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泸州银行股份有限公司*
LUZHOU BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1983)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The board of directors (the “**Board**”) of Luzhou Bank Co., Ltd (the “**Bank**”) hereby announces the unaudited interim results of the Bank for the six months ended June 30, 2023. This interim results announcement, containing the full text of the 2023 interim report of the Bank, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

The printed version of the Bank’s 2023 interim report will be dispatched to the shareholders of the Bank and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Bank at www.lzccb.cn in due course.

By order of the Board
Luzhou Bank Co., Ltd.*
YOU Jiang
Chairman

Luzhou, the PRC, August 17, 2023

As at the date of this announcement, the Board comprises Mr. YOU Jiang and Mr. LIU Shirong as executive Directors, Ms. PAN Lina, Mr. XIONG Guoming, Mr. LUO Huoming and Ms. CHEN Ping as non-executive Directors and Mr. HUANG Yongqing, Mr. TANG Baoqi, Mr. ZHONG Jin, Mr. GAO Jinkang and Mr. CHING Yu Lung as independent non-executive Directors.

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

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Corporate Overview

I. CORPORATE PROFILE

(i) Legal Names

1. Legal Chinese Name: 泸州银行股份有限公司
(Abbreviation: “泸州银行”)
2. Legal English Name: LUZHOU BANK CO., LTD.
(Abbreviation: “LUZHOU BANK”)

(ii) Registered Capital: RMB2,717,752,062

(iii) Legal Representative: Mr. YOU Jiang

(iv) Authorized Representatives: Mr. LIU Shirong and Ms. ZHANG Xiao

(v) Joint Company Secretaries: Mr. MING Yang and Ms. ZHANG Xiao

(vi) Listing Place of H Shares: The Stock Exchange of Hong Kong Limited

(vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)

(viii) Registered Address: Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC

(ix) Principal Place of Business in Hong Kong: 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong

(x) Contact Address:

Building 1, No. 18, Section 3, Jiucheng Avenue, Jiangyang District, Luzhou, Sichuan Province, the PRC
Post Code: 646000
Website: www.lzccb.cn

(xi) Auditor:

International: PricewaterhouseCoopers
Address: 22/F, Prince's Building, Central, Hong Kong
Domestic: PricewaterhouseCoopers Zhong Tian LLP
Address: 11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC

(xii) PRC Legal Advisor: JunHe LLP, Shanghai Office

(xiii) Hong Kong Legal Advisor: Clifford Chance

(xiv) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited

(xv) Other Relevant Information of the Company

Registration Date: September 15, 1997
Registration Authority: Luzhou City Administration for Market Regulation in Sichuan Province, the PRC
Unified Social Credit Code: 91510500708926271U
Financial License Institution Number: B0210H251050001
Customer Service and Complaints Hotline: 0830-96830
Tel: 0830-2362606
Fax: 0830-3100625
E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou Bank Co., Ltd. was established on September 15, 1997 as approved by the PBOC. The Bank has branches in Chengdu, Meishan and Suining with a total of 39 operating outlets established. The Bank is preparing to set up two branches, including Meishan community sub-branch and Suining community sub-branch. As of the end of the Reporting Period, our total assets amounted to RMB153,945 million, our total customer loans amounted to RMB88,828 million, and our total customer deposits amounted to RMB115,482 million.

Our H Shares have been listed on the Main Board of the Hong Kong Stock Exchange on December 17, 2018 (stock code: 1983).

Financial Summary

Unit: RMB'000

Item	For the six months ended June 30,		
	2023	2022	Year-on-year change
Operating results			change (%)
Net interest income	1,554,533	1,790,738	(13.19)
Net fee and commission income	69,620	92,377	(24.63)
Operating income	2,446,656	2,358,700	3.73
Operating expenses	(716,788)	(673,160)	6.48
Expected credit losses/other impairment losses	(872,342)	(859,361)	1.51
Profit before income tax	860,297	829,324	3.73
Net profit	675,272	643,623	4.92
Net profit attributable to Shareholders of the Bank	675,272	643,623	4.92
Per share (RMB)			change
Net assets per share attributable to our Shareholders ⁽¹⁾	3.37	3.16	0.21
Basic earnings per share ⁽²⁾	0.21	0.20	0.01
Diluted earnings per share	0.21	0.20	0.01
Item	Year-on-year change		
	June 30, 2023	December 31, 2022	Year-on-year change
Scale indicators (RMB'000)			change (%)
Total assets	153,944,546	148,629,827	3.58
Of which: net customer loans ⁽³⁾	85,017,082	79,999,395	6.27
Total liabilities	143,092,400	138,434,211	3.36
Of which: customer deposits	115,481,590	109,445,657	5.52
Share capital	2,717,752	2,717,752	0.00
Equity attributable to our Shareholders	10,852,146	10,195,616	6.44
Total equity	10,852,146	10,195,616	6.44
Asset quality indicators (%)			change
NPL ratio	1.50	1.53	(0.03)
Allowance coverage ratio	295.10	256.93	38.17
Allowance to gross loan ratio	4.42	3.93	0.49
Capital adequacy indicators (%)			change
Core tier-one capital adequacy ratio ⁽⁴⁾	8.28	8.10	0.18
Tier-one capital adequacy ratio ⁽⁴⁾	9.82	9.72	0.10
Capital adequacy ratio ⁽⁴⁾	12.97	13.01	(0.04)
Other indicators (%)			change
Liquidity ratio	70.70	73.47	(2.77)

Financial Summary

Item	For the six months ended June 30,		
	2023	2022	Year-on-year change
Profitability indicators (%)			change
Return on average total assets ⁽⁵⁾	0.89	0.92	(0.03)
Return on average equity ⁽⁶⁾	12.41	12.46	(0.05)
Net interest spread ⁽⁷⁾	2.74	2.73	0.01
Net interest margin ⁽⁸⁾	2.44	2.74	(0.30)
Cost-to-income ratio ⁽⁹⁾	28.02	27.35	0.67

Notes:

- (1) Net assets per share attributable to our Shareholders = (equity attributable to our Shareholders – other equity instruments)/the number of ordinary shares at the end of the period.
- (2) Basic earnings per share are calculated by dividing the net profit for the year/period attributable to Shareholders of the Bank by the weighted average number of ordinary shares during the period.
- (3) Net customer loans = total customer loans – impairment allowance on customer loans.
- (4) The capital adequacy ratio related indicators in the above table were calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 and other relevant regulatory requirements.
- (5) Return on average total assets = net profit/the average balance of total assets at the beginning and the end of the period.
- (6) Return on average equity = net profit attributable to our Shareholders of ordinary shares/the weighted average balance of equity attributable to our Shareholders of ordinary shares at the beginning and the end of the period.
- (7) Net interest spread = the average yield on interest-earning assets – the average cost rate of interest-bearing liabilities.
- (8) Net interest margin = net interest income/the average balance of interest-earning assets.
- (9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

1. ENVIRONMENT AND PROSPECT

In the first half of 2023, under the complicated international landscape in political and economic aspects, weak recovery of the world economy, slowdown in global trade and investment and great inflationary pressure, the economic trends and policies of major economies significantly diverged. In response to the complex and severe external environment, the Chinese government adhered to the general keynote of seeking progress in the trend of steady, and focused on promoting high-quality development. China's GDP in the first half of the year was RMB59.3 trillion, representing a year-on-year increase of 5.5%, showing an overall recovery trend with a growth rate significantly higher than that of the major economies in other parts of the world. Looking forward, China will continue to boast strong resilience, great potential and ample vitality, and its stable and long-term positive fundamentals will not change as well. As the economy and society resume normal operation, new impetus will continue to grow and develop along with the improving quality in development. China's economy is expected to maintain steady growth.

In terms of our major business locations, while pushing ahead the construction of the double-city economic circle in the Chengdu-Chongqing region, the strategic consensus as well as exchanges and cooperation between Sichuan and Chongqing were strengthened. 10 adjoining cooperation platforms including the integrated development demonstration zone of Luzhou, Yongchuan and Jiangjin, and the integrated development pilot area of South Sichuan and West Chongqing, have been fully launched. The construction of 35 industrial cooperation demonstration parks was accelerated. 248 major projects made progress at the same time, with a total investment of RMB3.25 trillion. Based on its regional economic characteristics and actual situation, Sichuan Province reinforced the development strategy of “synchronized development of new urbanization, industrialization, informatization, and agricultural modernization, urban-rural integration and common prosperity of five zones” (“四化同步、城鄉融合、五區共興”), and went all out to pursue economy and construction. The major economic indicators continued to increase, and the vitality of development became stronger, achieving a regional GDP of RMB2,790.101 billion, representing a year-on-year increase of 5.5%, which was 2.6 percentage points higher than last year and 1.7 percentage points higher than the first quarter of this year. As an important strategic city in the construction of the double-city economic circle in the Chengdu-Chongqing region, Luzhou strives to leverage its advantages in terms of location. With “synchronized development of new urbanization, industrialization, informatization, and agricultural modernization, in-depth integration of urban and rural, and co-flying with the strategy of ‘One Body with Two Wings’” (“四化同步推進、城鄉深度融合、一體兩翼齊飛”) as general principle, Luzhou seized development opportunities and solidly promoted the construction of a regional central city in the new era led by Chinese-style modernization.

We actively responded to changes, strengthened our major responsibilities and businesses, continued to promote business transformation and structural adjustment, and strengthened risk management and control and reduction of non-performing loans. In the first half of the year, we achieved coordinated development in terms of scale, quality and efficiency. In the future, the operation landscape of the banking industry will be complicated and severe. We will continue to maintain our strategic determination, strengthen our confidence in development, and accelerate the pace of transformation and innovation breakthroughs with our perseverance, so as to fully promote the high-quality development of Luzhou Bank, and reward the investors' care and love with excellent results.

Management Discussion and Analysis

2. DEVELOPMENT STRATEGIES

In the second half of 2023, the Bank will adhere to the general keynote of seeking progress while maintaining stability, continue to optimize the liability structure, strengthen the construction of intelligent risk control, accelerate fintech innovation and development to provide strong support for the construction of the double-city economic circle in the Chengdu-Chongqing region and the development of Luzhou “One Body with Two Wings”, and achieve high-quality development in promoting regional economic development.

3. ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial Results Highlights

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
Net interest income	1,554,533	1,790,738
Net fee and commission income	69,620	92,377
Net gains on trading activities, net gains on financial investments and other operating income	822,503	475,585
Operating expenses	(716,788)	(673,160)
Expected credit losses/other impairment losses	(872,342)	(859,361)
Share of profits of an associate	2,771	3,145
Profit before income tax	860,297	829,324
Income tax expenses	(185,025)	(185,701)
Net profit	675,272	643,623
Of which: net profit attributable to Shareholders of the Bank	675,272	643,623

For the six months ended June 30, 2023, the Bank's profit before income tax amounted to RMB860 million, representing an increase of RMB31 million or 3.73% as compared to the same period of the previous year, and net profit amounted to RMB675 million, representing an increase of RMB32 million or 4.92% as compared to the same period of the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before income tax.

Unit: RMB'000

Item	Amount
Profit before income tax for the six months ended June 30, 2022	829,324
Changes in 2023	
Changes in net interest income	(236,205)
Changes in net fee and commission income	(22,757)
Changes in net gains on trading activities, net gains on financial investments and other operating income	346,918
Changes in operating expenses	(43,628)
Changes in expected credit losses/other impairment losses	(12,981)
Changes in share of profits of an associate	(374)
Profit before income tax for the six months ended June 30, 2023	860,297

Management Discussion and Analysis

3.2 Operating Income

In the first half of 2023, the Bank's operating income amounted to RMB2,447 million, representing an increase of RMB88 million or 3.73% as compared to the same period of the previous year. Among which, net interest income accounted for 63.54%, representing a decrease of 12.38 percentage points as compared to the same period of the previous year. Net non-interest income amounted to RMB892 million, accounting for 36.46%. The following table sets forth the components of the Bank's operating income and its comparison with the same period of the previous year.

Unit: %

Item	For the six months ended June 30,	
	2023	2022
Net interest income	63.54	75.92
Net fee and commission income	2.84	3.92
Net gains on trading activities, net gains on financial investments and other operating income	33.62	20.16
Total	100.00	100.00

3.3 Net Interest Income

For the six months ended June 30, 2023, the Bank's net interest income amounted to RMB1,555 million, representing a decrease of RMB236 million or 13.19% as compared to the same period of the previous year, mainly due to the decrease in both the scale and interest rate on interest-earning assets. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest income/expense	Average yield/cost rate (%)	Average balance	Interest income/expense	Average yield/cost rate (%)
Interest-earning assets						
Customer loans	87,450,488	2,836,225	6.49	79,117,551	2,698,036	6.82
Investment ⁽¹⁾	27,698,305	681,023	4.92	36,282,594	1,032,104	5.69
Amounts due from banks and other financial institutions ⁽²⁾	3,608,155	35,664	1.98	6,581,749	58,261	1.77
Balances with central bank	8,591,215	52,929	1.23	8,719,736	52,529	1.20
Total	127,348,163	3,605,841	5.66	130,701,630	3,840,930	5.88

Management Discussion and Analysis

Unit: RMB'000

Item	For the six months ended June 30,					
	Average balance	2023 Interest income/expense	Average yield/cost rate (%)	Average balance	2022 Interest income/expense	Average yield/cost rate (%)
Interest-bearing liabilities						
Customer deposits	117,549,337	1,751,717	2.98	103,046,683	1,647,584	3.20
Amounts due to banks and other financial institutions ⁽³⁾	7,505,372	78,307	2.09	5,292,563	70,042	2.65
Debt securities issued	10,433,762	170,879	3.28	16,900,229	286,435	3.39
Others	4,930,844	50,405	2.04	5,138,324	46,131	1.80
Total	140,419,315	2,051,308	2.92	130,377,799	2,050,192	3.15
Net interest income	-	1,554,533	-	-	1,790,738	-
Net interest spread	-	-	2.74	-	-	2.73
Net interest margin	-	-	2.44	-	-	2.74

Notes:

- (1) Investments indicated in section 3.3 include credit related financial assets, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (2) Amounts due from banks and other financial institutions indicated in section 3.3 include financial assets held under resale agreements.
- (3) Amounts due to banks and other financial institutions indicated in section 3.3 include financial assets sold under repurchase agreements.

As of June 30, 2023, the average balance of interest-earning assets of the Bank was RMB127,348 million, representing a decrease of RMB3,353 million or 2.57% as compared to the same period of the previous year, mainly due to a decrease in the investment volume. Net interest margin was 2.44%, representing a decrease of 0.30 percentage point as compared to the same period of the previous year, mainly because the decrease in the net interest income was higher than the decrease in the volume of interest-earning assets due to the decrease in the yield on interest-earning assets; net interest spread was 2.74%, representing an increase of 0.01 percentage point as compared to the same period of the previous year, mainly because the decrease in the average cost of interest-bearing liabilities was higher than the decrease in the average yield on interest-earning assets.

Management Discussion and Analysis

The following table sets forth the distribution of changes in the Bank's interest income and interest expense due to volume and interest rate changes for the periods indicated: the volume changes were measured by changes in average balance; interest rate changes were measured by changes in average interest rate, and changes in interest income and expense due to volume and interest rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB'000

Item	June 30, 2023 vs. June 30, 2022		
	Due to volume	Due to interest rate	Net increase (decrease)
Assets			
Customer loans	270,257	(132,068)	138,189
Investments	(211,063)	(140,018)	(351,081)
Amounts due from banks and other financial institutions	(29,392)	6,795	(22,597)
Balances with central bank	(791)	1,191	400
Changes in interest income	29,011	(264,100)	(235,089)
Liabilities			
Customer deposits	216,119	(111,986)	104,133
Amounts due to banks and other financial institutions	23,088	(14,823)	8,265
Debt securities issued	(105,906)	(9,650)	(115,556)
Others	(2,121)	6,395	4,274
Changes in interest expense	131,180	(130,064)	1,116
Changes in net interest income	(102,169)	(134,036)	(236,205)

3.4 Interest Income

For the six months ended June 30, 2023, the Bank's interest income amounted to RMB3,606 million, representing a decrease of RMB235 million or 6.12% as compared to the same period of the previous year, mainly due to a decrease in the average yield on interest-earning assets. The interest income from customer loans and investments constituted the major part of the interest income of the Bank.

Management Discussion and Analysis

3.4.1 Interest income from customer loans

For the six months ended June 30, 2023, the Bank's interest income from customer loans amounted to RMB2,836 million, representing an increase of RMB138 million or 5.12% as compared to the same period of the previous year. The following table sets forth the average balance, interest income and average yield of each component of the customer loans of the Bank for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30,					
	Average balance	2023 Interest income	Average yield (%)	Average balance	2022 Interest income	Average yield (%)
Corporate loans	74,766,130	2,460,501	6.58	68,494,751	2,365,166	6.91
Personal loans	12,684,358	375,724	5.92	10,622,800	332,870	6.27
Total customer loans	87,450,488	2,836,225	6.49	79,117,551	2,698,036	6.82

3.4.2 Interest income from investments

For the six months ended June 30, 2023, the Bank's interest income from investments amounted to RMB681 million, representing a decrease of RMB351 million or 34.02% as compared to the same period of the previous year, mainly due to the decrease in both the investment volume and the average yield.

3.4.3 Interest income due from banks and other financial institutions

For the six months ended June 30, 2023, the Bank's interest income due from banks and other financial institutions amounted to RMB36 million, representing a decrease of RMB23 million or 38.79% as compared to the same period of the previous year, mainly due to the decrease in the volume of amounts due from banks and other financial institutions.

3.4.4 Interest income from balances with central bank

For the six months ended June 30, 2023, the Bank's interest income from balances with central bank amounted to RMB53 million, which remained stable as compared to the same period of the previous year.

Management Discussion and Analysis

3.5 Interest Expense

For the six months ended June 30, 2023, the Bank's interest expense amounted to RMB2,051 million, representing an increase of RMB1 million or 0.05% as compared to the same period of the previous year, mainly due to an increase in the volume of interest-bearing liabilities, but part of the increase in the interest expenses was offset by the decrease in the cost rate of interest-bearing liabilities. Interest expenses on customer deposits and debt securities issued constituted the major part of the interest expense of the Bank.

3.5.1 Interest expense on customer deposits

For the six months ended June 30, 2023, the Bank's interest expense on customer deposits amounted to RMB1,752 million, representing an increase of RMB104 million or 6.32% as compared to the same period of the previous year. The following table sets forth the average balance, interest expense and average cost rate of each component of the Bank's customer deposits for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30,			2022		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits	53,387,451	617,812	2.31	47,827,168	551,952	2.31
Personal deposits	64,161,886	1,133,905	3.53	55,219,514	1,095,632	3.97
Total customer deposits	117,549,337	1,751,717	2.98	103,046,682	1,647,584	3.20

3.5.2 Interest expense on deposits and placements from banks and other financial institutions

For the six months ended June 30, 2023, the interest expense on deposits and placements from banks and other financial institutions was RMB78 million, representing an increase of RMB8 million or 11.80% as compared to the same period of the previous year, mainly due to an increase in the volume of amounts on deposits and placements from banks and other financial institutions, but part of the increase in the interest expenses was offset by the decrease in the cost rate of deposits and placements from banks and other financial institutions.

