio, liquidity ratio, liquidity coverage ratio, excess reserves ratio, inter-bank loan to saving ratio, credit quality ratio, liquidity gap ratio, etc. The Group forecasts liquidity weekly, analyses liquidity monthly, and performs stress testing of liquidity risk quarterly.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

(i) Maturity analysis

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

| | 30 June 2022 | | | | | | | Total |
|---|-------------------------|--------------------------------------|------------------------------------|---|--|--|-------------------------|----------------------|
| | Indefinite (Note(i)) | Repayable on demand (Note(ii)) | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years | |
| Assets | | | | | | | | |
| Cash and deposits with central bank | 62,195,156 | 21,095,003 | - | - | - | - | - | 83,290,159 |
| Deposits with banks and other financial institutions | - | 11,204,470 | 50,016 | - | - | - | - | 11,254,486 |
| Placements with banks and other financial institutions | 150,000 | - | 1,047,035 | 301,985 | 2,117,274 | - | - | 3,616,294 |
| Financial assets held under resale agreements | - | - | 3,604,321 | - | - | - | - | 3,604,321 |
| Loans and advances to customers | 13,439,192 | 12,888,534 | 147,764,549 | 41,496,001 | 191,436,179 | 130,395,927 | 72,126,794 | 609,547,176 |
| Financial investments (Note (ii)) | 14,146,316 | - | 87,561,274 | 62,836,482 | 19,663,965 | 66,329,723 | 65,217,400 | 315,755,160 |
| Others | 17,159,133 | 1,603,744 | 2,339,170 | 47,279 | 7,748,056 | 301,191 | 2,218 | 29,200,791 |
| Total assets | 107,089,797 | 46,791,751 | 242,366,365 | 104,681,747 | 220,965,474 | 197,026,841 | 137,346,412 | 1,056,268,387 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

| | 30 June 2022 | | | | | | | Total |
|---|--------------------------------|---|------------------------------------|---|--|--|-------------------------|----------------------|
| | Indefinite <i>(Note(i))</i> | Repayable on demand <i>(Note(ii))</i> | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years | |
| Liabilities | | | | | | | | |
| Borrowings from central bank | - | (2,230) | (55,138) | (397,968) | (498,167) | - | - | (953,503) |
| Deposits from banks and other financial institutions | - | (19,254,407) | (3,043,028) | (5,718,548) | (12,406,772) | - | - | (40,422,755) |
| Placements from banks and other financial institutions | - | - | (771,221) | (100,257) | (2,302,561) | - | - | (3,174,039) |
| Financial assets sold under repurchase agreements | - | - | (39,257,878) | (3,116,655) | (34,250,816) | - | - | (76,625,349) |
| Deposits from customers | (3,006,585) | (230,383,000) | (57,444,727) | (77,097,918) | (244,446,248) | (206,344,708) | (8,179,855) | (826,903,041) |
| Debt securities issued | - | - | (6,065,263) | (709,001) | (8,186,098) | - | (6,000,000) | (20,960,362) |
| Others | - | (3,354,884) | (993,967) | (43,424) | (428,855) | (647,722) | (209,052) | (5,677,904) |
| Total liabilities | <u>(3,006,585)</u> | <u>(252,994,521)</u> | <u>(107,631,222)</u> | <u>(87,183,771)</u> | <u>(302,519,517)</u> | <u>(206,992,430)</u> | <u>(14,388,907)</u> | <u>(974,716,953)</u> |
| Long/(short) position | <u>104,083,212</u> | <u>(206,202,770)</u> | <u>134,735,143</u> | <u>17,497,976</u> | <u>(81,554,043)</u> | <u>(9,965,589)</u> | <u>122,957,505</u> | <u>81,551,434</u> |
| Notional amount of derivatives | <u>-</u> | <u>-</u> | <u>89,413,846</u> | <u>106,138,600</u> | <u>281,241,400</u> | <u>40,779,410</u> | <u>100,000</u> | <u>517,673,256</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

| | 31 December 2021 | | | | | | | Total |
|---|-------------------------|--------------------------------------|------------------------------------|---|--|--|-------------------------|----------------------|
| | Indefinite (Note(i)) | Repayable on demand (Note(ii)) | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years | |
| Assets | | | | | | | | |
| Cash and deposits with central bank | 60,392,621 | 11,938,115 | - | - | - | - | - | 72,330,736 |
| Deposits with banks and other financial institutions | - | 8,742,547 | 90,018 | 10,002 | - | - | - | 8,842,567 |
| Placements with banks and other financial institutions | 150,000 | - | 1,100,301 | - | - | - | - | 1,250,301 |
| Financial assets held under resale agreements | - | - | 2,261,877 | - | - | - | - | 2,261,877 |
| Loans and advances to customers | 12,499,519 | 9,531,865 | 81,140,513 | 49,940,706 | 230,431,090 | 128,217,947 | 71,681,878 | 583,443,518 |
| Financial investments (Note (i)) | 14,171,634 | - | 24,018,809 | 78,162,309 | 58,766,938 | 72,421,129 | 64,459,929 | 312,000,748 |
| Others | 15,364,532 | 1,118,882 | 5,961,623 | - | 2,977,035 | 571,863 | 2,571 | 25,996,506 |
| Total assets | 102,578,306 | 31,331,409 | 114,573,141 | 128,113,017 | 292,175,063 | 201,210,939 | 136,144,378 | 1,006,126,253 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

| | 31 December 2021 | | | | | | | Total |
|---|-------------------------|--------------------------------------|------------------------------------|---|--|--|-------------------------|----------------------|
| | Indefinite (Note(i)) | Repayable on demand (Note(ii)) | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years | |
| Liabilities | | | | | | | | |
| Borrowings from central bank | - | - | (360,491) | (1,146) | (1,270,285) | - | - | (1,631,922) |
| Deposits from banks and other financial institutions | - | (9,440,539) | (28,241,833) | (20,621,498) | (1,638,296) | - | - | (59,942,166) |
| Placements from banks and other financial institutions | - | - | (300,517) | (130,310) | (150,768) | - | - | (581,595) |
| Financial assets sold under repurchase agreements | - | - | (72,912,009) | (4,831,911) | (11,527,217) | - | - | (89,271,137) |
| Deposits from customers | - | (235,219,702) | (20,431,799) | (39,040,437) | (215,132,073) | (241,965,558) | (3,091,105) | (754,880,674) |
| Debt securities issued | - | - | (1,037,704) | (546,750) | (842,977) | - | (6,000,000) | (8,427,431) |
| Others | - | (1,592,156) | (844,485) | (4,408,022) | (2,887,693) | (892,429) | (263,602) | (10,888,387) |
| Total liabilities | <u>-</u> | <u>(246,252,397)</u> | <u>(124,128,838)</u> | <u>(69,580,074)</u> | <u>(233,449,309)</u> | <u>(242,857,987)</u> | <u>(9,354,707)</u> | <u>(925,623,312)</u> |
| Long/(short) position | <u>102,578,306</u> | <u>(214,920,988)</u> | <u>(9,555,697)</u> | <u>58,532,943</u> | <u>58,725,754</u> | <u>(41,647,048)</u> | <u>126,789,671</u> | <u>80,502,941</u> |
| Notional amount of derivatives | <u>-</u> | <u>-</u> | <u>10,740,651</u> | <u>3,509,739</u> | <u>21,000,660</u> | <u>359,160,183</u> | <u>100,000</u> | <u>394,511,233</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

Notes:

- (i) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost. The “indefinite” period amount represents the balance being credit-impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not credit-impaired is included in “repayable on demand”.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) *Analysis on contractual undiscounted cash flows of non-derivative financial liabilities*

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

| | 30 June 2022 | | | | | |
|--|--|------------------------------------|---|--|--|---|
| | Contractual undiscounted cash flow | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years and indefinite |
| Borrowings from central bank | (972,397) | (58,642) | (406,394) | (507,361) | - | - |
| Deposits from banks and other financial institutions | (40,664,058) | (22,310,601) | (5,746,549) | (12,606,908) | - | - |
| Placements from banks and other financial institutions | (3,232,121) | (771,859) | (101,279) | (2,358,983) | - | - |
| Financial assets sold under repurchase agreements | (76,962,953) | (39,273,947) | (3,120,456) | (34,568,550) | - | - |
| Deposits from customers | (847,752,979) | (289,877,988) | (77,270,825) | (246,028,071) | (226,394,274) | (8,181,821) |
| Debt securities issued | (22,659,064) | (6,019,089) | (711,452) | (8,320,786) | (1,470,000) | (6,137,737) |
| Other financial liabilities | (6,009,296) | (4,348,852) | (43,424) | (531,686) | (797,402) | (287,932) |
| Total non-derivative financial liabilities | (998,252,868) | (362,660,978) | (87,400,379) | (304,922,345) | (228,661,676) | (14,607,490) |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