3.5.3 Interest expense on debt securities issued

For the six months ended June 30, 2023, the Bank's interest expense on debt securities issued amounted to RMB171 million, representing a decrease of RMB116 million or 40.34% as compared to the same period of the previous year, mainly due to the decrease in both the volume of debt securities issued and average cost rate.

Management Discussion and Analysis

3.6 Net Non-interest Income

For the six months ended June 30, 2023, the Bank's net non-interest income amounted to RMB892 million, representing an increase of RMB324 million or 57.07% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated and the same period of the previous year.

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
Fee and commission income	84,602	101,301
Fee and commission expense	(14,982)	(8,924)
Net fee and commission income	69,620	92,377
Net gains on trading activities, net gains on financial investments and other operating income	822,503	475,585
Total net non-interest income	892,123	567,962

3.7 Net Fee and Commission Income

For the six months ended June 30, 2023, the Bank's net fee and commission income amounted to RMB69.62 million, representing a decrease of RMB22.757 million as compared to the same period of the previous year.

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
Fee and commission income		
Commission income from settlement services	1,066	1,206
Commission income from bank card services	676	950
Commission income from agency services	1,076	1,921
Commission income from guarantees and credit commitments services	1,023	832
Commission income from wealth management agency services	80,513	94,183
Commission income from investment banking services	–	2,126
Other commission income	248	83
Total	84,602	101,301
Fee and commission expense	(14,982)	(8,924)
Net fee and commission income	69,620	92,377

Management Discussion and Analysis

3.8 Net Gains on Trading Activities, Net Gains on Financial Investments and Other Operating Income

For the six months ended June 30, 2023, the Bank's net gains on trading activities, net gains on financial investments and other operating income amounted to a total gain of RMB823 million, representing an increase of RMB347 million or 72.95% as compared to the same period of the previous year. Among them, net gains on trading activities increased by RMB270 million as compared to the same period of the previous year, and net gains on financial investments increased by RMB52 million as compared to the same period of the previous year. The following table sets forth the major components of the Bank's net gains on trading activities, net gains on financial investments and other operating income for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
Net gains on trading activities	618,879	348,530
Net gains on financial investments	169,418	117,519
Other operating income	34,206	9,536
Total	822,503	475,585

3.9 Operating Expenses

For the six months ended June 30, 2023, the Bank's operating expenses amounted to RMB717 million, representing an increase of RMB44 million or 6.48% as compared to the same period of the previous year. Among them, staff costs increased by RMB17 million or 4.13% as compared to the same period of the previous year, business and administrative expenses increased by RMB37 million or 30.63% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
Staff costs (including Directors' and Supervisors' emoluments (allowance inclusive))	434,451	417,224
Business and administrative expenses	158,801	121,566
Professional service fees	9,937	11,603
Depreciation and amortization	74,043	84,455
Taxes and surcharges	31,284	27,964
Expenditures on public welfare donations	4,230	4,620
Others	4,042	5,728
Total	716,788	673,160

Management Discussion and Analysis

3.10 Expected Credit Losses/Other Impairment Losses

For the six months ended June 30, 2023, the Bank's expected credit losses/other impairment losses amounted to RMB872 million, representing an increase of RMB13 million or 1.51% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's expected credit losses for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30,	
	2023	2022
ECL for loans at amortized cost	623,593	608,090
ECL for loans – FVOCI	16,028	(9,769)
ECL for credit related financial assets	33,089	220,562
ECL for other financial investments	183,219	38,184
ECL for guarantee commitments	7,731	1,844
Other impairment losses	8,682	450
Total	872,342	859,361

Expected credit losses on loans constituted the largest part of expected credit losses/other impairment losses on assets. For the six months ended June 30, 2023, the expected credit losses on loans (including discounted bills) amounted to RMB640 million, representing an increase of RMB41 million or 6.90% as compared to the same period of the previous year.

Management Discussion and Analysis

4. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of June 2023, the Bank's total assets amounted to RMB153,945 million, representing an increase of RMB5,315 million or 3.58% as compared to the end of the previous year, mainly due to the increase of the Bank's customer loans. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Total customer loans	88,828,357	57.71	83,181,169	55.96
ECL allowance on loans at amortized cost	(3,811,275)	(2.48)	(3,181,774)	(2.14)
Net customer loans	85,017,082	55.23	79,999,395	53.82
Cash and balances with central bank	10,240,153	6.65	11,211,310	7.54
Financial assets held under resale agreements, due from other banks and financial institutions	361,470	0.23	5,738,581	3.86
Financial investments – credit related financial assets	2,578,821	1.68	2,643,264	1.78
Financial investments – financial assets at fair value through profit or loss	29,163,590	18.94	21,206,923	14.27
Financial investments – financial assets at fair value through other comprehensive income	7,995,358	5.19	9,339,800	6.28
Financial investments – amortized cost	15,189,911	9.87	15,337,700	10.32
Investment in an associate	55,245	0.04	52,474	0.04
Fixed assets	889,938	0.58	896,523	0.60
Deferred income tax assets	1,235,981	0.80	1,092,564	0.74
Other assets	1,216,997	0.79	1,111,293	0.75
Total assets	153,944,546	100.00	148,629,827	100.00

Management Discussion and Analysis

Customer loans

As of the end of June 2023, the Bank's total customer loans amounted to RMB88,828 million, representing an increase of RMB5,647 million or 6.79% as compared to the end of the previous year; net customer loans amounted to RMB85,017 million, representing an increase of RMB5,018 million or 6.27% as compared to the end of the previous year. The following table sets forth the customer loans of the Bank by product type as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Corporate loans	72,924,274	82.10	69,545,571	83.61
Discounted bills	2,093,359	2.36	822,790	0.99
Personal loans	13,332,052	15.01	12,457,551	14.98
Accrued interest	478,672	0.53	355,257	0.42
Total customer loans	88,828,357	100.00	83,181,169	100.00
Less: ECL allowance on loans at amortized cost	(3,811,275)	/	(3,181,774)	/
Net customer loans	85,017,082	/	79,999,395	/

Corporate loans

As of the end of June 2023, the Bank's total corporate loans amounted to RMB72,924 million, representing an increase of RMB3,379 million or 4.86% as compared to the end of the previous year, accounting for 82.10% of the total customer loans, representing a decrease of 1.51 percentage points as compared to the end of the previous year.

Discounted bills

As of the end of June 2023, the Bank's total discounted bills amounted to RMB2,093 million, representing an increase of RMB1,271 million or 154.42% as compared to the end of the previous year, accounting for 2.36% of the total customer loans, representing an increase of 1.37 percentage points as compared to the end of the previous year.

Personal loans

As of the end of June 2023, the Bank's personal loans amounted to RMB13,332 million, representing an increase of RMB875 million or 7.02% as compared to the end of the previous year, accounting for 15.01% of the total customer loans, representing an increase of 0.03 percentage point as compared to the end of the previous year.

Management Discussion and Analysis

Investments

As of the end of June 2023, the carrying value of the Bank's investments amounted to RMB54,928 million, representing an increase of RMB6,400 million or 13.19% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Financial investments – credit related financial assets	2,578,821	4.69	2,643,264	5.45
Financial investments – financial assets at fair value through profit or loss	29,163,590	53.09	21,206,923	43.70
Financial investments – financial assets at fair value through other comprehensive income	7,995,358	14.56	9,339,800	19.24
Financial investments – amortized cost	15,189,911	27.66	15,337,700	31.61
Total	54,927,680	100.00	48,527,687	100.00

Financial investments – credit related financial assets

The Bank's credit related financial assets are corporate loans extended through consolidated structured entities (trust and asset management plans). The following table sets forth the components of the Bank's credit related financial assets as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Financial investments – credit related financial assets – Trust and asset management plans	2,882,850	2,921,600
Less: ECL allowance	(484,846)	(435,828)
Accrued interest	180,817	157,492
Total	2,578,821	2,643,264

Management Discussion and Analysis

Financial investments – financial assets at fair value through profit or loss

The following table sets forth the components of the Bank's financial assets at fair value through profit or loss as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Financial investments – financial assets at fair value through profit or loss		
– Listed outside Hong Kong	10,658,396	6,613,028
– Unlisted	18,505,194	14,593,895
Total	29,163,590	21,206,923

Financial investments – financial assets at fair value through other comprehensive income

The following table sets forth the components of the Bank's financial assets at fair value through other comprehensive income as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Financial investments – financial assets at FVOCI		
– Listed outside Hong Kong	2,063,885	2,218,641
– Listed in Hong Kong	35,908	34,518
– Unlisted	5,746,383	6,937,718
Subtotal	7,846,176	9,190,877
Accrued interest	149,182	148,923
Total	7,995,358	9,339,800

Management Discussion and Analysis

Financial investments – amortized cost

The following table sets forth the components of the Bank's financial assets measured at amortized cost as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Financial investments – amortized cost		
– Listed in Hong Kong	36,129	34,823
– Listed outside Hong Kong	2,536,245	1,758,980
– Unlisted	13,347,934	14,080,296
Subtotal	15,920,308	15,874,099
Accrued interest	463,116	459,488
Less: ECL allowance	(1,193,513)	(995,887)
Total	15,189,911	15,337,700

4.2 Liabilities

As of the end of June 2023, the Bank's total liabilities amounted to RMB143,092 million, representing an increase of RMB4,658 million or 3.36% as compared to the end of the previous year, mainly due to the stable increase in customer deposits. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Customer deposits	115,481,590	80.70	109,445,657	79.06
Due to banks and other financial institutions	12,204,575	8.53	9,283,318	6.70
Financial liabilities at fair value through profit or loss	307,599	0.21	150,905	0.11
Borrowings from central bank	4,718,690	3.30	5,296,402	3.83
Current tax liabilities	382,700	0.27	467,733	0.34
Debt securities issued	9,143,106	6.39	12,982,869	9.38
Other liabilities	854,140	0.60	807,327	0.58
Total liabilities	143,092,400	100.00	138,434,211	100.00

Management Discussion and Analysis

Customer deposits

As of the end of June 2023, the Bank's total customer deposits amounted to RMB115,482 million, representing an increase of RMB6,036 million or 5.52% as compared to the end of the previous year, accounting for 80.70% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's customer deposits by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Corporate deposits	48,640,033	42.12	45,480,199	41.56
Demand deposits	41,665,466	36.08	38,029,877	34.75
Time deposits	6,974,567	6.04	7,450,322	6.81
Personal deposits	64,467,658	55.83	61,885,363	56.54
Demand deposits	15,551,494	13.47	14,434,768	13.19
Time deposits	48,916,164	42.36	47,450,595	43.35
Accrued interest	2,373,899	2.05	2,080,095	1.90
Total customer deposits	115,481,590	100.00	109,445,657	100.00

As of the end of June 2023, the Bank's corporate demand deposits accounted for 36.08% of total customer deposits, representing an increase of 1.33 percentage points as compared to the end of the previous year. Corporate demand deposits accounted for 85.66% of corporate deposits, representing an increase of 2.04 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 24.12% of personal deposits, representing an increase of 0.79 percentage point as compared to the end of the previous year.

Amounts due to banks and other financial institutions

As of the end of June 2023, the Bank's amounts due to banks and other financial institutions amounted to RMB12,205 million, representing an increase of RMB2,921 million or 31.47% as compared to the end of the previous year.

Debt securities issued

As of the end of June 2023, the Bank's bonds payable amounted to RMB9,143 million, representing a decrease of RMB3,840 million or 29.58% as compared to the end of the previous year.

Management Discussion and Analysis

4.3 Equity Attributable to Shareholders

As of the end of June 2023, the Bank's equity attributable to Shareholders amounted to RMB10,852 million, representing an increase of RMB657 million or 6.44% as compared to the end of the previous year.

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Share capital	2,717,752	2,717,752
Other equity instruments	1,696,824	1,696,824
Capital surplus	1,786,355	1,786,355
Other reserves	2,654,577	2,389,336
Retained earnings	1,996,638	1,605,349
Total equity attributable to Shareholders	10,852,146	10,195,616

5. OTHER FINANCIAL INFORMATION

5.1 Analysis of Off-balance Sheet Items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most important parts and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB1,528 million.

5.2 Overdue and Outstanding Debts

As of the end of the Reporting Period, the Bank had no overdue or outstanding debts.

5.3 Assets Pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions. For details, please refer to note 35 to the financial statements.

Management Discussion and Analysis

6. ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank continued to strengthen its dynamic monitoring on changes in credit asset quality and thoroughly implemented various regulatory policies, and the scale of credit assets maintained growth. Due to the complex and changing economic environment, certain companies have struggled with operating difficulties under the impact of the post-pandemic economy. The Bank continuously strengthened internal management, enhanced risk control ability, and resolved loan risks through multiple ways and channels. The level of provision coverage met regulatory requirements and the quality of our loans was strictly controlled. As of the end of the Reporting Period, the Bank's total loans amounted to RMB88,350 million, representing an increase of 6.67% as compared to the end of the previous year, total NPLs amounted to RMB1,322 million, representing an increase of RMB55 million as compared to the end of the previous year, and the NPL ratio was 1.50%, representing a decrease of 0.03 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB'000

Item	June 30, 2023		December 31, 2022	
	Amount	% of total	Amount	% of total
Normal loans	85,552,690	96.83	80,053,542	96.65
Special mention loans	1,474,687	1.67	1,504,874	1.82
Substandard loans	1,173,948	1.33	1,141,339	1.38
Doubtful loans	116,548	0.13	94,851	0.11
Loss loans	31,812	0.04	31,306	0.04
Total customer loans	88,349,685	100.00	82,825,912	100.00
Total NPLs	1,322,308	1.50	1,267,496	1.53

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank has adopted five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. As at the end of the Reporting Period, the percentage of substandard loans decreased by 0.05 percentage point to 1.33% as compared to the end of the previous year, the percentage of doubtful loans increased by 0.02 percentage point to 0.13% as compared to the end of the previous year, and the percentage of loss loans was unchanged at 0.04% as compared to the previous year.

Management Discussion and Analysis

Distribution of Loans and NPLs by Industry

Unit: RMB'000

Item	June 30, 2023				December 31, 2022			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	72,924,274	82.54	962,589	1.32	69,545,571	83.97	917,351	1.32
Leasing and commercial services	28,288,853	32.02	200,000	0.71	26,644,587	32.16	200,000	0.75
Construction	19,341,677	21.89	174,616	0.90	18,005,380	21.74	101,292	0.56
Wholesale and retail	5,279,540	5.98	69,615	1.32	4,791,879	5.79	77,410	1.62
Manufacturing	2,782,728	3.15	17,507	0.63	2,610,059	3.15	54,099	2.07
Real estate	9,464,573	10.71	374,583	3.96	8,971,824	10.83	374,583	4.18
Accommodation and catering	495,814	0.56	-	-	710,175	0.86	-	-
Education	829,850	0.94	-	-	916,500	1.11	-	-
Administration of water conservancy, environment and public facilities	2,241,390	2.54	-	-	2,130,970	2.57	-	-
Transportation, warehousing and express services	396,924	0.45	25,669	6.47	344,969	0.42	25,669	7.44
Others	3,802,925	4.30	100,599	2.65	4,419,229	5.34	84,298	1.91
Discounted bills	2,093,359	2.37	63,500	3.03	822,790	0.99	89,830	10.92
Retail loans	13,332,052	15.09	296,219	2.22	12,457,551	15.04	260,315	2.09
Total customer loans	88,349,685	100.00	1,322,308	1.50	82,825,912	100.00	1,267,496	1.53

In 2023, the Bank actively optimized the allocation of risk-bearing assets and served the real economy. The Bank also actively adjusted its credit structure and increased credit support to small and micro enterprises, agriculture-related economy, livelihood projects and other fields. We strictly controlled credit granted to industries with overcapacity and uncertain prospects, to improve the risk resistance for new credit assets continually. By industry, the Bank's non-performing corporate loans mainly involved real estate, leasing and commercial services, construction, wholesale and retail and manufacturing, which accounted for 86.88% of our total non-performing corporate loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Product Type

Unit: RMB'000

Item	June 30, 2023				December 31, 2022			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	72,924,274	82.54	962,589	1.32	69,545,571	83.97	917,351	1.32
Working capital loans	54,481,259	61.67	526,558	0.97	50,072,364	60.45	478,320	0.96
Fixed asset loans	18,443,015	20.88	436,031	2.36	19,473,207	23.52	439,031	2.25
Discounted bills	2,093,359	2.37	63,500	3.03	822,790	0.99	89,830	10.92
Retail loans	13,332,052	15.09	296,219	2.22	12,457,551	15.04	260,315	2.09
Individual housing loans	2,752,021	3.11	49,335	1.79	2,768,392	3.34	46,620	1.68
Personal business loans	8,420,586	9.53	205,652	2.44	7,362,821	8.89	171,689	2.33
Personal consumption loans	2,159,445	2.44	41,232	1.91	2,326,338	2.81	42,006	1.81
Total customer loans	88,349,685	100.00	1,322,308	1.50	82,825,912	100.00	1,267,496	1.53

Against the backdrop of replacement of old drivers with new ones and constant advance of the supply-side reform, the Bank actively responded to the changes of demand for effective credits and maintained a stable scale of corporate loans while adhering to the principle of prudent credit extension. The NPL ratio of corporate loans was unchanged as compared to that at the end of the previous year as a result of the strengthening of the Bank's effort in handling corporate NPLs.

The Bank steadily developed its retail loans business and actively innovated retail business products. The balance of retail loans increased by RMB875 million as compared to that at the beginning of the year, while the proportion of retail loans increased by 0.05 percentage point to 15.09%. The NPL ratio of retail loans increased by 0.13 percentage point to 2.22% as compared to the end of the previous year.

Management Discussion and Analysis

Distribution of Loans and NPLs by Geographical Region

Unit: RMB'000

Geographical Region	Amount of loans	June 30, 2023			December 31, 2022			
		% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	57,833,286	65.46	1,037,202	1.79	53,945,968	65.13	972,851	1.80
Outside Luzhou	30,516,399	34.54	285,106	0.93	28,879,944	34.87	294,645	1.02
Total customer loans	88,349,685	100.00	1,322,308	1.50	82,825,912	100.00	1,267,496	1.53

The Bank continuously optimized the regional allocation of credit resources and enhanced risk management and control in key industries by serving the economy of Luzhou and actively expanding its cross-regional business.

Distribution of Loans and NPLs by Type of Collateral

Unit: RMB'000

Item	Amount of loans	June 30, 2023			December 31, 2022			
		% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loans	20,570,275	23.28	116,595	0.57	16,169,603	19.52	116,062	0.72
Guaranteed loans	44,497,230	50.37	503,996	1.13	43,339,789	52.33	448,659	1.04
Collateralized loans	17,682,648	20.01	638,009	3.61	18,198,977	21.97	608,724	3.34
Pledged loans	5,599,532	6.34	63,708	1.14	5,117,543	6.18	94,051	1.84
Total customer loans	88,349,685	100.00	1,322,308	1.50	82,825,912	100.00	1,267,496	1.53

The Bank enhanced risk prevention and control through risk mitigation measures such as adding in guarantors and collaterals, with guaranteed loans and collateralized loans accounting for 70.38%.