| | 31 December 2021 | | | | | |
|--|--|------------------------------------|---|--|--|---|
| | Contractual undiscounted cash flow | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years and indefinite |
| Borrowings from central bank | (1,662,026) | (361,950) | (1,145) | (1,298,931) | - | - |
| Deposits from banks and other financial institutions | (60,143,007) | (37,735,316) | (20,713,709) | (1,693,982) | - | - |
| Placements from banks and other financial institutions | (581,595) | (300,517) | (130,310) | (150,768) | - | - |
| Financial assets sold under repurchase agreements | (89,611,070) | (73,225,778) | (4,838,219) | (11,547,073) | - | - |
| Deposits from customers | (754,931,274) | (255,650,756) | (39,038,712) | (215,145,765) | (241,993,708) | (3,102,333) |
| Debt securities issued | (10,602,473) | (1,034,111) | (619,914) | (1,184,448) | (1,176,000) | (6,588,000) |
| Other financial liabilities | <u>(10,412,875)</u> | <u>(2,436,641)</u> | <u>(4,393,794)</u> | <u>(2,900,791)</u> | <u>(391,352)</u> | <u>(290,297)</u> |
| Total non-derivative financial liabilities | <u>(927,944,320)</u> | <u>(370,745,069)</u> | <u>(69,735,803)</u> | <u>(233,921,758)</u> | <u>(243,561,060)</u> | <u>(9,980,630)</u> |

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives

The Group's derivatives that will be settled on a net basis include:

- Interest rate swaps

The Group's derivatives that will be settled on a gross basis include:

- Option contracts
- Currency swaps
- Precious metal derivatives

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

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

| | 30 June 2022 | | | | | |
|---|--|------------------------------------|---|--|--|---|
| | Contractual undiscounted cash flow | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years and indefinite |
| Derivatives settled on net basis | | | | | | |
| Interest rate swaps | 25,551 | - | 180 | (37,144) | 62,515 | - |
| Derivatives settled on gross basis | | | | | | |
| Option contracts | | | | | | |
| - cash outflow | (278,941) | (20,111) | (43,242) | (215,565) | (23) | - |
| - cash inflow | 286,989 | 24,475 | 46,917 | 215,574 | 23 | - |
| Currency swaps | | | | | | |
| - cash outflow | (2,375,547) | (26,707) | - | (2,348,840) | - | - |
| - cash inflow | 2,332,091 | 26,846 | - | 2,305,245 | - | - |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

| | Contractual undiscounted cash flow | 31 December 2021 | | | | |
|---|--|------------------------------------|---|--|--|---|
| | | Within one month (inclusive) | Between one month and three months (inclusive) | Between three months and one year (inclusive) | Between one year and five years (inclusive) | More than five years and indefinite |
| Derivatives settled on net basis | | | | | | |
| Interest rate swaps | 29,688 | - | - | - | 29,688 | - |
| Derivatives settled on gross basis | | | | | | |
| Option contracts | | | | | | |
| - cash outflow | (11,415) | (2,361) | (3,390) | - | (5,664) | - |
| - cash inflow | 11,414 | 2,358 | 3,384 | - | 5,672 | - |
| Precious metal derivatives | | | | | | |
| - cash outflow | (6,586,620) | (718,340) | (3,150,118) | (2,718,162) | - | - |
| - cash inflow | 6,536,926 | 673,104 | 3,154,921 | 2,708,901 | - | - |

(d) Operational risk

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

The Group has built “Three Lines of Defense for Risk Management” mainly involving business departments, the Compliance Department and the Internal Audit Department in risk management, and established a reporting mechanism between the Compliance Department and business departments, as well as between the head office and branches.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. Return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 30 June 2022 and 31 December 2021 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|--|-------------|-----------------|---------------------|
| Total core tier-one capital | | | |
| – Share capital | | 8,796,680 | 8,796,680 |
| – Qualifying portion of capital reserve | | 26,931,360 | 26,931,360 |
| – Surplus reserve | | 7,447,212 | 7,319,347 |
| – General reserve | | 14,022,964 | 14,013,554 |
| – Fair value reserve | | (889,358) | (816,706) |
| – Provision reserve | | 1,019,418 | 862,128 |
| – Retained earnings | | 23,604,515 | 22,797,677 |
| – Qualifying portions of non-controlling interests | | 128,361 | 121,712 |
| – Others | | (24,638) | (24,638) |
| Core tier-one capital | | 81,036,514 | 80,001,114 |
| Core tier-one capital deductions | | (316,274) | (303,297) |
| Net core tier-one capital | | 80,720,240 | 79,697,817 |
| Net tier-one capital | | 80,720,240 | 79,697,817 |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

| | <i>Note</i> | 30 June 2022 | 31 December 2021 |
|--|-------------|--------------------|---------------------|
| Tier-two capital | | | |
| – Qualifying portions of tier-two capital instruments issued | | 6,000,000 | 6,000,000 |
| – Surplus provision for loan impairment | | <u>7,440,754</u> | <u>5,929,637</u> |
| Net tier-two capital | | <u>13,440,754</u> | <u>11,929,637</u> |
| Net capital base | | <u>94,160,994</u> | <u>91,627,454</u> |
| Total risk weighted assets | 36(e)(i) | <u>784,272,845</u> | <u>756,282,510</u> |
| Core tier-one capital adequacy ratio | | 10.29% | 10.54% |
| Tier-one capital adequacy ratio | | 10.29% | 10.54% |
| Capital adequacy ratio | | <u>12.01%</u> | <u>12.12%</u> |

Notes:

- (i) Both the on-balance and off-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 as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the former CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.5%, 8.5% and 7.5% at 30 June 2022 and 31 December 2021.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

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

(i) **Debt securities investments**

The fair values of debt securities 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.

(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

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

Fair values of debt securities issued are based on their quoted market prices 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.

(iv) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange forward rates, foreign exchange rate volatility, CFETS middle rate and Shanghai interbank offered rate yield curves, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | 30 June 2022 | | | Total |
|---|-------------------|-------------------|-------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Derivative financial assets | | | | |
| – currency swaps | – | 2,123 | – | 2,123 |
| – option contracts | – | 286,990 | – | 286,990 |
| – interest rate swaps | – | 330,294 | – | 330,294 |
| Financial assets at fair value through profit or loss | | | | |
| – debt instruments | – | 5,896,054 | – | 5,896,054 |
| – investment funds | 31,746,068 | – | – | 31,746,068 |
| – others | 123,549 | – | 58,492,509 | 58,616,058 |
| Financial assets at fair value through other comprehensive income | | | | |
| – debt instruments | – | 41,517,952 | – | 41,517,952 |
| – equity instruments | 1,215,227 | – | 6,721,761 | 7,936,988 |
| Total | 33,084,844 | 48,033,413 | 65,214,270 | 146,332,527 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | – | – | – | – |
| Derivative financial liabilities | | | | |
| – currency swaps | – | (44,718) | – | (44,718) |
| – option contracts | – | (278,940) | – | (278,940) |
| – interest rate swaps | – | (304,744) | – | (304,744) |
| Total | – | (628,402) | – | (628,402) |

During the six months ended 30 June 2022, there were no significant transfers between instruments in Level 1 and Level 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

| | 31 December 2021 | | | Total |
|---|-------------------|--------------------|-------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Derivative financial assets | | | | |
| – option contracts | – | 122,449 | – | 122,449 |
| – interest rate swaps | – | 438,971 | – | 438,971 |
| – precious metal derivatives | – | 13,024 | – | 13,024 |
| Financial assets at fair value through profit or loss | | | | |
| – debt instruments | – | 1,584,126 | – | 1,584,126 |
| – investment funds | 31,477,776 | – | – | 31,477,776 |
| – others | 122,408 | – | 60,193,822 | 60,316,230 |
| Financial assets at fair value through other comprehensive income | | | | |
| – debt instruments | – | 26,223,833 | – | 26,223,833 |
| – equity instruments | 1,220,097 | – | 6,721,875 | 7,941,972 |
| Total | 32,820,281 | 28,382,403 | 66,915,697 | 128,118,381 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| – option contracts | – | (6,504,990) | – | (6,504,990) |
| Derivative financial liabilities | | | | |
| – option contracts | – | (94,276) | – | (94,276) |
| – interest rate swaps | – | (409,283) | – | (409,283) |
| – precious metal derivatives | – | (60,732) | – | (60,732) |
| Total | – | (7,069,281) | – | (7,069,281) |