Management Discussion and Analysis

Loans to Our Ten Largest Single Borrowers

Unit: RMB'000

Name of borrowers	Industry	Amount of loans as of the end of the Reporting Period	% of net capital base	% of total loans
A	Leasing and commercial services	1,100,000	8.26	1.25
B	Construction	957,900	7.34	1.08
C	Real estate	899,500	6.22	1.02
D	Real estate	872,000	6.17	0.99
E	Real estate	828,000	5.51	0.94
F	Financial services	778,000	5.43	0.88
G	Scientific research and technology services	712,856	5.28	0.81
H	Real estate	694,000	5.27	0.79
I	Real estate	689,440	5.09	0.78
J	Real estate	678,000	4.92	0.77
Total		8,209,696	59.49	9.29

As of the end of the Reporting Period, the total loans of our ten largest single borrowers amounted to RMB8,210 million, accounting for 59.49% of the Bank's net capital base and 9.29% of the Bank's total loans. The loan balance of the largest single borrower was RMB1,100 million, accounting for 8.26% of the Bank's net capital base.

Distribution of Loans by Period Overdue (Excluding Interest Receivable)

Unit: RMB'000

Period overdue	June 30, 2023		December 31, 2022	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	516,550	0.58	434,682	0.52
Overdue for over 3 months up to 1 year (inclusive)	533,370	0.60	582,633	0.70
Overdue for over 1 year up to 3 years (inclusive)	643,828	0.73	383,800	0.46
Overdue for over 3 years	221,341	0.25	173,866	0.21
Total overdue loans	1,915,089	2.17	1,574,981	1.90
Total customer loans	88,349,685	100.00	82,825,912	100.00

As of the end of the Reporting Period, the Bank's overdue loans amounted to RMB1,915 million, representing an increase of RMB340 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 2.17%, representing an increase of 0.27 percentage point as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB517 million, accounting for 26.97% of overdue loans. The Bank has adopted a stricter classification criterion, under which loans whose principal or interest has been overdue for over 1 year (inclusive) would be deemed as overdue loans.

Foreclosed Assets and Provision for Its Impairment Allowance

As of the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB295 million with a provision for impairment allowance of RMB25 million, and the net foreclosed assets amounted to RMB270 million.

Management Discussion and Analysis

Changes in Expected Credit Losses Allowance of Loans at Amortized Cost

The following table sets forth the changes in the Bank's allowance for expected credit losses of loans at amortized cost:

Unit: RMB'000

Item	June 30, 2023	December 31, 2022
Balance at the beginning of the year	3,181,774	2,637,098
New financial assets originated or purchased	507,061	642,052
Remeasurement	607,263	1,040,457
Repayments	(490,731)	(710,616)
Written-offs and disposals for the period	(38,024)	(458,460)
Recoveries of loans written-off in the previous year	3,898	2,042
Unwinding of discount	39,998	29,141
Impact of exchange rate	36	60
Balance at the end of the year	3,811,275	3,181,774

As of the end of the Reporting Period, the Bank's balance of allowance for expected credit losses of loans at amortized cost amounted to RMB3,811 million, representing an increase of RMB630 million or 19.78% as compared to the end of the previous year.

Corresponding Measures Taken against Non-performing Assets

During the Reporting Period, the Bank mainly adopted the following measures for management of non-performing assets to enhance management and control on the asset quality and ensure its stability:

Strengthening the monitoring of overdue loans and loans that were showing other early warning signs, and properly collecting and disposing of non-performing loans. Firstly, we have strengthened post-loan management and risk warnings, identified potential risks and signs of risks in a timely manner, and strictly prevented potential risks from turning into substantive risks by strengthening vigilance, fully researching and judging, and planning in advance; secondly, we have specified the main body responsible for risk elimination and disposal, formulated "one-customer, one-policy" disposal plan, seized the key points of time, improved the efficiency of collection, and quickly promoted the effective implementation of the plan; thirdly, we have facilitated the use of the existing judicial resources, maintained an open channel to collect through litigation, strengthened communication with the court and other relevant departments, strived to obtain maximum support, and ensured orderly and efficient collection work through litigation; fourthly, we have optimized asset quality and written off loans which could be written-off, if appropriate; fifthly, we have established good communication mechanisms with relevant government departments and peer institutions to maintain an open channel to exchange information, and jointly address potential problems arising from corporate operations by concerted efforts.

Management Discussion and Analysis

Credit Extension to Group Customers and Risk Management

The Bank adhered to the principles of “implementing unified credit extension, providing an appropriate amount and conducting real-time monitoring” in extending credit to group customers. Firstly, to prevent large-sum credit risk, the Bank implemented unified management of credit extension to group customers and consolidated the total credit amount extended to group members to determine the authority of credit review and approval. Secondly, the Bank strengthened the identification of group customers and invisible relationship among enterprises and identified the invisible relationship among corporate customers by such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened and timely monitored unified management of credit extension to group customers. The Bank controlled the credit limit through establishing credit account of group customers, combed and updated the list of group customers in a timely manner and prudently approved credit limit to prevent concentration risk and improve its group customer management level on an ongoing basis.

Discount Loans Representing over 20% (Inclusive) of the Total Loans as of the end of the Reporting Period

As of the end of the Reporting Period, the Bank did not have discount loans representing over 20% (inclusive) of the total loans.

7. ANALYSIS OF CAPITAL ADEQUACY RATIOS

The capital management of the Bank is targeted to meet regulatory requirements, constantly enhance the ability to resist risk of capital and boost return on capital, and reasonably set the capital adequacy ratio target and guide business development with a comprehensive application of means such as performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business development and capital management strategy.

We conduct regular internal capital evaluation and evaluate our capital adequacy and risk resistance ability by reference to stress testing. According to our internal capital evaluation and risk profile, we timely adjust our capital plans, optimize resource allocation and guide branches and management departments to transform into capital-light businesses to ensure the realization of the set capital adequacy ratio target.

Management Discussion and Analysis

We calculate our capital adequacy ratio in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (CBRC Order [2012] No. 1) 《商業銀行資本管理辦法(試行)》(中國銀行業監督管理委員會令 2012 年第 1 號) issued by the CBRC and other relevant regulatory provisions. The on-balance-sheet credit risk weighted assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee; the same method is also applied to the calculation of off-balance-sheet credit risk exposure. Market risk-weighted assets are calculated with the standard method, and the operational risk-weighted assets are calculated with the basic indicator method. During the Reporting Period, we complied with the capital requirements prescribed by regulatory authorities.

The following table sets forth the information of our capital adequacy ratio as of the dates indicated.

Unit: RMB'000

	June 30, 2023	December 31, 2022
Total capital before deductions	14,329,938	13,640,361
Of which: Core tier-one capital	9,155,322	8,498,792
Additional tier-one capital	1,696,824	1,696,824
Tier-two capital	3,477,792	3,444,745
 Total net capital	 14,312,022	 13,623,503
Net core tier-one capital	9,137,406	8,481,934
Net additional tier-one capital	1,696,824	1,696,824
Net tier-one capital	10,834,230	10,178,758
 Total risk-weighted assets	 110,321,793	 104,753,548
 Core tier-one capital adequacy ratio	 8.28%	 8.10%
Tier-one capital adequacy ratio	9.82%	9.72%
Capital adequacy ratio ⁽¹⁾	12.97%	13.01%

As of the end of the Reporting Period, the Bank had a capital adequacy ratio of 12.97%, representing a decrease of 0.04 percentage point as compared to the end of the previous year, which was 2.47 percentage points higher than the regulatory requirement; a tier-one capital adequacy ratio of 9.82%, representing an increase of 0.1 percentage point as compared to the end of the previous year, which was 1.32 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 8.28%, representing an increase of 0.18 percentage point as compared to the end of the previous year, which was 0.78 percentage point higher than the regulatory requirement. During the Reporting Period, the growth rate of net capital of the Bank was slightly lower than the growth rate of risk-weighted assets, which resulted in a decrease in capital adequacy ratio compared with the end of the previous year. However, our capital adequacy ratio at each tier was still higher than regulatory standards.

Note:

(1) Capital adequacy ratio = total net capital/total risk-weighted assets.

Management Discussion and Analysis

Liquidity Ratios

	As of December 31, 2022
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RMB current assets to RMB current liabilities	73.47%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of June 30, 2023
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RMB current assets to RMB current liabilities	70.70%
Foreign currency current assets to foreign currency current liabilities	N/A

8. RISK MANAGEMENT

Credit Risk

We adhered to the risk control principle of “active compliance, strict risk control and internal control strengthening” and kept intensifying efforts for credit risk management through credit extension structure optimization, credit system improvement, credit staff cultivation and internal examination enhancement, non-performing loan reduction, etc. During the Reporting Period, we intensified credit risk management mainly in the following aspects:

1. Optimizing credit structure adjustment by adhering to the guidance of government policies. To actively respond to the national economic development strategy, focusing on the national direction of industrial structure adjustment, keeping up with the regional economic development strategy, further scientifically digging of and reasonably allocating our credit resources and promoting a sustainable and healthy development of our credit business.
2. Strengthening credit extension review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit extension business according to our business development needs; enhanced credit extension risk review and strictly implemented the independent review and approval mechanism based on the principle of “objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks” and “substance is more important than form”, with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit extension management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers, focused on substantial risks and proposed risk prevention measures to strictly control risks.



Management Discussion and Analysis

3. Strengthening risk screening and risk control in key areas. In accordance with the requirements of the regulatory authorities and our risk management and control, the Bank actively carried out various types of risk screening.
4. Preventing post-loan risks and strengthening post-loan management, supervision and examinations for credit business. We continued to conduct post-loan management, supervision and examinations, and supervised post-loan management personnel at all levels to fulfill their post-loan management responsibilities. Regarding problems discovered during the examinations, we demanded to make correction in a timely manner, to improve the quality and efficiency of our post-loan management.
5. Strengthening the monitoring of overdue loans and loans that were showing other early warning signs, and properly collecting and disposing of non-performing loans. We have strengthened asset quality screening and management of loans associated with risk warnings, formulated risk prevention and control measures in a timely manner, and firmly prevented loans from turning into non-performing loans; we have worked out “one-customer, one-policy” risk mitigation plans in light of the specific situations of non-performing loans, and enhanced collection efforts and efficiency through non-litigation collection, litigation or arbitration collection, enforcement of notarization and credit assignment; we have established good communication mechanisms with peer institutions and government departments to maintain an open channel to convey information, and jointly address potential problems arising from corporate operations by concerted efforts.
6. Strengthening the construction of credit team and promoting high-quality and effective development of the credit business. With the purpose of “reality in touch, demand satisfaction, rapid improvement and effectiveness”, we conducted themed training through external experts and internal business backbone personnel. Supplemented with tests or exams, we kept enhancing the training and guidance for credit line staff, improved the business ability and risk compliance awareness of our credit line staff across the Bank and established an enterprise risk control culture that was able to prevent and control substantial risks and cases.

Management Discussion and Analysis

Operational risk

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, and external events.

We continuously strengthened the prevention and control measures of operational risk and prevent systematic operational risks and major operational risks losses. As of the end of the Reporting Period, there was no material operational risk event or case risk event.

As the top decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the Bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies, overall policy and system approved by our Board, formulating, reviewing periodically and supervising the implementation of policies, procedures and operating regulations of the operational risk management, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. The Bank has set up Operational Risk Management Committee which is responsible for operational risk prevention and control across the Bank. During the Reporting Period, the Bank constantly improved the prevention and control system of operational risk, gradually accomplished the operational risk prevention and control work structure of the case prevention prospect, the stage-gate ante-displacement and methods of case prevention, and improved the long-term mechanism of prevention and control of case and operational risk. We intensified operational risk management mainly in the following aspects.

1. Reinforce internal control level. We optimized the system, process and standards, strengthened special inspections and risk assessment of key businesses, established inspection and rectification implementation mechanism, and guarded against the potential dangers of operational risk based on the analysis of key indicators of risk control and early warnings.
2. Promote the publicity of compliance culture. We carried out publicity, training and competitions, adhered to the guidance of culture, strengthened business training, rooted in the concept of “internal control first, compliance-oriented”, and built a strong line of defense against business development risks.
3. Strengthen the management and control of cases risks. We implemented inspections, work shift, compulsory vacation, observed the abnormal behavior of employees on a regular basis, and launched risk investigation of shadow banking and cross-financial business, and special action against illegal loan intermediaries to prevent and resolve case risks.
4. Raise the level of risk control in science and technology. We paid close attention to development, operation and maintenance, and outsourcing business, improved the quality and efficiency of project construction, carried out penetration testing of Internet information systems, and strengthened prevention and control work such as daily inspections and security risk investigations to ensure the safe operation of the system; and conducted inspections on information technology outsourcing to ensure the completeness, compliance and effectiveness of information technology outsourcing management.



Management Discussion and Analysis

Market risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable and reasonable range and achieving continuous and healthy development of various businesses.

Our organizational system for market risk management is jointly constituted by the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, International Business Department, Financial Markets Department, each business department and branches of head office. The Board assumes ultimate responsibility for market risk management. The senior management assumes implementation responsibility of market risk management and is responsible for organizing bank-wide market risk management. The Market Risk Management Committee under the senior management is the Bank's deliberation and decision-making body for market risk management and is responsible for deliberating on major market risk management issues. Each department carries out its work in accordance with the division of responsibilities.

In accordance with the requirements of the Guidelines on Market Risk Management of Commercial Banks 《商業銀行市場風險管理指引》, Guidelines for the Internal Control of Commercial Banks 《商業銀行內部控制指引》 and Guidelines of Bank Book Interest Rate Risk Management of Commercial Banks 《商業銀行銀行賬簿利率風險管理指引》, we formulated the operation-suited basic system of market risk and bank book interest rate risk appetite and the basic system for market risk and bank book interest rate risk management, set up market risk and bank book interest rate risk limit indicators, and conducted classification management on transaction accounts and bank accounts. We optimized market risk management system and continued to improve risk management efficiency through such measures as authorization, credit extension, limit, inspection and report.

1. Interest rate risk analysis

Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions. We adopted corresponding measures such as identification, measure, inspection and control according to different nature and feature of bank accounts and transaction accounts.

With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We took measures in a timely manner to adjust the asset-liability product portfolio and ceiling and the pricing method of deposit and loan interest rate to ensure the risk level control is within the acceptable range, in line with internal and external management needs.

With respect to the interest rate risk of asset trading positions, we paid close attention to the domestic and overseas macro economy conditions and market liquidity changes and conducted market risk control through such measures as position setting and limit control. We used system to conduct measurement, inspection and daily management on market risk, implemented valuation to transaction positions every day, continuously inspected transaction limits, stop-loss limits and other indicators, and regularly and effectively monitored, managed and reported the implementation of risk limits.

Management Discussion and Analysis

2. Exchange rate risk analysis

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses on the foreign currency exposure, which is due to the currency structure's imbalance between foreign currency assets and liabilities. Currently, our exchange rate risk arises primarily from the temporary risk of conversion of proceeds from overseas H Shares offering due to exchange rate fluctuations, and the percentage of such capital is low. Therefore, the adverse effect of exchange rate risk has been kept under our control.

Liquidity risk

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds at reasonable costs for repaying mature debts, performing other payment obligations and satisfying other capital needs for normal business operation.

Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and management systems; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation.

To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. We have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We carry out centralized management on liquidity risk. Through the perfect system for liquidity risk management, we fully identify, accurately measure, continuously monitor, effectively control and timely report liquidity risk from two aspects: short-term provision and mid-and-long term structure with the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indicators, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate.

We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from customer deposits. Customer deposits constituted a stable fund resource due to their stable growth, wide varieties and diversified terms during the Reporting Period.

With a sound and compliant internal control system for liquidity risk management, we carry out special internal audit on liquidity risk in due course and form an audit report which will be submitted to the Board.

Management Discussion and Analysis

While paying close attention to changes in macro finance and economy, we continuously enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We continuously optimized liquidity risk management and improved the system for liquidity risk management.
2. We intensified our efforts in marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and continuously improve the overall stability of our liabilities.
3. We paid close attention to financial and economic situations at home and abroad and changes of market liquidity, and made prudent and reasonable judgement to timely adjust our assets and liabilities management strategies; continuously and dynamically monitored various indicators and limits management of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and safe and controllable liquidity risks.
4. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities.
5. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks 《商業銀行流動性風險管理辦法》 issued by China Banking and Insurance Regulatory Commission, various macro and micro factors which could affect our liquidity and features, scale, nature, complexity and risk profile of our business.

As of June 30, 2023, the liquidity ratio of the Bank was 70.70%, which was 45.70 percentage points higher than relevant regulatory requirements; the high-quality liquidity asset adequacy ratio was 141.92%, which was 41.92 percentage points higher than relevant regulatory requirements; and the liquidity matching ratio was 154.51%, which was 54.51 percentage points higher than relevant regulatory requirements, reflecting that our major liquidity indexes met and were much higher than regulatory requirements.

Management Discussion and Analysis

Information Technology Risk Management

Information technology risks represent operational risk, legal risk, reputational risk and other types of risks caused by natural factors, human factors, technical loopholes and management failure arising from the process of using information technology in commercial banks.

The Bank has established comprehensive information technology risk management system in accordance with Guidelines on the Information Technology Risk Management of Commercial Banks, Regulatory Guidelines on the Business Continuity of Commercial Banks, Measures for the Regulation of Risks in the Information Technology Outsourcing by Banking and Insurance Institutions and the Measures for the Commissioning and Change of Important Information Systems of Banking Institutions and prevented major information technology risk events through technical and management measures, so as to ensure the smooth operation of the information system, and support rapid development of business. As of the end of the Reporting Period, there were no major information technology risk events.

The information technology risk management organization system of the Bank consists of the Board of Directors, senior management, the Information Technology Management Committee, the Information Technology Risk Management Committee, the System Development Department, the IT Department, the IT Innovation Center, the Operation Management Department, the Statistics Department, the Risk Management Department, the Internal Audit Department and the information technology personnel at the level of branch and sub-branch. The Board of Directors assumes the ultimate responsibility for information technology risk management and reviews information technology risk management preferences, limits, overall risk profile, etc. The senior management is responsible for organizing the Bank's information technology risk management, and the Risk Management Department is responsible for taking the lead in conducting specific work. The Information Technology Management Committee is responsible for reviewing major issues, such as the construction of information technology projects and the annual information technology work plan. The Information Technology Risk Management Committee is responsible for reviewing major issues concerning information technology risks, such as risk assessment reports and risk profile reports.

Management Discussion and Analysis

The information technology risks of the Bank mainly include network security risk, business continuity risk and outsourcing risk. The network security risk is mainly reflected in the threat of hackers and viruses on the security of the internet information system and client applications. The business continuity risk is mainly reflected in the high reliance of business on information systems, and the information system becomes increasingly complex while customers' requirements for service levels are constantly rising. The outsourcing risk is mainly reflected in the high reliance of the construction and continuous upgrading of information systems on outsourcing companies, and, therefore, there may be sensitive information leakage, unstable quality of development and testing, and abnormal service termination of outsourcers. The Bank mainly adopted the following measures to cope with the aforementioned risks.

1. We strictly divided the network area with logical separation between the internet information system and the internal system, and established the information security in-depth defense system through various technical measures; we regularly carried out system penetration testing and vulnerability scanning to guard against potential threats in time; we organized attack and defense drills to improve the practical security protection experience and skills of staff, and introduced third-party security services to assist to improve safety protection capability.
2. We established the business continuity management system to identify important business and important information system, and clarify business and system operation interruption recovery targets, and made business continuity plan and contingency plans; we continuously promoted the construction of business continuity resources, and were equipped with capabilities for dealing with site-level and city-level disasters through high availability technology and the construction of disaster preparedness center.
3. We strengthened the outsourcing management, ensured data security through desensitization and other technical measures, formulated outsourcing contingency plans, and carried out outsourcing invalid drills and risk assessment of important outsourcers to improve outsourcing emergency response capabilities; we improved the percentage of labor outsourcing mode to reduce direct reliance on outsourcers; we signed outsourcing service level agreement, introduced third-party testing institutions to help to conduct project testing, and specified requirements for project deliverables to control project quality.