During the year ended 31 December 2021, there were no significant transfers between instruments in Level 1 and Level 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters. Financial liabilities at fair value through profit or loss mainly includes the financial liabilities related to precious metals, of which the fair value is determined based on the closing price provided by Shanghai Gold Exchange.

(d) Level 3 fair value measurement

As at 30 June 2022 and 31 December 2021, unobservable inputs such as discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly wealth management plan, beneficial investment of trust and equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(e) Fair value of financial assets and liabilities not carried at fair value

- (i) Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from central bank and financial investments measured as amortised cost.

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) ***Loans and advances to customers***

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

(iii) ***Financial assets measured at amortised cost***

The fair values of financial assets measured at amortised cost are estimated on the basis of pricing models or discounted cash flows in the absence of any other relevant observable market data if the market value is not available.

(iv) ***Financial assets at fair value through other comprehensive income equity instruments***

Financial assets at fair value through other comprehensive income equity instruments are unlisted shares. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(e) Fair value of financial assets and liabilities not carried at fair value (Continued)

(v) *Deposits from customers*

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(vi) *Debt securities issued*

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(e) Fair value of financial assets and liabilities not carried at fair value (Continued)

(vi) Debt securities issued (Continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of financial assets measured at amortised cost and debt securities issued:

| | 30 June 2022 | | | | |
|---|--------------------|-------------|---------|------------|------------|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Financial assets measured at amortised cost | 169,287,538 | 169,461,625 | – | 79,721,695 | 89,739,930 |
| Financial liabilities | | | | | |
| Debt securities issued | | | | | |
| – tier two capital bonds and financial bonds | 6,000,000 | 5,678,400 | – | 5,678,400 | – |
| – certificates of interbank deposit | 14,803,272 | 14,757,448 | – | 14,757,448 | – |
| Total | 20,803,272 | 20,435,848 | – | 20,435,848 | – |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(e) Fair value of financial assets and liabilities not carried at fair value (Continued)

(vi) Debt securities issued (Continued)

| | 31 December 2021 | | | | |
|---|--------------------|-------------|---------|------------|------------|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Financial assets measured | | | | | |
| at amortised cost | 184,456,811 | 185,381,184 | – | 98,176,705 | 87,204,479 |
| Financial liabilities | | | | | |
| Debt securities issued | | | | | |
| – tier two capital bonds and financial bonds | 6,010,122 | 5,918,562 | – | 5,918,562 | – |
| – certificates of interbank deposit | 2,417,309 | 2,395,867 | – | 2,395,867 | – |
| Total | 8,427,431 | 8,314,429 | – | 8,314,429 | – |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

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

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 its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

| | 30 June 2022 | 31 December 2021 |
|--------------------------------|--------------------|---------------------|
| Bank acceptances | 89,724,836 | 128,417,787 |
| Letters of guarantees | 7,573,246 | 13,446,399 |
| Unused credit card commitments | 18,420,448 | 17,777,920 |
| Letters of credit | <u>10,160,297</u> | <u>12,617,399</u> |
| Total | <u>125,878,827</u> | <u>172,259,505</u> |

The Group may be exposed to credit risk in all the above credit businesses. 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

| | 30 June 2022 | 31 December 2021 |
|---|-----------------|---------------------|
| Credit risk-weighted amount of contingent liabilities and commitments | 31,818,029 | 41,293,559 |

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Capital commitments

As at 30 June 2022 and 31 December 2021, the authorised capital commitments of the Group are as follows:

| | 30 June 2022 | 31 December 2021 |
|---------------------------------|-----------------------|-----------------------|
| Contracted but not paid for | 291,425 | 455,102 |
| Approved but not contracted for | <u>36,198</u> | <u>63,020</u> |
| Total | <u><u>327,623</u></u> | <u><u>518,122</u></u> |