Management Discussion and Analysis

9. SEGMENT REPORTING

The following segment operating results are presented by business segment. The Bank's main businesses include corporate banking business, retail banking business, financial market business, unallocated items and others. The following table sets forth a summary of the operating results of each business segment of the Bank for the periods indicated.

Unit: RMB'000

Item	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Segment profit before income tax	Ratio %	Segment profit before income tax	Ratio %
Corporate banking business	451,368	52.47	250,370	30.19
Retail banking business	236,672	27.51	193,174	23.29
Financial market business	149,635	17.39	375,726	45.31
Others	22,622	2.63	10,054	1.21
Total	860,297	100.00	829,324	100.00

Unit: RMB'000

Item	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking business	1,423,822	58.19	1,118,123	47.40
Retail banking business	384,927	15.73	361,354	15.32
Financial market business	603,473	24.67	869,659	36.87
Others	34,434	1.41	9,564	0.41
Total	2,446,656	100.00	2,358,700	100.00

Management Discussion and Analysis

10. BUSINESS REVIEW

Corporate Banking Business

Adhering to the management tenet of “basing on local conditions, serving small and medium-sized enterprises, paying attention to the people’s livelihood and caring for the citizens”, we actively participate in economic construction and social development, and provide our corporate customers with diversified financial products and services to support their business needs.

Corporate loans

As of the end of the Reporting Period, the balance of our corporate loans amounted to RMB72,924 million, representing an increase of 4.86% as compared to the beginning of the year. In particular, our loans to medium to large enterprises amounted to RMB27,599 million, accounting for 37.85% of our total corporate loans as of the same date; our loans to micro and small enterprises amounted to RMB45,314 million, accounting for 62.14% of our total corporate loans as of the same date. Our other corporate loans amounted to RMB12 million, accounting for 0.01% of our total corporate loans as of the same date. The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Chengdu and Luzhou. Corporate loans have been the largest component of our loan portfolio.

Bill discounting

Bill discounting refers to the bank acceptance bills and commercial acceptance bills purchased by the Bank from our corporate customers at prices lower than the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

We also operate interbank bill discounting and rediscounting businesses in our financial markets business segment. Based on the said businesses, we can resell discounted bills to the PBOC or other commercial banks at a lower price, which will bring us extra current assets and additional revenue in interest spread.

As of June 30, 2023, our discounted bills amounted to RMB2,093 million, accounting for 1.54% of our total customer loans as of the same date.

Corporate deposits

As of the end of the Reporting Period, the balance of our corporate customer deposits amounted to RMB48,640 million, accounting for 42.12% of the total deposit balance. Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations.

Management Discussion and Analysis

Corporate products

For financing needs of corporate customers, we innovated many customized products to meet customers' different financing needs.

We have rolled out “Tian Tian Loan C” featuring one-time credit extension, recycling and a favorable treatment of interest-free repayment in the first seven days during each extension; “Shui Jin Loan” and “Shui e Loan”, which are credit products that take tax payment as the main basis of credit extension; “Piao e Loan”, with the value-added tax invoicing amount as the main basis of credit extension; “Le Ye Dai”, “Piao Bao Tong” and “E Lu Dai”, which provide supply chain financial services around the upstream and downstream enterprises of core enterprises; we provide micro and small enterprises with “CBD Loan” without collateral and that can be borrowed and repaid at any time; “Fang Hao Loan” and “Fang Man Loan”, which are housing secured loan products providing the one-stop online mortgage registration rolled out based on the mode of “Internet + Real Estate Registration”; “Zheng Cai Loan”, with the government purchase orders as the basis of credit extension and other products; “Ying Shang Loan”, which is a credit product that takes the transaction breakdown of acquiring business as the main basis of credit extension, to offer customers efficient and convenient financing services by giving full play to the agile decision-making advantage of the local legal-person institution.

Corporate banking customer base

As of the end of the Reporting Period, we had a total of 45,010 corporate banking customers, representing an increase of 7,665 or 20.52% as compared to the beginning of the year. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers. At the same time, we have also established a special customer relationship management system, which allows us to closely track our customers' and their partners' business transactions with our Bank, enabling us to offer customized financial services to them.

Financial services for micro and small enterprises

We have earnestly implemented the requirements of the Central Committee of the Communist Party of China and the State Council on providing financial support for micro and small enterprises, and take serving micro small enterprises as the major starting point for fulfilling inclusive finance and social responsibility. By innovating products, streamlining procedures, reducing fees and profits, and deepening the assessment, we effectively improve the quality and efficiency of financial services for micro and small enterprises. As of the end of the Reporting Period, our loan balance to micro and small enterprises amounted to RMB51,844 million. The number of micro and small customers was 9,358. The balance of our inclusive finance loans to micro and small enterprises (excluding bills) amounted to RMB11,186 million. The number of micro and small customers was 9,114, with a weighted average loan interest rate of 6.21%.

In order to better meet the financing requirements of micro and small enterprises, we accelerate the construction of Huirongtong Small Micro Loan Center, an institution specialized in serving micro and small enterprises, and enhance the application of internet fintech. Meanwhile, we fully leverage the PBoC's policies and instruments such as relending to support the development of micro and small enterprises and rediscounting to intensify the financing supports for micro and small enterprises.



Management Discussion and Analysis

Retail Banking Business

We provide our retail customers with a wide range of financial products and services, including deposits, loans, card services as well as wealth management and other intermediary businesses. We have a broad retail customer base.

As of June 30, 2023, we had 1.3446 million retail banking customers with total deposits of RMB64,468 million and total loans of RMB13,332 million.

We classify our retail customers into basic customers (with financial assets of less than RMB500,000), value customers (with financial assets of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with financial assets of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with financial assets exceeding RMB3,000,000). As of June 30, 2023, we had 8,833 high-end customers and 1,631 high-net-worth customers.

Retail deposits

The balance of retail deposits was RMB64,468 million, representing an increase of RMB2,583 million or 4.17% as compared to the end of the previous year. In particular, the balance of demand deposits amounted to RMB15,551 million, representing an increase of RMB1,117 million or 7.74% as compared to the end of the previous year and accounting for 24.12% of the retail deposits.

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of June 30, 2023, the total retail loans were RMB13,332 million.

Bank cards

As of June 30, 2023, the number of historical accumulated cards issued to retail banking customers by the Bank was 1.5069 million and the stock of cards was 1.2562 million, representing an increase of 47.4 thousand or 3.92% as compared to the end of the previous year.

Management Discussion and Analysis

Wealth management

We provide our customers with Jin Gui Hua series wealth management products based on their risk and return appetites. Our wealth management funds are mainly invested in assets such as debt securities and money market instruments.

In the first half of 2023, the total amount of the wealth management products sold by us was RMB7,563 million. As of June 30, 2023, we had 48,124 customers for our wealth management products, of which 48,084 were retail customers and 40 were institution customers, with a balance on current products of RMB16,411 million and the performance comparison benchmark of existing wealth management products ranging from 3.70% to 5.10%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from 2018. As of June 30, 2023, our agency sales of precious metal amounted to RMB1.6221 million.

Financial market business

In 2023, in the face of complex changes in the macro environment, market environment and regulatory environment, the Bank pays close attention to macroeconomic changes, follows the trends of financial market policies, and enhances market analysis in order to seize market opportunities. Under the premise of strict risk control, the Bank rationally formulates investment strategies to optimize our investment portfolio, increases our bond investment in a more standardized manner and orderly reduces non-standardized SPV investment.

Our financial market business mainly consists of money market transactions business and investment business.

Money market transactions business

Our money market transactions include: interbank deposits, interbank lending, bond repurchase, bill rediscount, and issuance of interbank certificates of deposit. During the Reporting Period, we focused on the management and maintenance of interbank clients, maintained credit sustainability with them, and strived to increase loyalty of interbank clients while maintaining the diversification and dispersion of our counterparties.

Management Discussion and Analysis

1. *Interbank deposits*

As at the end of the Reporting Period, the balance of deposits from banks and other financial institutions was RMB522 million, representing a decrease of RMB158 million or 23.20% as compared to the end of the previous year, of which the balance of time deposits from banks was RMB0 million, representing a decrease of 100.00% as compared to the end of the previous year, and the balances of demand deposits from banks and settlement accounts were RMB522 million, representing a decrease of 6.45% as compared to the end of the previous year. As of the same date, the balance of deposits with other banks was RMB362 million, representing an increase of RMB129 million or 55.37% as compared to the end of the previous year, of which the balance of time deposits with other banks was RMB0 million, which remained unchanged as compared to the end of the previous year, and the balances of demand deposits with other banks and settlement accounts were RMB362 million, representing an increase of 55.37% as compared to the end of the previous year.

2. *Interbank lending*

As at the end of the Reporting Period, the balance of our interbank placement was RMB3,366 million, representing a decrease of RMB110 million or 3.16% as compared to the beginning of the year; the balance of interbank lending was RMB12 million, representing a decrease of RMB500 million or 97.66% as compared to the beginning of the year. The main reason for the decrease was the adjustment to the asset structure according to the market conditions with a reduction in interbank lending.

3. *Bond repurchase*

As at the end of the Reporting Period, the balance of our positive repurchase was RMB8,310 million, representing an increase of RMB3,198 million or 62.56% as compared to the beginning of the year. The balance of counter repurchase was nil, representing a decrease of RMB5,008 million or 100% as compared to the beginning of the year, mainly because we adjusted our asset structure according to market conditions by absorbing some short-term funds with positive repurchase, and increasing bond investment while reducing outflow from the counter repurchase business.

4. *Bill rediscount*

As of June 30, 2023, we held rediscounted bills amounting to RMB1,884 million, representing an increase of RMB1,447 million or 331.12% as compared to the end of the previous year, mainly due to the increase of some rediscounted bills based on business needs.

5. *Issuance of interbank certificates of deposit*

As at the end of the Reporting Period, the balance of our interbank certificates of deposit was RMB4,760 million, representing a decrease of RMB3,856 million or 44.75% as compared to the beginning of the year, mainly because we adjusted our issuance plan of interbank certificates of deposit with a decrease in the issuance of interbank certificates of deposit according to market conditions and our business needs.

Management Discussion and Analysis

Investment business

1. *Bond investment*

In the first half of 2023, in light of the difficult macroeconomic environment, overseas central banks maintained tightening policies to curb inflation, and the sluggishness in global trade impacted the economies of various countries. The recovery of the domestic economy was full of twists and turns. At the beginning of the year, the market was generally full of strong recovery expectations, but by the end of the first quarter, the data demonstrated a weak recovery. In the second quarter, the momentum of recovery almost disappeared.

At the beginning of the year, by virtue of the vigorous efforts in credit granting, the three-pronged real estate policy, the quick recovery of the flow of people and logistics, and the sound momentum of economic recovery, the terminal interest rate of the money market rose, and the bond yield increase amid fluctuations. In March, the Two Sessions set the annual GDP target at around 5%, lower than market expectations. In late March, the central bank released funds of nearly RMB500.0 billion by cutting the reserve requirement ratio to maintain liquidity across quarters and stabilize money market interest rates. At the same time, high-frequency data showed that the economic recovery was lack of momentum, and bond yields started to decline.

Following the impulsive rebound in the first quarter, the pressure on domestic economic growth significantly increased in the second quarter. The growth rate of social finance and credit began to slow down, real estate sales and investment were under pressure, and the growth rate of CPI and PPI continued to decline, resulting in pessimism about the prospects for economic growth in the market. The sluggish recovery of the domestic economy was because the local governments failed to implement proactive fiscal policies due to insufficient financial resources as their land revenues have been affected by the collapse of the real estate industry since last year, and the guiding principle of the government was to maintain the determination to achieve the strategic goal of high-quality development. In addition, the sluggishness in global trade has also affected China's exports. As a result, bond yields in the second quarter fluctuated and declined as a whole and hit a new low for the year.

In the first half of the year, we actively tracked and studied the macroeconomic environment, and flexibly adjusted our investment strategy in light of the market situation. In the stage of "strong expectations, but weak reality" at the beginning of the year, we strictly controlled the size and duration of our positions. After the high-frequency data showed that the recovery was slower than expected, we gradually increased the size and duration of our positions starting from March, and switched to a bond holding structure dominated by short- and medium-term bonds supplemented by some long-term bonds in the second quarter, which improved our total gains in cooperation with swing trading and neutral interest arbitrage transaction.

Management Discussion and Analysis

As at the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. As at the end of the Reporting Period, our bond investment amounted to RMB38,601 million, representing an increase of RMB8,872 million or 29.84% as compared to the beginning of the year, among which, the balance of treasury bonds was RMB2,780 million, representing a decrease of RMB460 million or 14.20% as compared to the beginning of the year; the balance of policy financial bonds was RMB10,960 million, representing an increase of RMB3,230 million or 41.79% as compared to the beginning of the year; and the balance of debt securities issued by local governments was RMB817 million, representing a decrease of RMB135 million or 14.18% as compared to the beginning of the year; the balance of credit bonds was RMB17,134 million, representing an increase of RMB4,447 million or 35.05% as compared to the beginning of the year; the balance of debt securities issued by commercial banks was RMB6,910 million, representing an increase of RMB1,790 million or 34.96% as compared to the beginning of the year.

2. *SPV investment*

During the Reporting Period, we actively reduced SPV investment. As at the end of the Reporting Period, our SPV investment was RMB13,707 million, including RMB6,772 million for public offering funds, RMB4,786 million for trust plans, and RMB2,149 million for asset management plans. Our SPV investment decreased by RMB2,539 million or 15.63% as compared to the beginning of the year, mainly due to the decrease in investments in public offering funds, trust plans and asset management plans.

Management Discussion and Analysis

Financial Consumer Rights Protection

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we optimized organizational structure, reinforced our awareness of responsibility, gave full play to the legal entity's institutional advantages, improved the financial service capability by focusing on product and service design, supplemented by promotional and educational campaigns for the public and internal inspection, and comprehensively improved the overall level of our work on consumer rights protection.

1. Establishing full-time organizations and strengthening organizational leadership

We set up a consumer rights protection committee under the Board of Directors to make unified plans and overall arrangements for the bank-wide work on consumer rights protection; and set up a consumer rights protection division under the Internal Control and Compliance Department to take up the work concerning consumer rights protection throughout the Bank. We continuously improved our organizational structure and effectively enhanced our consumer rights protection work.

2. Improving institutional system and consolidating management foundation

We rationalized the consumer rights protection system, established and improved a consumer rights protection system matching with our organizational structure and business development, in order to provide a system guarantee for the effective development of our work on consumer rights protection.

3. Highlighting brand reputation and popularizing public education

Adhering to the concept of “customer-orientated” and “service-creating value”, we provide “standardized, rigorous, honest and reliable” financial services to consumers to protect their legitimate rights. During the Reporting Period, we organized and carried out a series of 20 activities, such as “3.15 Financial Consumer Rights Day”, “Publicity on Financial Knowledge Promotion to Keep the Purse Strings”, “Publicity on Telecom Fraud Prevention”, “Specialized Publicity on Prevention of Illegal Fund Raising”, and “Specialized Publicity on Anti-money Laundering and Anti-drug”, to enhance consumers' risk awareness.

4. Enhancing the sense of responsibility and improving the level of consumer protection

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and implement relevant industry standards and operating guidelines. During the Reporting Period, we deeply rooted the concept of consumer protection in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

During the Reporting Period, the Bank's share capital remained unchanged.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	January 1, 2023		Increase (decrease) during the Reporting Period	June 30, 2023	
	Quantity	Percentage		Quantity	Percentage
Total share capital	2,717,752,062	100.00	0	2,717,752,062	100.00
Domestic Shares held by legal person	1,914,405,243	70.44	0	1,914,405,243	70.44
Domestic Shares held by natural person	50,226,819	1.85	0	50,226,819	1.85
H Shares	753,120,000	27.71	0	753,120,000	27.71

III. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

The Bank did not purchase, sell or redeem any listed securities of the Bank during the Reporting Period.

IV. DETAILS OF SHAREHOLDERS

As of the end of the Reporting Period, the total number of shares of the Bank was 2,717,752,062 Shares, consisting of 1,964,632,062 Domestic Shares and 753,120,000 H Shares.

(I) Shareholding of Top 10 Holders of Domestic Shares of the Bank

Shareholding of top ten holders of Domestic Shares of the Bank is as follows:

Unit: Share

No.	Name of Shareholder	Number of Shares held	Shareholding percentage
1	Luzhou Laojiao Group Co., Ltd.	390,528,000	14.37%
2	Sichuan Jiale Enterprise Group Co., Ltd.	325,440,000	11.97%
3	Luzhou Xinfu Mining Industry Group Co., Ltd.	325,440,000	11.97%
4	Luzhou Municipal Finance Bureau	193,853,760	7.13%
5	Luzhou State-owned Assets Operation Co., Ltd.	173,568,000	6.39%
6	Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd.	110,059,035	4.05%
7	Chengdu Modern Agricultural Development Investment Co., Ltd.	97,252,320	3.58%
8	Luzhou Industrial Development Investment Group Co., Ltd.	88,154,722	3.24%
9	Luzhou Xinglu Investment Group Co., Ltd.	48,659,355	1.79%
10	Luzhou Laojiao Co., Ltd.	43,392,000	1.60%

Changes in Share Capital and Information on Shareholders

(II) Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares under the Regulations of Hong Kong

To the knowledge of the Directors or chief executive of the Bank, as of June 30, 2023, interests and short positions of the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Laojiao Group Co., Ltd. (瀘州老窖集團有限責任公司) ⁽¹⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	390,528,000	-		
		Domestic Shares	Long Position	43,392,000	-		
				433,920,000		15.97%	22.09%
Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司) ⁽²⁾	Beneficial owner	Domestic Shares	Long Position	325,440,000	-	11.97%	16.56%
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest in spouse	Domestic Shares	Long Position	334,118,400	-	12.29%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd. (瀘州鑫福礦業集團有限公司)	Beneficial owner	Domestic Shares	Long Position	325,440,000	-	11.97%	16.56%
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	325,440,000	-	11.97%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	325,440,000	-	11.97%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long Position	325,440,000	-	11.97%	16.56%
Luzhou Industrial Development Investment Group Co., Ltd. (瀘州產業發展投資集團有限公司) ⁽⁴⁾	Beneficial owner Interest in controlled corporation	Domestic Shares	Long Position	88,154,722	-		
		Domestic Shares	Long Position	173,809,911	-		
				261,964,633		9.64%	13.33%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司) ⁽⁶⁾	Beneficial owner	Domestic Shares	Long Position	48,659,355	-		
	Interest in controlled corporation	Domestic Shares	Long Position	184,954,062	-		
				233,613,417		8.60%	11.89%
Luzhou Municipal Finance Bureau (瀘州市財政局)	Beneficial owner	Domestic Shares	Long Position	193,853,760	-	7.13%	9.87%
Luzhou State-owned Assets Operation Co., Ltd. (瀘州國有資產經營有限公司)	Beneficial owner	Domestic Shares	Long Position	173,568,000	-	6.39%	8.83%
OTX ADVISORY HOLDINGS, INC. ⁽⁶⁾	Beneficial owner	H Shares	Long Position	135,672,000	-	4.99%	18.01%
LO Yuan (羅源) ⁽⁶⁾	Interest in controlled corporation	H Shares	Long Position	135,672,000	-	4.99%	18.01%
ZHOU Min (周敏) ⁽⁷⁾	Interest in controlled corporation	H Shares	Long Position	134,413,200	-	4.95%	17.85%
JNR Asia Corporation Limited ⁽⁸⁾	Beneficial owner	H Shares	Long Position	130,920,000	-	4.82%	17.38%
WANG Chin Huang (王進煌) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long Position	130,920,000	-	4.82%	17.38%
CITIC Trust Co., Ltd. (中信信託有限責任公司)	Beneficial owner	H Shares	Long Position	20,000,000	-	0.74%	2.66%
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) ⁽⁹⁾	Beneficial owner	Domestic Shares	Long Position	18,007,680	-		
	Interest in controlled corporation	Domestic Shares	Long Position	110,059,035	-		
				128,066,715		4.71%	6.52%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of issued Shares in the Bank	Approximate % of the relevant class of Shares in the Bank
Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd. (瀘州興瀘居泰建設工程集團有限公司) ⁽⁹⁾	Beneficial owner	Domestic Shares	Long Position	110,059,035	-	4.05%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽⁹⁾	Interest in controlled corporation	Domestic Shares	Long Position	110,059,035	-	4.05%	5.60%
China Development Fund Co., Ltd. (國開發發展基金有限公司) ⁽⁹⁾	Interest in controlled corporation	Domestic Shares	Long Position	110,059,035	-	4.05%	5.60%
Guotai Junan Securities Co., Ltd. ⁽¹⁰⁾	Interest in controlled corporation	H Shares	Long Position	120,000,000	-	4.42%	15.93%
	Interest in controlled corporation	H Shares	Short Position	120,000,000	-	4.42%	15.93%
Guotai Junan International Holdings Limited ⁽¹⁰⁾	Interest in controlled corporation	H Shares	Long Position	120,000,000	-	4.42%	15.93%
	Interest in controlled corporation	H Shares	Short Position	120,000,000	-	4.42%	15.93%
Luzhou High-tech Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	Beneficial owner	H Shares	Long Position	120,000,000	-	4.42%	15.93%
Luzhou Liquor Investment Co., Ltd. (瀘州酒業投資有限公司)	Beneficial owner	H Shares	Long Position	72,000,000	-	2.65%	9.56%

Changes in Share Capital and Information on Shareholders

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 390,528,000 Domestic Shares and indirectly held 43,392,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.
- (2) Mr. XIONG Guoming (熊國銘) (i) indirectly held 8,678,400 Domestic Shares through Sichuan Luzhou Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Sichuan Luzhou Jiale Real Estate Co., Ltd., Sichuan Jiale Yijia Industrial Co., Ltd. (四川佳樂益佳實業有限公司) had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd., and Mr. XIONG Guoming had 80% equity interest in Sichuan Jiale Yijia Industrial Co., Ltd.; and (ii) held 325,440,000 Domestic Shares through Sichuan Jiale Enterprise Group Co., Ltd. (四川省佳樂企業集團有限公司) and Mr. XIONG Guoming had 80% equity interest in Sichuan Jiale Enterprise Group Co., Ltd. By virtue of the SFO, Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Luzhou Jiale Real Estate Co., Ltd. and Sichuan Jiale Yijia Industrial Co., Ltd. Ms. JIANG Xiaoying (姜曉英) is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong held 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. held 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Investment Group Co., Ltd. directly held 88,154,722 Domestic Shares and indirectly held 173,568,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. and indirectly held 241,911 Domestic Shares through its wholly-owned subsidiary, Lutianhua (Group) Co., Ltd. (瀘天化(集團)有限責任公司). By virtue of the SFO, Luzhou Industrial Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd. and Lutianhua (Group) Co., Ltd.
- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 48,659,355 Domestic Shares and (i) indirectly held 110,059,035 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd. (瀘州興瀘居泰建設工程集團有限公司), in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 45.99% and 51.86% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 43,392,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert valid from June 1, 2021 to May 31, 2024 in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 13,495,346 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 18,007,680 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.

Changes in Share Capital and Information on Shareholders

- (6) OTX ADVISORY HOLDINGS, INC. is wholly owned by LO Yuan. By virtue of the SFO, LO Yuan is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.
- (7) ZHOU Min (周敏) indirectly held (i) 134,386,800 H Shares through the wholly owned WISMAN CAPITAL LIMITED and (ii) 26,400 H Shares through the wholly owned Wudaokou Capital Limited. By virtue of the SFO, ZHOU Min is deemed to be interested in the H Shares held by WISMAN CAPITAL LIMITED and Wudaokou Capital Limited.
- (8) JNR Asia Corporation Limited is held as to approximately 22.61% equity interest by WANG Chin Huang (王進煌).
- (9) Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd. is held as to 51.86% equity interest by Luzhou Xinglu Investment Group Co., Ltd. and as to 45.99% equity interest by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. held approximately 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd.
- (10) Guotai Junan Financial Products Limited is wholly owned by Guotai Junan International Holdings Limited. Guotai Junan Financial Holdings Limited had 73.74% equity interest in Guotai Junan International Holdings Limited. Guotai Junan Financial Holdings Limited is wholly owned by Guotai Junan Securities Co., Ltd. By virtue of the SFO, each of Guotai Junan International Holdings Limited, Guotai Junan Financial Holdings Limited and Guotai Junan Securities Co., Ltd. is deemed to be interested in the interests in H Shares of Guotai Junan Financial Products Limited.

Save as disclosed above, to the knowledge of the Directors, the Bank is not aware of any other person (other than a Director, Supervisor and chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as of June 30, 2023 which are required to be recorded in the register pursuant to section 336 of the SFO.

(III) Substantial Shareholders of the Bank

For information about the substantial Shareholders⁽¹⁾ of the Bank, please refer to the Related party relationships and Related party transactions under Note 38 to the Financial Statements of this interim report.

Note:

- (1) According to the Interim Measures for the Equity Management of Commercial Banks of CBIRC (CBRC Order 2018 No. 1), substantial shareholders of a commercial bank refer to shareholders who hold or control 5% or above shares or voting right of the commercial bank, or who hold less than 5% of total capital or total shares of the commercial bank but have significant impacts on the operation and management of the commercial bank. The significant impacts mentioned above include but are not limited to dispatching directors, supervisors or senior executives to a commercial bank.

Changes in Share Capital and Information on Shareholders

V. DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE BANK

As of June 30, 2023, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares and debentures of our Bank or any associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register of interests kept pursuant to 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 Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

Interests in the Bank held by our Directors, Supervisors and chief executives							
Name	Position	Nature of interests	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (shares)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
XIONG Guoming (熊國銘)	Non-executive Director	Interest in controlled corporation	Domestic Shares	Long position	334,118,400	12.29%	17.01%
LIU Shirong (劉仕榮)	Executive Director	Beneficial owner	Domestic Shares	Long position	13,018	0.0005%	0.0007%
CHEN Yong (陳勇) ⁽¹⁾	Supervisor	Interest of spouse	Domestic Shares	Long position	19,527	0.0007%	0.001%

Note:

- (1) The Domestic Shares were held by Ms. LAN Ying (蘭英), the spouse of Mr. CHEN Yong. Mr. CHEN Yong is deemed to be interested in the Domestic Shares held by Ms. LAN Ying under the SFO.

Save as disclosed above, as of June 30, 2023, none of our Directors, Supervisors and chief executives had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (as defined in Part XV of the SFO) which were required to be recorded in the register kept pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(I) Directors

As of the Latest Practicable Date, the Board of the Bank consisted of eleven Directors, including two executive Directors, namely, Mr. YOU Jiang and Mr. LIU Shirong; four non-executive Directors, namely, Ms. PAN Lina, Mr. XIONG Guoming, Mr. LUO Huoming and Ms. CHEN Ping; and five independent non-executive Directors, namely, Mr. HUANG Yongqing, Mr. TANG Baoqi, Mr. ZHONG Jin, Mr. GAO Jinkang and Mr. CHING Yu Lung, respectively.

The specific names and members of the six special committees under the Board are as follows:

Development and strategy committee: Ms. PAN Lina (chairperson), Mr. YOU Jiang, Mr. XIONG Guoming, Mr. LUO Huoming and Ms. CHEN Ping

Risk management committee: Mr. XIONG Guoming (chairperson), Mr. YOU Jiang, Mr. LIU Shirong, Mr. ZHONG Jin and Mr. CHING Yu Lung

Audit committee: Mr. CHING Yu Lung (chairperson), Ms. PAN Lina and Mr. GAO Jinkang

Nomination and remuneration committee: Mr. TANG Baoqi (chairperson), Mr. YOU Jiang, Mr. XIONG Guoming, Mr. ZHONG Jin and Mr. GAO Jinkang

Related party (connected) transactions control committee: Mr. GAO Jinkang (chairperson), Mr. LIU Shirong, Mr. HUANG Yongqing, Mr. ZHONG Jin and Mr. CHING Yu Lung

Consumer rights protection committee: Mr. HUANG Yongqing (chairperson), Mr. LUO Huoming and Mr. TANG Baoqi

(II) Supervisors

As of the Latest Practicable Date, the Board of Supervisors of the Bank consisted of five Supervisors, including a Shareholder representative Supervisor, namely Mr. WU Wei, two employee representative Supervisors, namely Ms. LIU Yongli and Mr. CHEN Yong; and two external Supervisors, namely Mr. LYU Hong and Mr. GUO Bing.

(III) Senior Management

There are 11 senior management members in the Bank, namely president Mr. LIU Shirong, vice president Ms. YUAN Shihong, vice president Ms. XUE Xiaoqin, vice president Mr. WU Ji, vice president and chief information officer Mr. HAN Gang, vice president and secretary to the Board and president of the Chengdu Branch Mr. MING Yang, vice president Mr. HU Jia, vice president Mr. YANG Bing, assistant to president Mr. AI Yong, general manager of the internal audit department Ms. LI Yan, and general manager of accounting and finance department Ms. WANG Lan.

Directors, Supervisors, Senior Management and Employees

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in Directors

On March 13, 2023, Mr. LUO Huoming and Ms. CHEN Ping obtained the approval on the qualification of directorship issued by the Sichuan Office of the Former CBIRC, with their term of office commencing on March 13, 2023.

On March 13, 2023, Mr. GAO Jinkang and Mr. CHING Yu Lung obtained the approval on the qualification of independent non-executive directorship issued by the Sichuan Office of the Former CBIRC, with their term of office commencing on March 13, 2023.

For details of the above changes, please refer to the relevant announcements published by the Bank.

(II) Changes in Supervisors

During the Reporting Period and up to the Latest Practicable Date, there were no changes in members of Supervisors.

(III) Changes in Senior Management

On March 28, 2023, Mr. HAN Gang obtained the approval on the qualifications of a vice president and chief information officer issued by the Sichuan Office of the Former CBIRC, with his term of office commencing on March 28, 2023.

On March 28, 2023, Mr. MING Yang obtained the approval on the qualifications of a vice president and secretary to the Board issued by the Sichuan Office of the Former CBIRC, with his term of office commencing on March 28, 2023.

On March 28, 2023, Mr. HU Jia obtained the approval on the qualification of a vice president issued by the Sichuan Office of the Former CBIRC, with his term of office commencing on March 28, 2023.

For details of the above changes, please refer to the relevant announcements published by the Bank.

(IV) Changes in Information of Directors, Supervisors and President

Mr. GAO Jinkang, an independent non-executive Director of the Bank, has no longer served as an independent director of Houpu Clean Energy Group Co., Ltd. (厚普清潔能源(集團)股份有限公司) since May 2023, and has served as an independent director of Sichuan Jule Food Co., Ltd. (四川菊樂食品有限公司) since May 2023.

Mr. CHING Yu Lung, an independent non-executive Director of the Bank, has no longer served as the chief financial officer of Hong Kong Shanghai Alliance Holdings Limited since July 2023.

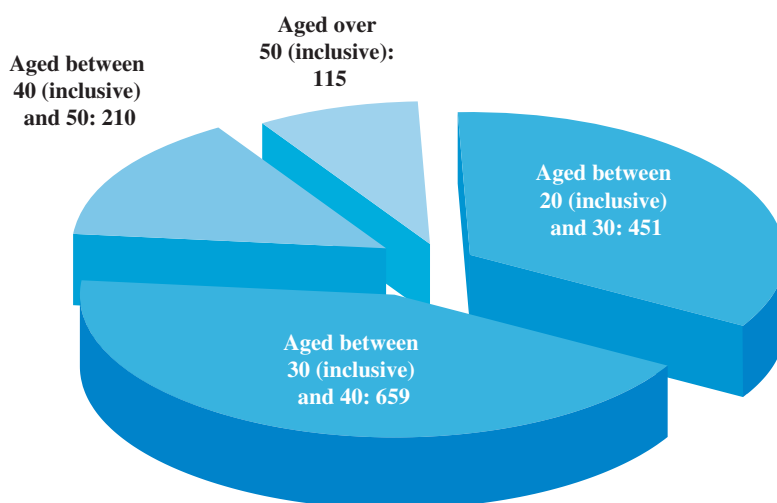
Directors, Supervisors, Senior Management and Employees

III. SECURITIES TRANSACTION BY DIRECTORS AND SUPERVISORS

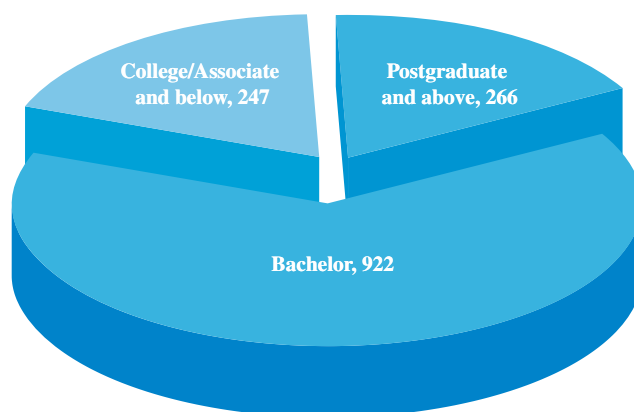
Our Bank has adopted the Model Code as its code for regulating securities transactions by Directors and Supervisors of the Bank. Having made specific enquiry with all Directors and Supervisors by the Bank, our Directors and Supervisors confirmed that they had been in compliance with the Model Code throughout the Reporting Period.

IV. DETAILS OF EMPLOYEES


As of June 30, 2023, the Bank had 1,435 employees (including dispatched workers) in total, with an average age of 34.71. Of them, 451 employees aged between 20 (inclusive) and 30, accounting for 31.43%; 659 employees aged between 30 (inclusive) and 40, accounting for 45.92%; 210 employees aged between 40 (inclusive) and 50, accounting for 14.64%; and 115 employees aged over 50 (inclusive), accounting for 8.01%.



By education background, the Bank had 266 employees with postgraduate degrees and above (including 3 doctoral candidates), accounting for 18.54%; 922 employees with bachelor degrees, accounting for 64.25%; 247 employees with college/associate degrees and below, accounting for 17.21%.



The Bank had a total of 147 technology talents, accounting for 10.24% of the employees of the Bank.



Directors, Supervisors, Senior Management and Employees

V. TRAINING FOR EMPLOYEES

The training for our employees is carried out in accordance with the actual situations of our development strategic objectives and employees' ability and quality. The Bank accurately improves the training results to provide strong talent support to the forward long-term development. We fully leverage the organization form of "online and offline, internal and external training, business and management, daily and special, the complementarity between the head office and branches", and continue to promote training programs such as induction training for new employees and international and domestic high-end financial qualified certification training. We also conduct special line training on credit risk prevention and control, and internal control and compliance. During the Reporting Period, the total number of various internal and external training activities of the Bank reached approximately 199 and the number of participants reached approximately 6,783.

VI. REMUNERATION POLICIES FOR EMPLOYEES

The Bank constantly aimed to refine and improve the incentive and restraint mechanism, help employees grow and make progress, increase corporate efficiency and promote its high-quality development, and implemented the market-oriented performance appraisal mechanism based on post salaries and performance-based remuneration. Based on the dual-channel career development system for its employees, the Bank had established dual channels for remuneration promotion of employees, expanded the space for remuneration promotion of professional sequence employees, and built a remuneration exchange link between management sequence and professional sequence. Following the principle of "paying for post, ability and performance", the Bank's post salary was tightly coupled with post value and personal ability, and performance-related pay was closely linked to value creation, contribution and performance, which not only inspired employees to take initiatives to grow and actively improved their ability, but also mobilized employees' working enthusiasm and creativity and enhanced the overall efficiency of the enterprise. The Bank paid "Five Social Insurances and One Housing Fund (五險一金)" for employees in accordance with the relevant laws. In addition, the Bank purchased supplementary medical insurance for its employees, and established enterprise annuity plan to provide employees with a relatively complete security system which had effectively improved employees' sense of belonging and strengthened corporate cohesion. At the same time, the Bank had established a mechanism for deferral payment and clawback of performance-related remuneration in accordance with regulatory requirements and business and management needs to promote sound operation and sustainable development of the Bank.

Important Events

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance structure and improved its corporate governance in strict compliance with laws and regulations such as the Company Law of the PRC, the Commercial Banking Law of the PRC as well as the Listing Rules and in line with the actual conditions of the Bank. We had also adopted Part 2 of the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules, reached the requirements of the administrative measures and corporate governance for domestic commercial banks, and established a good corporate governance system.

The Bank has strictly complied with the principles and Code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period. The Bank is committed to maintaining a high standard of corporate governance.

On August 3, 2022, the Bank announced the lists of candidates for non-employee Directors, non-employee Supervisors, employee Directors and employee Supervisors for the eighth session of the Board and the Board of Supervisors, and considered and approved the aforementioned candidates by the Shareholders at the extraordinary general meeting held on September 20, 2022. For details, please refer to the Bank’s announcements dated August 3, 2022 and September 20, 2022. Following the re-election/election of members for the eighth session of the Board of Directors, the Bank was not in compliance with the relevant requirements under Rules 3.21, 3.25 and 3.27A of the Listing Rules during the period from September 20, 2022 to March 12, 2023 as the qualifications of Directors of Mr. GAO Jinkang and Mr. CHING Yu Lung were pending the approval from the Former CBIRC Sichuan Office. On March 13, 2023, the qualifications of the independent non-executive Directors of Mr. GAO Jinkang and Mr. CHING Yu Lung were approved by the Former CBIRC Sichuan Office, and since then, the Bank has complied with the relevant requirements under Rules 3.21, 3.25 and 3.27A of the Listing Rules.

We will continue to enhance our corporate governance to ensure compliance with the Code and meet the expectations of the Shareholders and potential investors.

DIVIDENDS DISTRIBUTION

The resolution in relation to the 2022 profit distribution plan of the Bank was not approved by the Shareholders by way of special resolution at the annual general meeting, and was not approved by the holders of domestic Shares and the holders of H Shares at the domestic shareholders’ class meeting and H shareholders’ class meeting, respectively. Accordingly, the distribution of cash dividends and bonus issue proposed in the 2022 profit distribution plan of the Bank were not carried out.