(d) Outstanding litigations and disputes

As at 30 June 2022 and 31 December 2021, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

(e) Pledged assets

| | 30 June 2022 | 31 December 2021 |
|-----------------------|---------------------------|---------------------------|
| Investment securities | 77,233,881 | 92,532,031 |
| Discounted bills | <u>35,534,248</u> | <u>10,579,224</u> |
| Total | <u><u>112,768,129</u></u> | <u><u>103,111,255</u></u> |

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2022 and 31 December 2021, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2022 and 31 December 2021 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

| | 30 June 2022 | | |
|--|-----------------------|--------------------|--------------------|
| | Financial investments | Carrying amount | Maximum exposure |
| Investment management products managed by securities companies | 63,048,633 | 63,048,633 | 63,048,633 |
| Investment management products under trust scheme | <u>82,393,657</u> | <u>82,393,657</u> | <u>82,393,657</u> |
| Total | <u>145,442,290</u> | <u>145,442,290</u> | <u>145,442,290</u> |

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

| | 31 December 2021 | | |
|--|---------------------------|---------------------------|---------------------------|
| | Financial investments | Carrying amount | Maximum exposure |
| Investment management products managed by securities companies | 63,957,611 | 63,957,611 | 63,957,611 |
| Investment management products under trust scheme | <u>80,554,015</u> | <u>80,554,015</u> | <u>80,554,015</u> |
| Total | <u><u>144,511,626</u></u> | <u><u>144,511,626</u></u> | <u><u>144,511,626</u></u> |

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

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

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

During the six months ended 30 June 2022, the amount of fee and commission income received from the above mentioned structured entities by the Group is RMB44.79 million (six months ended 30 June 2021: RMB323.51 million).

As at 30 June 2022, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB41,851million (31 December 2021: RMB43,588 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

During the six months ended 30 June 2022, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2022, but matured before 30 June 2022, is RMB2,755 million (six months ended 30 June 2021: RMB1,001 million).

40 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

41 FIDUCIARY ACTIVITIES

The Group commonly acts as a manager, trustee or agent for clients in fiduciary acts. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 30 June 2022, the entrusted loans balance of the Group is RMB1,769 million (31 December 2021: RMB1,750 million).

42 TRANSFERRED FINANCIAL ASSETS

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognises the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards undertaken by the Group with value changes of the transferred financial assets. As at 30 June 2022 and 31 December 2021, the Group has no continuing involvement in securitisation transaction.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

43 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As at the approval date of this financial report, the Group have no major financial report event after the reporting period that need to be disclosed.

44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2022.

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, 2022 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting period beginning on or after |
|--|--|
| <i>IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts</i> | 1 January 2023 |
| <i>Amendments to IAS 1, Classification of Liabilities as Current or Non-current</i> | 1 January 2023 |
| <i>Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of accounting policies</i> | 1 January 2023 |
| <i>Amendments to IAS 8 · Definition of accounting estimates</i> | 1 January 2023 |
| <i>Amendments to IAS12, Deferred tax related to assets and liabilities arising from a single transaction</i> | 1 January 2023 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

DEFINITION

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

| | |
|---|--|
| “Articles of Association” | the articles of association of the Bank, as amended from time to time |
| “Bank”, “our Bank”, or “Shengjing Bank” or “we” | Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and subbranches |
| “Board” or “Board of Directors” | the board of Directors of the Bank |
| “Board of Supervisors” | the board of Supervisors of the Bank |
| “CBIRC” | China Banking and Insurance Regulatory Commission |
| “CBIRC Liaoning Bureau” | China Banking and Insurance Regulatory Commission Liaoning Bureau |
| “CSRC” | China Securities Regulatory Commission |
| “Director(s)” | the director(s) of the Bank |
| “Domestic Shares” | ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi |
| “H Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “H Shares” | overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

DEFINITION (CONTINUED)

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| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “PBOC” or “Central Bank” | the People’s Bank of China |
| “PRC” | the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan |
| “Reporting Period” | the six months ended 30 June 2022 |
| “RMB or Renminbi” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time |
| “Shareholder(s)” | the shareholder(s) of the Bank |
| “Shares” | the Domestic Shares and the H Shares |
| “Supervisor(s)” | the supervisor(s) of the Bank |
| “%” | per cent |