In view of the above, the Bank has redrafted the 2022 profit distribution plan, taking into account the actual operation and the long-term business development and other factors, under the continuous communication with its Shareholders and regulators. The Board of Directors of the Bank proposes to distribute a cash dividend of RMB0.8 (inclusive of tax) for every 10 shares to all Shareholders for the year ended December 31, 2022, totaling RMB217.42 million (inclusive of tax). The aforesaid scheme will be presented to the 2023 first extraordinary general meeting of the Bank for consideration. If the aforesaid scheme is approved at the Bank’s extraordinary general meeting of, the Bank expects to complete the distribution work of profits within two months after the end of the above meeting.

The specific arrangements for the distribution of the cash dividend for the year, the time of the the closure of register of members and the withholding and payment of income tax on dividends will be otherwise disclosed in the circular of the extraordinary general meeting.

In addition, the Bank did not distribute and did not propose to distribute any interim dividend for the six months ended June 30, 2023.



Important Events

MATERIAL LITIGATIONS AND ARBITRATIONS

During the Reporting Period, there were no litigations or arbitrations which had a material impact on the operation activities of the Bank.

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, the Bank and all the Directors, Supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by the CSRC or public censures by the Hong Kong Stock Exchange, or penalties by other regulatory bodies that posed significant impact on the Bank's operation.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts or their performance.

REVIEW OF INTERIM RESULTS

The Bank's interim financial information for 2023 (unaudited) prepared in accordance with IFRS have been reviewed by PricewaterhouseCoopers, who has been providing audit service for the Bank since 2017, and has issued an unqualified review report.

The Bank's 2023 interim report and 2023 interim financial information (unaudited) have been reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, the Bank had no material acquisition and disposal of assets or merger of enterprises.

SUBSEQUENT MATERIAL EVENTS

The Bank has no subsequent material events from the end of the Reporting Period to the Latest Practicable Date.

Independent Auditor's Report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF LUZHOU BANK CO., LTD., (incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 62 to 146, which comprises the interim condensed statement of financial position of Luzhou Bank Co., Ltd. (the "Bank") as at 30 June 2023 and the interim condensed statement of comprehensive income, the interim condensed statement of changes in equity and the interim condensed statement of cash flows for the six-month period then ended, and notes, comprising material accounting policy information and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review 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". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Bank is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 August 2023

Interim Condensed Statement of Comprehensive Income

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	For the six months ended 30 June	
		2023 (Unaudited)	2022 (Unaudited)
Interest income		3,605,841	3,840,930
Interest expenses		(2,051,308)	(2,050,192)
Net interest income	4	1,554,533	1,790,738
Fee and commission income		84,602	101,301
Fee and commission expenses		(14,982)	(8,924)
Net fee and commission income	5	69,620	92,377
Net gains on trading activities	6	618,879	348,530
Net gains on financial investments	7	169,418	117,519
Other operating income	8	34,206	9,536
Operating income		2,446,656	2,358,700
Operating expenses	9	(716,788)	(673,160)
Expected credit losses	10	(863,660)	(858,911)
Other assets impairment losses	10	(8,682)	(450)
Operating profit		857,526	826,179
Share of profit of an associate	20	2,771	3,145
Profit before income tax		860,297	829,324
Income tax expense	11	(185,025)	(185,701)
Net profit attributable to shareholders of the Bank		675,272	643,623
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value change of financial assets at fair value through other comprehensive income		85,830	62,064
Expected credit losses of financial assets at fair value through other comprehensive income		15,981	(191)
Less: Related income tax impact		(25,453)	(15,467)
Subtotal	36	76,358	46,406
Total comprehensive income attributable to the shareholders of the Bank		751,630	690,029
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)			
– basic and diluted	12	0.21	0.20

The accompanying notes form a part of this interim condensed financial information.

Interim Condensed Statement of Financial Position

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	30 June 2023 (Unaudited)	31 December 2022 (Audited)
ASSETS			
Cash and balances with central bank	13	10,240,153	11,211,310
Due from and placements with banks and other financial institutions	14	361,470	5,738,581
Customer loans	15	85,017,082	79,999,395
Financial investments – credit related financial assets	16	2,578,821	2,643,264
Financial investments – fair value through profit or loss	17	29,163,590	21,206,923
Financial investments – fair value through other comprehensive income	18	7,995,358	9,339,800
Financial investments – amortised cost	19	15,189,911	15,337,700
Investment in an associate	20	55,245	52,474
Property, plant and equipment	21	889,938	896,523
Deferred income tax assets	22	1,235,981	1,092,564
Other assets	23	1,216,997	1,111,293
Total assets		153,944,546	148,629,827
LIABILITIES			
Borrowings from central bank		4,718,690	5,296,402
Due to and placements from banks and other financial institutions	24	12,204,575	9,283,318
Financial liabilities at fair value through profit or loss	25	307,599	150,905
Customer deposits	26	115,481,590	109,445,657
Debt securities issued	27	9,143,106	12,982,869
Current tax liabilities		382,700	467,733
Other liabilities	28	854,140	807,327
Total liabilities		143,092,400	138,434,211
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	29	2,717,752	2,717,752
Other equity instruments	30	1,696,824	1,696,824
Capital surplus	29	1,786,355	1,786,355
Other reserves	31	2,654,577	2,389,336
Retained earnings		1,996,638	1,605,349
Total equity		10,852,146	10,195,616
Total liabilities and equity		153,944,546	148,629,827

The accompanying notes form a part of this interim condensed financial information.

Chairman and Executive Director:
You Jiang

Executive Director and President:
Liu Shirong

Interim Condensed Statement of Changes in Equity

(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank								
	Share capital Note 29	Other equity instruments Note 30	Capital surplus Note 29	Other reserves			Subtotal	Retained earnings	Total
				Surplus reserve Note 31	General reserve Note 31	Revaluation reserve Note 31			
Balance at 1 January 2023	2,717,752	1,696,824	1,786,355	611,517	1,737,305	40,514	2,389,336	1,605,349	10,195,616
Net profit for the period	-	-	-	-	-	-	-	675,272	675,272
Changes recognised in other comprehensive income	-	-	-	-	-	76,358	76,358	-	76,358
Total comprehensive income	-	-	-	-	-	76,358	76,358	675,272	751,630
Transfer to general reserve	-	-	-	-	188,883	-	188,883	(188,883)	-
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	(95,100)	(95,100)
Balance at 30 June 2023	2,717,752	1,696,824	1,786,355	611,517	1,926,188	116,872	2,654,577	1,996,638	10,852,146
Balance at 1 January 2022	2,717,752	1,696,824	1,786,355	530,764	1,539,567	259,484	2,329,815	1,171,411	9,702,157
Net profit for the period	-	-	-	-	-	-	-	643,623	643,623
Changes recognised in other comprehensive income	-	-	-	-	-	46,406	46,406	-	46,406
Total comprehensive income	-	-	-	-	-	46,406	46,406	643,623	690,029
Transfer to general reserve	-	-	-	-	197,738	-	197,738	(197,738)	-
Interest paid to perpetual bond holders	-	-	-	-	-	-	-	(95,100)	(95,100)
Balance at 30 June 2022	2,717,752	1,696,824	1,786,355	530,764	1,737,305	305,890	2,573,959	1,522,196	10,297,086

The accompanying notes form a part of this interim condensed financial information.

Interim Condensed Statements of Cash Flows

(All amounts expressed in thousands of RMB unless otherwise stated)

	For the six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Cash flows from operating activities:		
Profit before income tax	860,297	829,324
Adjustments:		
Depreciation and amortisation	74,043	84,455
Expected credit losses on customer loans	623,593	608,090
Impairment losses on other financial assets	248,749	251,271
Net gains on disposal of long-term assets	(84)	(153)
Net gains arising from trading activities	(442,565)	(287,822)
Net gains arising from financial investments	(106,477)	(56,496)
Changes in fair value of financial assets at fair value through profit or loss	(239,255)	(121,731)
Interest income from financial investments	(681,023)	(1,032,104)
Interest expenses on debt securities	170,879	286,435
Subtotal	508,157	561,269
Net increase in operating assets:		
Net (increase)/decrease in balances with central bank	(52,853)	137,212
Net decrease in due from and placements with banks and other financial institutions	5,008,327	2,987,858
Net increase in customer loans	(5,523,771)	(5,875,656)
Net increase in other operating assets	(7,996,324)	(3,521,524)
Net increase in operating liabilities:		
Net (decrease)/increase in balances due to central bank	(577,593)	2,300,415
Net increase/(decrease) in due to and placements from banks and other financial institutions	2,929,812	(852,407)
Net increase in customer deposits	5,742,129	11,310,433
Net increase in other operating liabilities	418,040	1,700,499
Income tax paid	(332,437)	(267,559)
Net cash flows generated from operating activities	123,487	8,480,540

Interim Condensed Statements of Cash Flows

(All amounts expressed in thousands of RMB unless otherwise stated)

	For the six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment, and other long-term assets	97,862	66,997
Purchase of property, plant and equipment, and other long-term assets	(58,064)	(38,526)
Interest income arising from financial investment securities	708,235	1,202,213
Purchase of investment securities	(5,713,891)	(20,072,279)
Proceeds from sale and redemption of financial investments	7,567,115	17,284,783
Net cash flows generated from/(used in) investing activities	2,601,257	(1,556,812)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	2,830,000	5,300,000
Repayment of debt securities upon maturity	(6,701,621)	(10,241,558)
Interest paid on debt securities	(154,950)	(337,124)
Dividends paid to shareholders	(95,173)	(95,209)
Net cash flow used in financing activities	(4,121,744)	(5,373,891)
Impact of exchange rate fluctuation on cash and cash equivalents	2,247	39,084
Net (decrease)/increase in cash and cash equivalents	(1,394,753)	1,588,921
Cash and cash equivalents at the beginning of the period	5,820,815	5,232,603
Cash and cash equivalents at the end of the period (Note 37)	4,426,062	6,821,524
Net cash flow operating activities include:		
Interest received	2,744,115	2,488,852
Interest paid	(1,579,370)	(1,548,434)

The accompanying notes form a part of this interim condensed financial information.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

1 GENERAL INFORMATION

Luzhou Bank Co., Ltd. (the “Bank”), with the approval of the People’s Bank of China, was established on 15 September 1997 as a joint-stock commercial bank under the name of “Luzhou City United Bank” in accordance with the Company Law of China. The Bank was jointly sponsored by Luzhou Finance Bureau, the shareholders of eight urban credit cooperatives, two rural credit cooperatives and other new corporate shareholders.

On 8 May 1998, the Sichuan Branch of the People’s Bank of China approved the renaming of the Bank from “Luzhou City United Bank” to “Luzhou City Commercial Bank Co., Ltd.”. On 4 June 2019, in accordance with the approval of the former Sichuan Supervisory Bureau of China Banking and Insurance Regulatory Commission (“former CBIRC”, Now National Financial Regulatory Administration) and the approval of Luzhou City Market Supervision and Administration Bureau, the Bank was formally renamed to “Luzhou Bank Co., Ltd.”. The Bank was listed on the main board of Stock Exchange of Hong Kong on 17 December 2018. As at 30 June 2023, the total issued share capital of the Bank is RMB2,717,752,062 with a par value of RMB1 per share.

The main lines of business of the Bank include corporate banking, retail banking and financial markets operations.

This financial information was authorised for issue by the Board of Directors of the Bank on 17 August 2023.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed financial information of the Bank has been prepared in accordance with the International Accounting Standard 34 ‘Interim Financial Reporting’.

The Bank adopted the going concern basis in preparing this interim condensed financial information.

The interim condensed financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2022.

Income tax expense for interim period is accrued using the expected tax rate that would be applicable to total annual earnings.

Except as described below, the Bank’s accounting policies applied in preparing this unaudited interim condensed financial information are consistent with those policies applied in preparing the 2022 annual financial statements.

The Bank’s structured entities (Note 33) are the Bank’s only consolidated subsidiaries and are already measured according to accounting policies applicable to financial instruments. So there is no difference between the Bank’s consolidated financial information and its standalone financial information.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 The adoption of new and revised IFRS

The Bank has adopted the following new and amendments to the International Financial Reporting Standards (“IFRSs”):

Amendments to IAS 8	Accounting Estimates
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Amendments to IAS 8

IAS 8 Amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. It introduces a new definition of “accounting estimates”. The amendments are designed to clarify distinction between changes in accounting estimates and changes in accounting policies and correction of errors.

Amendments to IAS 1 and IFRS Practice Statement 2

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

Amendments to IAS 12

IAS 12 Amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented.

The adoption of these standards and amendments does not have a material effect on the Bank’s financial statements.

2.1.2 New and revised IFRSs issued but not yet effective

Amendments to IAS 1	Classification of Liabilities as current or non-current Non-current liabilities with covenants	1 January 2024
Amendments to IAS 16	Lease liability in sale and leaseback	1 January 2024

The adoption of the above new standards and amendments issued but not yet effective is not expected to have a material effect on the Bank in the current or future reporting periods and on foreseeable future transactions.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

2.2 Critical accounting estimates and judgments in applying accounting policies

The preparation of interim condensed financial information requires management to make judgements, estimates and assumptions.

In preparing this interim condensed financial information, the significant judgements and estimates made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2022.

3 FINANCIAL RISK MANAGEMENT

Overview

The Bank's activities are exposed to a variety of financial risks, primarily including credit risk, market risk (including currency risk, interest risk and other price risk), and liquidity risk. The financial risk management involves analysis, evaluation, acceptance and management of different degrees of risks or combination of them. Taking risks is the core characteristic of the financial business, and facing risks will be inevitable when doing such business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, to monitor the risks and to control the limits with reliable and constantly updated systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is the highest authority for the Bank's overall risk management, responsible for final risk management, reviewing and approving risk management strategies and measures, supervising risk management and internal control systems, and evaluating overall risks based on monitoring information and risk reports from senior management. Senior management is responsible for overseeing the Bank's overall risk management, including the formulation and implementation of risk management policies and procedures, covering credit risk, interest rate risk, liquidity risk and foreign exchange risk. The risk management committee is in charge of the Bank's overall risk management structure, policies and tools, and monitors the risk management. The assets and liabilities management department is primarily in charge of the Bank's liquidity risk and interest rate risk.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or unwilling to meet its obligations under a contract. Changes in the economy or those in credit quality of a particular industry segment or concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk increases when the counterparties are in the similar geographical or industry segments. Credit exposures arise principally from customer loans, debt securities and due from banks and other financial institutions. There are also credit risk exposures in off-balance sheet financial arrangements such as loan commitments, guarantees, acceptances and letters of credit.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3.1.1 Credit risk measurement

(a) Credit business

The Bank measures and manages the quality of its credit assets in accordance with the former CBIRC's "Measures for the Risk Classification of Financial Assets of Commercial Bank" and "Guidelines of Risk Classification of Micro Enterprises loans (Trial Implementation)". The classification of loans is based on the borrowers' repayment ability, payment history, willingness of repayment, guarantee of loans, legal responsibility, and loan administration. "Measures for the Risk Classification of Financial Assets of Commercial Bank" require financial institutions to classify their credit assets into five categories, namely pass, special mention, substandard, doubtful and loss, of which the last three categories are non-performing loans. For personal loan and small and micro enterprise with a debt balance of less than 10 million, the number of overdue days is also an important indicator for classification.

The core definitions of credit asset classifications in "Measures for the Risk Classification of Financial Assets of Commercial Bank" are as follows:

Pass: The debtor can fulfil the contract, and there is no objective evidence that the principal, interests or earnings cannot be paid in full on time.

Special mention: Although there exists some factors that could have adverse impacts on the performance of the contract, but the debtor by far has the ability to repay the principal, interests or earnings.

Substandard: The borrower cannot repay the principal, interests or earnings in full, or the financial asset has been credit-impaired.

Doubtful: The borrower cannot repay the principal, interests or earnings in full, or the financial asset has been significantly credit-impaired.

Loss: After taking consideration of all possible recovery actions, only very little or none of the financial asset could be recovered.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

(a) Credit business (continued)

Risk Management Department coordinates the classification of loans. The classification of loans is performed by the principle of regular comprehensive classification and timely adjustment. The responsible departments perform initial classification, after which Credit Management Department, Key Customers Business Department, Chengdu Branch and Huirongtong Small Micro Loan Center perform initial review on the classifications proposed by respective departments. Risk Management Department summarises the classification information reviewed by the related departments, conducts secondary review and reports the classification results and all relevant information to risk management committee for final approval. The classification of loans is monitored and adjusted through related credit management system.

(b) Financial market business

For treasury business (including debt investments), the Bank chooses banks and other financial institutions prudently, balances the credit risk and return rate of investments, makes reference to internal and external credit rating information, and adheres to the principles of “implementing unified credit extension, providing an appropriate amount and conducting real-time monitoring”, aiming to manage the credit risk exposed to the treasury business.

For debt securities investments, unified credit authorisation management is responsible for managing the credit risk exposed to debt securities investments. The investment in those debts and bills is to own exposures with better credit quality while maintaining readily available liquidity resource. The Bank performs unified credit review and approval and exposure management to the bond issuers invested. The Bank regards the external credit ratings of the bonds invested as a main content of bond credit risk management to enhance the credit risk control.

Debt investments other than debt securities include investments in fund trust schemes, asset management plans and securities investment funds. The Bank implements a rating system for accepting trust companies, securities companies and fund companies, sets credit limits for ultimate borrowers of trust plans, and ultimate borrowers of targeted asset management plans, and carries out follow-up risk management on a regular basis.

The Bank manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The head office monitors and reviews the credit risk of loans to banks and other financial institutions by counterparties periodically and manages them with limit exposures.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

(a) *Credit business*

The Bank takes the same credit risk management control procedure for on and off-balance sheet risk exposures. The risk control procedure of the Bank's credit risk includes the following: credit policy stipulating, pre-credit investigation, risk assessment, collateral assessment, examination and approval of credit loans, draw-down, post-loan management, management on non-performing loans, due-diligence on non-performing loans.

The Bank has established a unified credit authorisation management for key customers. Once the maximum exposure of a single customer is determined, the customer's exposure limit should not exceed its credit limit in the Bank at any time before it obtains new credit limit.

The Bank takes action to strengthen controls over credit risk in relation to group customer and related party customer. The Bank places limits in relation to key group customers to control credit risk. The committee of related party transactions is set up under the Board to manage controls on related party transaction.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking collateral, which is common practice.

Except for few customers with excellent quality, the Bank requires the borrowers to provide credit enhancements for loans. The type of credit enhancements mainly include collateral, pledge and guarantee. The detailed collateral type and amount is determined by credit risk of counterparty or customers.

The Bank employs a range of asset valuation companies to value the collaterals. The Bank generally accepts assets whose value are clear as collaterals, such as deposit receipt and real estate.

(b) *Financial market business*

The Bank manages financial market business with hierarchical authorisation for different business types such as purchase, distribution, trade and repurchase of debt securities.

The Bank conducts necessary assessments on the risk status and loss of trading investment bonds. The Bank sets stop-loss point based on analysis of trend of macroeconomic situation and monetary policy. The Bank manages the credit risk exposures of inter-bank borrowing and lending strictly within the limit of regulation and credit authorisation. The Bank conducts approvals strictly on a case-by-case basis within the authorized limit.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(b) Financial market business (continued)

The debt securities traders, as timely monitors of changes in market interest rates, regularly review and monitor the changes of market interest and report the situation of debt securities to Risk Management Department. If there is any volatility of interest rate in the market or any significant credit risk encountered to debtors, the business department responsible for security investment will arrange Risk Management Department of head office to conclude an emergency plan. The debt trader will react according to the plan.

3.1.3 Collateral and guarantee

The Bank has a range of policies and practices intended to mitigate credit risk. The most useful practice is to accept collaterals. The Bank implements guidelines on the acceptability of specific classes of collateral. The maximum loan-to-value ratio is determined by the credit approval department. The follow-up management of the collateral is carried out by the related business management department. The principal types of collateral for corporate loans and personal loans are as follows:

Type of Collateral	Maximum loan-to-value ratio
Collaterals	
Residential and commercial properties	60%
Land use rights for commercial, residential and comprehensive use	50%
Land use rights for industrial use	40%
Plants, workshops and factories or office and warehouse in non-urban area	40%
Forestry, trees and woodland usage rights	40%
Construction in progress	50%
Pledges	
Security deposits and certificates of deposit (including electronic certificates of deposits) issued by the Bank	100%
Certificates of deposit issued by other banks	90%
Treasury bonds, bank cheques and bank acceptance bills	90%
Commercial acceptance bills	80%
Debt securities issued by corporations with rating of AA or above	50%
Shares and equities	50%
Warehouse receipts and bills of lading	50%
Receivables	50%

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Collateral and guarantee (continued)

Mortgage loans to retail customers are generally collateralised by residential properties. Other loans are collateralised according to the nature of the loan.

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

Collateral held as security for financial assets other than customer loans is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Details of collateral accepted and which the Bank is obligated to return are disclosed in Note 35.

3.1.4 Measurement of expected credit losses

Expected credit losses is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all cash flows expected to be received by the Bank discounted at the original effective interest rate, i.e. the present value of all cash shortfalls. In accordance with IFRS 9, the Bank classified the financial instruments into three stages. Stage 1 includes performing financial instruments that are “not credit-impaired on initial recognition”. The Bank needs to measure ECLs over the next 12 months. If the remaining maturity is less than 12 months, the Bank only needs to measure ECLs for the remaining maturity. Stage 2 includes financial instruments that have had significant increase in credit risk since initial recognition. Stage 3 includes credit-impaired financial assets. Lifetime ECLs are recognised for those financial instruments in stage 2 and stage 3.

The Bank accounts for and recognises ECL allowance on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments made by the Bank other than financial liabilities measured at fair value through profit or loss, and financial guarantee contracts not measured at fair value through profit or loss.

Risk grouping

The Bank classifies risk groupings by considering different business natures and customer types, industry distributions of the Bank’s assets, changes in the industry non-performing ratios and types of retail business products through available historical, current and forward-looking information.

3-stage classification

According to IFRS 9, 3-stage classification criteria need to be clearly specified. Financial instruments that are “not credit-impaired on initial recognition” are classified in stage 1 and the 12-month ECL is calculated. If “a significant increase in credit risk” is identified, the financial instrument will be moved to stage 2 and the lifetime ECL is calculated. If the financial instrument is credit-impaired, the financial instrument will be moved to stage 3. The detailed classification criteria have been set up, taking into consideration the overdue days, etc.

The stages are transferable. For example, when the credit risk of financial instruments classified in stage 1 significantly increases, they will be transferred to stage 2.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(1) *Financial assets with significant increase in credit risk*

When triggering one or more of the following quantitative or qualitative criteria, the Bank determines that the credit risk of financial instruments has increased significantly.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 30 days, but less than 90 days.
- The five-category classification is “special mention”.
- The debtor’s external credit rating (facility rating or obligor rating) has been downgraded to BBB or below.
- The debtor’s debt has been extended, exclude credit risk exposure that credit risk has not significantly increased with the Bank approval.

Qualitative criteria

- Changes in the economic, technological or legal environment in which the debtor is operating at the present time or in the near future, thereby having negative impacts on the debtor’s repayment ability.
- Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which reflect growing potential risk and financial assets which could cause losses to the Bank.

(2) *Definition of default and loss incurred*

When a financial instrument meets one or more of the following conditions, the Bank considers the financial asset as being defaulted. The same set of criteria is also applicable to the definition of loss incurred.

Quantitative criteria

- The principal or interest of the contract is overdue for more than 90 days.
- The five-category classifications are “substandard”, “doubtful” or “loss”.
- The debtor’s external credit rating (facility rating or obligor rating) has been downgraded to C or below.

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For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(2) *Definition of default and loss incurred (continued)*

Qualitative criteria

- The debtor is likely to go bankrupt or carry out other financial restructuring.
- The issuer of financial instruments held by the Bank has serious financial difficulties.
- The Bank has made concessions to the debtor in financial difficulty for economic or legal reasons.
- The market of related financial instruments is deserted due to the debtor's financial difficulty.
- It is becoming probable that the debtor will go bankrupt.

The above criteria apply to all financial instruments of the Bank. The definition of default is consistently applied to the calculation of the Bank's ECL, including the probability of default (PD), exposure at default (EAD), and loss given default (LGD).

Financial assets can be migrated between stages. However, restrictions are set for up-stage migration of corporate banking business. Credit exposures in stage 3 should only be migrated to stage 2 if the debtor has met the repayment schedule for at least six months and is expected to demonstrate such payment behaviour in the future. Stage 3 credit exposures should not be migrated directly to stage 1.

(3) *Measurement of expected credit loss: explanation of parameters, assumptions and estimation techniques*

Depending on whether there is a significant increase in credit risk and whether the assets have been impaired, the Bank will measure the ECL for different assets for 12 months or the entire life of the asset. ECL is the product of PD, EAD and LGD after term adjustment and discount. Related definitions are as follows.

Probability of default (PD) refers to the probability that the debtor will not be able to fulfil his obligations in the next 12 months or throughout the remaining maturity. The Bank builds the migration matrix based on historical data to calculate the 12-month probability of default, and derives the lifetime default probability from the 12-month probability of default through the Markov chain model.

Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The LGD varies depending on the type of counterparty and the availability of collateral or other credit support.

Exposure at default (EAD) refers to the amount that the Bank should pay when the default occurs in the next 12 months or throughout the remaining maturity. The Bank's EAD is determined by the expected repayment arrangements, and varies for different types of products. For repayments by installments and one-time repayments, the Bank determines the EAD according to the repayment plan stipulated in the contract.

The Bank determines the ECL by forecasting the PD, LGD and EAD of every single debt. The Bank multiplies the three items. This approach can effectively calculate the ECLs for future periods, then discount the results of each period to the report date and add up. The discount rate used in the ECL calculation is the effective interest rate or its approximate value.

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For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Measurement of expected credit losses (continued)

(4) *Establishment of impairment model*

The Bank has established macro-economic forecast model, with reference to external economic forecasts. The Bank conducts forecasts regularly and establishes three possible economic scenarios: optimistic, basic and pessimistic. Basic scenario is defined as the most probable situation, which sets the benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than basic scenario respectively.

The impairment model is established using a top-down approach. The Bank has developed several corporate, retail and inter-bank impairment models, including regression models for different macro-economic indicators such as gross domestic product(GDP), consumer price index (CPI), Investment in fixed assets, and uses MERTON formula and historical default information to make “forward-looking” adjustments to PD which ensures the provision calculation is “forward-looking”.

For asset portfolios that impairment model cannot be established, for example, when customers’ default rate is extremely low or assets without an appropriate internal rating method, the Bank mainly uses estimates derived from external rating or expected loss rate of similar portfolios.

ECL calculation involves forward-looking information. The Bank identifies the key economic indicators affecting the credit risk and ECL of each asset portfolio, through historical data analysis.

These economic indicators and their impact on PD differ for different financial instruments, which involve expert judgments. The Bank annually makes forecasts on these economic indicators (“basic economic scenarios”) and provides the best economic forecasts for the next two years. The Bank believes that the economic indicators from two years later to the end of the maturity of financial instruments tend to maintain average or average growth, and thus uses the mean regression method. The impact of these economic variables on the PD has been determined by performing MERTON model analysis to understand the impact of historical changes on PD, EAD and LGD.

The Bank reviews the key parameters and assumptions used in the ECL calculation annually, taking into account external economic developments, industry changes and regional risks, and makes necessary updates and adjustments.

The Bank sets other possible scenarios and scenario weightings according to external data. Based on the analysis for each major portfolio and the number of scenarios, the Bank keeps their non-linear characteristics. The Bank reassesses the number and characteristics of scenarios annually. On 30 June 2023, the Bank’s three scenarios (basic, optimistic and pessimistic) can properly reflect the non-linear characteristics of each portfolio. The Bank determines scenario weightings through statistical analysis and expert credit judgment, and also considers the possible range of outcomes represented by scenarios. The Bank recognises the 12-month or lifetime ECL for financial instruments in stage 1, 2, and 3. The Bank measures the weighted-average ECL allowance for 12-month (stage 1) and weighted-average ECL for life time (stage 2 and stage 3), which is calculated by multiplying the ECL under each scenario by their weightings respectively, rather than by weighting the parameters. On 30 June 2023, the weightings allocated to each economic scenario were 60% basic, 10% optimism and 30% pessimism (31 December 2022: the weightings allocated to each economic scenario were 60% basic, 10% optimism and 30% pessimism).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk

(a) *Maximum exposure to credit risk – Financial instruments subject to impairment*

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

	As at 30 June 2023			Total
	Stage 1	Stage 2	Stage 3	
Assets				
Balances with central bank	10,150,785	–	–	10,150,785
Due from and placements with banks and other financial institutions	361,470	–	–	361,470
Customer loans	81,777,416	2,660,785	578,881	85,017,082
Financial investments – credit related financial assets	2,205,126	–	373,695	2,578,821
Financial investments – fair value through other comprehensive income	7,966,783	–	28,575	7,995,358
Financial investments – amortised cost	13,652,126	1,363,575	174,210	15,189,911
Other financial assets	103,952	–	–	103,952
Total	116,217,658	4,024,360	1,155,361	121,397,379
Off balance sheet guarantees and commitments	1,516,504	–	–	1,516,504

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For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Maximum exposure to credit risk (continued)

(a) Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	As at 31 December 2022			Total
	Stage 1	Stage 2	Stage 3	
Assets				
Balances with central bank	11,115,212	–	–	11,115,212
Due from and placements with banks and other financial institutions	5,738,581	–	–	5,738,581
Customer loans	76,761,958	2,699,560	537,877	79,999,395
Financial investments – credit related financial assets	2,252,217	–	391,047	2,643,264
Financial investments – fair value through other comprehensive income	9,308,440	–	31,360	9,339,800
Financial investments – amortised cost	13,519,258	1,767,871	50,571	15,337,700
Other financial assets	314,893	–	–	314,893
Total	119,010,559	4,467,431	1,010,855	124,488,845
Off balance sheet guarantees and commitments				
	795,404	–	–	795,404

(b) Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	As at 30 June 2023	As at 31 December 2022
Asset		
Financial investments – fair value through profit or loss		
– Bond investments	22,228,175	11,796,616
– Trust plans	94,978	93,387
– Fund investments	6,783,533	9,261,286
Total	29,106,686	21,151,289

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For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans

	As at 30 June 2023			Total
	Corporate loans	Personal loans	Discounted bills	
Stage 1	68,331,656	12,905,564	2,029,859	83,267,079
Stage 2	3,450,029	130,269	–	3,580,298
Stage 3	1,142,589	296,219	63,500	1,502,308
Total	72,924,274	13,332,052	2,093,359	88,349,685
Accrued interest	435,637	43,035	–	478,672
Less: ECL allowance (i)	(3,293,834)	(517,055)	(386)	(3,811,275)
Net amount	70,066,077	12,858,032	2,092,973	85,017,082

	As at 31 December 2022			Total
	Corporate loans	Personal loans	Discounted bills	
Stage 1	65,165,015	12,072,427	732,960	77,970,402
Stage 2	3,463,205	124,809	–	3,588,014
Stage 3	917,351	260,315	89,830	1,267,496
Total	69,545,571	12,457,551	822,790	82,825,912
Accrued interest	296,386	58,871	–	355,257
Less: ECL allowance (i)	(2,715,680)	(466,094)	–	(3,181,774)
Net amount	67,126,277	12,050,328	822,790	79,999,395

(i) As at 30 June 2023, ECL allowance recognised by the Bank for Discounted bills – FVOCI was RMB90,799 thousand (as at 31 December 2022: RMB74,771 thousand).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(a) Stage-3 loans

As at 30 June 2023	Collateralised or pledged loans					Non-collateralised or pledged loans				
	Credit-impaired assets (Stage 3)	Gross exposure	Accrued interest	ECL allowance	Net amount	Fair value of collateral held	Gross exposure	Accrued interest	ECL allowance	Net amount
Customer loans										
– Corporate loans		642,479	80,101	(498,919)	223,661	293,795	500,110	53,076	(365,862)	187,324
– Personal loans		175,738	10,193	(123,386)	62,545	88,725	120,481	8,079	(86,709)	41,851
– Discounted bills		63,500	-	-	63,500	63,500	-	-	-	-
Total		881,717	90,294	(622,305)	349,706	446,020	620,591	61,155	(452,571)	229,175

As at 31 December 2022	Collateralised or pledged loans					Non-collateralised or pledged loans				
	Credit-impaired assets (Stage 3)	Gross exposure	Accrued interest	ECL allowance	Net amount	Fair value of collateral held	Gross exposure	Accrued interest	ECL allowance	Net amount
Customer loans										
– Corporate loans		472,747	46,473	(338,174)	181,046	200,948	444,604	36,817	(309,633)	171,788
– Personal loans		140,199	7,271	(96,192)	51,278	71,951	120,116	7,910	(84,091)	43,935
– Discounted bills		89,830	-	-	89,830	89,830	-	-	-	-
Total		702,776	53,744	(434,366)	322,154	362,729	564,720	44,727	(393,724)	215,723

The fair value of collaterals is estimated based on the latest available external valuations, the realisation experience of the current collaterals and the market conditions.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(b) Restructured customer loans

Restructuring activities include rescheduled restructuring plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue to be made. These policies are under regular review. Restructuring is most commonly applied to term loans, in particular mid-term and long-term loans.

	As at 30 June 2023	As at 31 December 2022
Restructured customer loans	106,634	91,938

(c) Overdue customer loans by security and overdue date

As at 30 June 2023	Overdue for 1 to 90 days	Overdue for 90 days to 1 year	Overdue for 1 to 3 years	Overdue for over 3 years	Total
Collateralised loans	189,441	271,293	328,382	195,662	984,778
Guaranteed loans	280,659	199,181	222,617	25,669	728,126
Unsecured loans	45,241	62,846	29,321	10	137,418
Pledged loans	1,209	50	63,508	-	64,767
Total	516,550	533,370	643,828	221,341	1,915,089

As at 31 December 2022	Overdue for 1 to 90 days	Overdue for 90 days to 1 year	Overdue for 1 to 3 years	Overdue for over 3 years	Total
Collateralised loans	187,886	293,963	134,900	147,037	763,786
Guaranteed loans	194,526	149,344	211,017	25,669	580,556
Unsecured loans	51,790	55,542	27,825	1,160	136,317
Pledged loans	480	83,784	10,058	-	94,322
Total	434,682	582,633	383,800	173,866	1,574,981

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For the six months ended 30 June 2023
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3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(d) Concentration risks analysis for customer loans (gross) by industry sectors:

	As at 30 June 2023		As at 31 December 2022	
	Amount	%	Amount	%
Corporate loans				
Leasing and commercial services	28,288,853	31.86	26,644,587	32.03
Construction	19,341,677	21.77	18,005,380	21.65
Real estate	9,464,573	10.65	8,971,824	10.79
Wholesale and retail trade	5,279,540	5.94	4,791,879	5.76
Manufacturing	2,782,728	3.13	2,610,059	3.14
Water, environment and public utility management	2,241,390	2.52	2,130,970	2.56
Financial services	2,130,053	2.40	1,679,740	2.02
Education	829,850	0.93	916,500	1.10
Agriculture, forestry, animal husbandry and fishery	622,336	0.70	464,873	0.56
Production and supply of electricity, heat, gas and water	618,140	0.70	764,130	0.92
Accommodation and catering	495,814	0.56	710,175	0.85
Transportation, warehousing and postage service	396,924	0.45	344,969	0.41
Household, maintenance and other services	196,550	0.22	193,650	0.23
Information transmission, software and IT services	115,914	0.13	520,167	0.63
Mining	40,781	0.05	52,692	0.06
Scientific research and technology services	37,050	0.04	60,976	0.07
Sanitation and social work	30,850	0.03	648,100	0.78
Culture, sports and entertainment	11,251	0.01	34,900	0.04
Discounted bills	2,093,359	2.36	822,790	0.99
Total corporate loans	75,017,633	84.45	70,368,361	84.59
Personal business loans	8,420,586	9.48	7,362,821	8.85
Residential mortgage loans	2,752,021	3.10	2,768,392	3.33
Personal consumption loans	2,159,445	2.43	2,326,338	2.80
Total personal loans	13,332,052	15.01	12,457,551	14.98
Accrued interest	478,672	0.54	355,257	0.43
Total customer loans excluding ECL allowance	88,828,357	100.00	83,181,169	100.00

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Customer loans (continued)

(e) Types of collateral analysis

Analysis for customer loans (gross) by types of collateral:

	As at 30 June 2023	As at 31 December 2022
Guaranteed loans	44,497,230	43,339,789
Unsecured loans	20,570,275	16,169,603
Collateralised loans	17,682,648	18,198,977
Pledged loans	5,599,532	5,117,543
Accrued interest	478,672	355,257
Total	88,828,357	83,181,169

3.1.7 Investment securities

As at 30 June 2023 and 31 December 2022, RMB securities are rated by domestic rating agencies.

The rating results of investment securities as following:

	As at 30 June 2023				Total
	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	
RMB securities					
AAA	2,193,448	257,213	2,200,333	–	4,650,994
AA – to AA+	4,954,153	785,147	205,989	–	5,945,289
A	–	21,831	–	–	21,831
Unrated (a)	21,959,085	6,746,077	13,477,857	2,882,850	45,065,869
Accrued interest	–	149,144	463,094	180,817	793,055
Less: ECL allowance	–	–	(1,192,473)	(484,846)	(1,677,319)
Subtotal	29,106,686	7,959,412	15,154,800	2,578,821	54,799,719
Foreign currency					
Unrated	–	35,908	36,129	–	72,037
Accrued interest	–	38	22	–	60
Less: ECL allowance	–	–	(1,040)	–	(1,040)
Subtotal	–	35,946	35,111	–	71,057
Total	29,106,686	7,995,358	15,189,911	2,578,821	54,870,776

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

	As at 31 December 2022					Total
	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets		
RMB securities						
AAA	1,787,338	280,706	1,782,592	–	3,850,636	
AA – to AA+	3,662,171	772,606	66,000	–	4,500,777	
A	–	21,831	–	–	21,831	
Unrated (a)	15,701,780	8,081,216	13,990,684	2,921,600	40,695,280	
Accrued interest	–	148,767	459,225	157,492	765,484	
Less: ECL allowance	–	–	(995,028)	(435,828)	(1,430,856)	
Subtotal	21,151,289	9,305,126	15,303,473	2,643,264	48,403,152	
Foreign currency						
Unrated	–	34,518	34,823	–	69,341	
Accrued interest	–	156	263	–	419	
Less: ECL allowance	–	–	(859)	–	(859)	
Subtotal	–	34,674	34,227	–	68,901	
Total	21,151,289	9,339,800	15,337,700	2,643,264	48,472,053	

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

(a) Unrated securities

As at 30 June 2023	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	–	150,882	637,161	–	788,043
Central government bonds	285,367	1,323,829	1,177,192	–	2,786,388
Policy bank bonds	1,725,553	2,802,821	6,596,115	–	11,124,489
Certificates of deposit	5,635,992	389,442	–	–	6,025,434
Medium-term Notes	485,853	370,846	–	–	856,699
Private placement notes	1,240,330	649,221	280,000	–	2,169,551
Mutual funds	6,783,533	–	–	–	6,783,533
Privately raised corporate bonds	5,330,152	1,059,036	3,256,189	–	9,645,377
Trust plans	94,978	–	1,531,200	2,882,850	4,509,028
General corporate bonds	377,327	–	–	–	377,327
Total	21,959,085	6,746,077	13,477,857	2,882,850	45,065,869

As at 31 December 2022	Financial investments – fair value through profit or loss	Financial investments – FVOCI	Financial investments – amortised cost	Financial investment – credit related financial assets	Total
Local government bonds	–	149,948	772,462	–	922,410
Government bonds	90,027	1,267,706	1,878,006	–	3,235,739
Policy bank bonds	152,163	2,356,853	5,313,842	–	7,822,858
Certificates of deposit	2,266,454	2,108,183	–	–	4,374,637
Medium-term Notes	82,542	362,130	–	–	444,672
Private placement notes	1,137,594	634,311	280,000	–	2,051,905
Mutual funds	9,261,286	–	–	–	9,261,286
Industry funds (Senior tranche)	–	–	150,000	–	150,000
Corporate entity bond	9,817	–	–	–	9,817
ABS	–	3,977	–	–	3,977
Privately raised corporate bond	2,608,510	1,198,108	4,265,174	–	8,071,792
Trust plans	93,387	–	1,331,200	2,921,600	4,346,187
Total	15,701,780	8,081,216	13,990,684	2,921,600	40,695,280

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

(a) Unrated securities (continued)

Financial investments – amortised cost are summarised as follows:

	As at 30 June 2023	As at 31 December 2022
Stage 1	13,532,322	13,319,663
Stage 2	1,730,586	2,304,436
Stage 3	657,400	250,000
Add: Accrued interest	463,116	459,488
Gross amount	16,383,424	16,333,587
Less: ECL allowance	(1,193,513)	(995,887)
Net amount	15,189,911	15,337,700

Financial investments – credit related financial assets are summarised as follows:

	As at 30 June 2023	As at 31 December 2022
Stage 1	2,244,500	2,283,250
Stage 2	–	–
Stage 3	638,350	638,350
Add: Accrued interest	180,817	157,492
Gross amount	3,063,667	3,079,092
Less: ECL allowance	(484,846)	(435,828)
Net amount	2,578,821	2,643,264

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Investment securities (continued)

(a) Unrated securities (continued)

Concentration risks analysis for financial investments – credit related financial assets by industry sectors:

	As at 30 June 2023		As at 31 December 2022	
	amount	%	amount	%
Leasing and commercial services	1,770,350	57.79	1,396,350	45.35
Agriculture, forestry, animal husbandry and fishery	1,000,000	32.64	1,000,000	32.48
Construction	-	-	394,000	12.80
Administration of water conservancy, environment and public facilities	112,500	3.67	131,250	4.26
Add: Accrued interest	180,817	5.90	157,492	5.11
Total	3,063,667	100.00	3,079,092	100.00

3.1.8 Foreclosed assets

	As at 30 June 2023	As at 31 December 2022
Business properties	294,109	289,943
Properties and plants	899	899
Less: Provision for foreclosed assets	(25,335)	(18,941)
Net amount	269,673	271,901

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not generally occupy foreclosed properties for its business use. Foreclosed assets are classified in the statement of financial position as other assets.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

The Bank's geographical risk is primarily concentrated in Mainland China.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

4 NET INTEREST INCOME

	For the six months ended 30 June	
	2023	2022
Interest income		
Balances with central bank	52,929	52,529
Due from and placements with banks and other financial institutions	35,664	58,261
Customer loans	2,836,225	2,698,036
Financial investments – credit related financial assets	82,626	113,194
Financial investments	598,397	918,910
Subtotal	3,605,841	3,840,930
Including: Interest income from impaired financial assets	25,669	27,225
Interest expenses		
Due to central bank	(47,385)	(43,979)
Due to and placements from banks and other financial institutions	(78,307)	(70,042)
Customer deposits	(1,751,717)	(1,647,584)
Debt securities issued	(170,879)	(286,435)
Others	(3,020)	(2,152)
Subtotal	(2,051,308)	(2,050,192)
Net interest income	1,554,533	1,790,738

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

5 NET FEE AND COMMISSION INCOME

	For the six months ended 30 June	
	2023	2022
Fee and commission income		
Commission income from wealth management agency services	80,513	94,183
Commission income from agency services	1,076	1,921
Commission income from settlement services	1,066	1,206
Commission income from guarantees and credit commitments	1,023	832
Commission income from bank card services	676	950
Other commission income	248	83
Commission income from investment banking services	–	2,126
Total	84,602	101,301
Fee and commission expenses	(14,982)	(8,924)
Net fee and commission income	69,620	92,377

6 NET GAINS ON TRADING ACTIVITIES

	For the six months ended 30 June	
	2023	2022
Debt securities-unrealised fair value change	176,314	60,708
Debt securities-realised gains	438,303	248,738
Foreign exchange gains/(losses)	4,262	39,084
Total	618,879	348,530

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

7 NET GAINS ON FINANCIAL INVESTMENTS

	For the six months ended 30 June	
	2023	2022
Net gains arising from de-recognition of FVOCI	2,136	1,066
Financial investments at FVPL-unrealised fair value change	62,941	61,023
Financial investments at FVPL-realised gains	104,341	55,430
Total	169,418	117,519

8 OTHER OPERATING INCOME

	For the six months ended 30 June	
	2023	2022
Net gains on disposal of non-current assets	84	153
Incentive and subsidy funds	20,141	2,436
Penalty on early termination of contracts	390	188
Rental income from investment properties	9,141	5,465
Other miscellaneous income ⁽¹⁾	4,450	1,294
Total	34,206	9,536

(1) Other miscellaneous income mainly includes write-off other payables income, and penalty and confiscatory income.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

9 OPERATING EXPENSES

	For the six months ended 30 June	
	2023	2022
Staff costs (including directors and supervisors' emoluments (allowance inclusive)) ⁽¹⁾	434,451	417,224
Business and administrative expenses	158,801	121,566
Depreciation and amortisation	74,043	84,455
Taxes and surcharges	31,284	27,964
Professional service fee	9,937	11,603
Expenditures on public welfare donations	4,230	4,620
Others	4,042	5,728
Total	716,788	673,160

(1) Staff costs

	For the six months ended 30 June	
	2023	2022
Salaries and bonuses	329,070	319,033
Defined contribution plans ^(a)	45,699	42,642
Staff benefits	20,788	20,430
Housing benefits and subsidies	18,051	16,029
Other social security and benefit costs	11,665	10,379
Staff education and labour union expenses	9,178	8,711
Total	434,451	417,224

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

9 OPERATING EXPENSES (continued)

(1) Staff costs (continued)

(a) Defined contribution plans

The Bank's defined contribution plans are mainly basic pension insurance, enterprise annuity and unemployment insurance paid for employees.

Employees who retire after 8 November 2016 can voluntarily participate in an annuity plan set up by the Bank pursuant to related state corporate annuity regulations. The Bank contributes to the annuity plan based on certain percentage of the employees' gross salary of previous year and the contribution is recognised in profit or loss as incurred.

The amount recognised in profit or loss is as follows:

	For the six months ended 30 June	
	2023	2022
Expenses incurred for retirement benefit plans and unemployment insurance	23,151	21,028
Expenses incurred for corporate annuity plan	22,548	21,614
Total	45,699	42,642

The amount payable at the end of the period/year is as follows:

Statement of financial position obligations for:	As at 30	As at 31
	June 2023	December 2022
Expenses incurred for retirement benefit plans and unemployment insurance	1,380	2,630
Expenses incurred for corporate annuity plan	47	204
Total	1,427	2,834

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

10 EXPECTED CREDIT LOSSES/OTHER ASSETS IMPAIRMENT LOSSES

	For the six months ended 30 June	
	2023	2022
ECL for customer loans at amortised cost (Note 15(b))	623,593	608,090
ECL for customer loans – FVOCI (Note 15(b))	16,028	(9,769)
ECL for financial investments – credit related financial assets (Note 16)	33,089	220,562
ECL for financial investments – amortised cost (Note 19)	187,721	28,876
ECL for financial investments – FVOCI (Note 18)	(47)	9,577
ECL for reverse repurchase agreements, due from other banks and financial institutions (Note 14)	(4,455)	(269)
ECL for guarantee commitments	7,731	1,844
Total	863,660	858,911

	For the six months ended 30 June	
	2023	2022
Other assets impairment losses ⁽¹⁾	8,682	450

(1) Other assets impairment losses is the impairment losses for foreclosed assets and other receivables.

11 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2023	2022
Current income tax	353,895	283,075
Deferred income tax (Note 22)	(168,870)	(97,374)
Total	185,025	185,701

Current income tax is calculated at the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective period as stipulated in PRC tax laws.

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (for the six months ended 30 June 2022: 25%) to profit before income tax can be reconciled as follows:

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

11 INCOME TAX EXPENSE (continued)

	For the six months ended 30 June	
	2023	2022
Profit before income tax	860,297	829,324
Tax calculated at a tax rate of 25%	215,074	207,331
Tax effect arising from non-taxable income ^(a)	(30,931)	(25,047)
Tax effect of expenses that are not deductible for tax purposes ^(b)	4,998	5,351
Income tax adjustment for prior years	(4,116)	(1,934)
Income tax expense	185,025	185,701

(a) The Bank's non-taxable income mainly represents interest income arising from central government bonds, provincial government bonds and investment return on monetary funds, which are non-taxable in accordance with the PRC tax laws.

(b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to the PRC tax laws.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2023	2022
Net profit attributable to shareholders of the Bank	675,272	643,623
Less: Net profit attributable to other equity holders of the Bank	(95,100)	(95,100)
Net profit attributable to ordinary shareholders of the Bank	580,172	548,523
Weighted average number of ordinary shares issued ('000) ⁽ⁱ⁾	2,717,752	2,717,752
Basic earnings per share (RMB) ⁽ⁱ⁾	0.21	0.20

(i) The Bank issued non-cumulative perpetual bonds on 18 March 2020 and 11 June 2020 under the terms and conditions as detailed in Note 30.1 Perpetual Bonds. For the purpose of calculating basic earnings per share, distributions on non-cumulative perpetual bonds declared in respect of the period should be deducted from the amounts attributable to shareholders of the Bank. The Bank has declared distributions on perpetual bonds of RMB95,100 thousand for the six months ended 30 June 2023 (for the six months ended 30 June 2022: RMB95,100 thousand).

Please refer to Note 29 about the changes in share capital.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

13 CASH AND BALANCES WITH CENTRAL BANK

	30 June 2023	31 December 2022
Cash	89,368	96,098
Mandatory reserve deposits with central bank ^(a)	5,904,290	5,935,823
Surplus reserve deposits with central bank	3,975,003	4,991,937
Fiscal deposits with central bank	268,527	184,141
Accrued interest	2,965	3,311
Total	10,240,153	11,211,310

- (a) The Bank is required to place mandatory reserve deposits and mandatory reserve for foreign exchange with the People's Bank of China ("PBOC"). These mandatory reserves are not available for use in the daily business of the Bank.

As at 30 June 2023 and 31 December 2022, the mandatory reserve deposits rates of the Bank are as follows:

	30 June 2023	31 December 2022
Mandatory reserve rate for deposits denominated in RMB	5.00%	5.25%

Surplus reserve deposits are maintained with central bank mainly for liquidity purpose.

14 DUE FROM AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
Due from banks and other financial institutions	361,729	232,818
Placements with banks and other financial institutions	12,131	512,131
Reverse repurchase agreements – debt securities	–	5,008,327
Accrued interest	50	2,200
Less: ECL allowance	(12,440)	(16,895)
Total	361,470	5,738,581

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS

(a) Customer loans

	30 June 2023	31 December 2022
Customer loans at amortised cost		
Corporate loans	72,924,274	69,545,571
Personal loans	13,332,052	12,457,551
Discounted bills – AC	20,394	–
Accrued interest	478,672	355,257
Gross amount of loans at amortised cost	86,755,392	82,358,379
Less: ECL allowance	(3,811,275)	(3,181,774)
Net customer loans at amortised cost	82,944,117	79,176,605
Customer loans – FVOCI		
Discounted bills – FVOCI	2,072,965	822,790
Net customer loans – FVOCI	2,072,965	822,790
Net customer loans	85,017,082	79,999,395

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023	1,156,321	911,552	647,807	2,715,680
New financial assets originated	377,295	-	-	377,295
Remeasurement	114,460	268,404	117,688	500,552
Repayment	(257,959)	(34,231)	(42,453)	(334,643)
Write-off	-	-	(4,282)	(4,282)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(13,058)	13,058	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(267)	-	267	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(106,558)	106,558	-
<i>Transfer from Stage 2 to Stage 1</i>	59,498	(59,498)	-	-
Recoveries of loans written-off in previous years	-	-	1,415	1,415
Unwinding of discount	-	-	37,781	37,781
Exchange differences	36	-	-	36
As at 30 June 2023	1,436,326	992,727	864,781	3,293,834

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023	240,051	45,760	180,283	466,094
New financial assets originated	129,380	-	-	129,380
Remeasurement	(1,727)	42,163	66,275	106,711
Repayment	(110,377)	(19,776)	(25,935)	(156,088)
Written-offs	-	-	(33,742)	(33,742)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(2,288)	2,288	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(1,293)	-	1,293	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(19,050)	19,050	-
<i>Transfer from Stage 3 to Stage 2</i>	-	1,194	(1,194)	-
<i>Transfer from Stage 2 to Stage 1</i>	1,667	(1,667)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	635	-	(635)	-
Recoveries of loans written-off in previous years	-	-	2,483	2,483
Unwinding of discount	-	-	2,217	2,217
As at 30 June 2023	256,048	50,912	210,095	517,055

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	1,155,111	517,008	634,043	2,306,162
New financial assets originated	432,912	–	–	432,912
Remeasurement	(74,030)	532,998	410,341	869,309
Repayment	(312,735)	(43,393)	(183,365)	(539,493)
Written-offs	–	–	(378,478)	(378,478)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(41,426)	41,426	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(3,571)	–	3,571	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(139,488)	139,488	–
<i>Transfer from Stage 3 to Stage 2</i>	–	3,001	(3,001)	–
Unwinding of discount	–	–	25,208	25,208
Exchange differences	60	–	–	60
As at 31 December 2022	1,156,321	911,552	647,807	2,715,680

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	195,343	28,514	107,079	330,936
New financial assets originated	209,140	–	–	209,140
Remeasurement	(12,125)	41,667	141,606	171,148
Repayment	(149,646)	(6,895)	(14,582)	(171,123)
Written-offs	–	–	(79,982)	(79,982)
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(2,499)	2,499	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(3,635)	–	3,635	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(18,845)	18,845	–
<i>Transfer from Stage 3 to Stage 2</i>	–	455	(455)	–
<i>Transfer from Stage 2 to Stage 1</i>	1,635	(1,635)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	1,838	–	(1,838)	–
Recoveries of loans written-off in previous years	–	–	2,042	2,042
Unwinding of discount	–	–	3,933	3,933
As at 31 December 2022	240,051	45,760	180,283	466,094

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023	11,018	-	63,753	74,771
New financial assets originated	36,760	-	-	36,760
Remeasurement	4	-	9,247	9,251
Repayment	(10,996)	-	(18,601)	(29,597)
As at 30 June 2023	36,786	-	54,399	91,185

Discounted bills	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	54,713	87,200	-	141,913
New financial assets originated	11,018	-	-	11,018
Remeasurement	-	-	42,696	42,696
Repayment	(54,713)	(66,143)	-	(120,856)
Transfers:				
<i>Transfer from Stage 2 to Stage 3</i>	-	(21,057)	21,057	-
As at 31 December 2022	11,018	-	63,753	74,771

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans

The following table further illustrates the changes in the gross amounts of the corporate and personal loans portfolios (excluding interest receivable) to explain the impact of these changes on the portfolio's ECL.

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	65,165,015	3,463,205	917,351	69,545,571
New financial assets originated	17,945,277	-	-	17,945,277
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(619,267)	619,267	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(13,926)	-	13,926	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(285,178)	285,178	-
<i>Transfer from Stage 2 to Stage 1</i>	177,000	(177,000)	-	-
Derecognition of financial assets of current period	(14,324,914)	(170,265)	(69,584)	(14,564,763)
Write-off	-	-	(4,282)	(4,282)
Exchange differences	2,471	-	-	2,471
As at 30 June 2023	68,331,656	3,450,029	1,142,589	72,924,274
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	12,072,427	124,809	260,315	12,457,551
New financial assets originated	5,474,429	-	-	5,474,429
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(112,448)	112,448	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(55,257)	-	55,257	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(55,922)	55,922	-
<i>Transfer from Stage 3 to Stage 2</i>	-	2,039	(2,039)	-
<i>Transfer from Stage 2 to Stage 1</i>	5,736	(5,736)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	1,015	-	(1,015)	-
Derecognition of financial assets of current period	(4,480,338)	(47,369)	(38,479)	(4,566,186)
Write-off	-	-	(33,742)	(33,742)
As at 30 June 2023	12,905,564	130,269	296,219	13,332,052

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For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	58,141,105	1,832,832	899,070	60,873,007
New financial assets originated	25,044,703	-	-	25,044,703
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(2,320,303)	2,320,303	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(169,787)	-	169,787	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(500,971)	500,971	-
<i>Transfer from Stage 3 to Stage 2</i>	-	5,492	(5,492)	-
Derecognition of financial assets of current year	(15,532,383)	(194,451)	(268,507)	(15,995,341)
Written-offs	-	-	(378,478)	(378,478)
Exchange differences	1,680	-	-	1,680
As at 31 December 2022	65,165,015	3,463,205	917,351	69,545,571
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	9,908,845	99,016	159,629	10,167,490
New financial assets originated	8,436,792	-	-	8,436,792
Transfers:				
<i>Transfer from Stage 1 to Stage 2</i>	(134,274)	134,274	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(129,676)	-	129,676	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(78,533)	78,533	-
<i>Transfer from Stage 3 to Stage 2</i>	-	738	(738)	-
<i>Transfer from Stage 2 to Stage 1</i>	9,363	(9,363)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	3,296	-	(3,296)	-
Derecognition of financial assets of current year	(6,021,919)	(21,323)	(23,507)	(6,066,749)
Written-offs	-	-	(79,982)	(79,982)
As at 31 December 2022	12,072,427	124,809	260,315	12,457,551

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For the six months ended 30 June 2023
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15 CUSTOMER LOANS (continued)

(c) Movements on gross amount (excluding accrued interest) of customer loans (continued)

Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	732,960	-	89,830	822,790
New financial assets originated or purchased	2,028,413	-	-	2,028,413
Proceeds received	(731,514)	-	(26,330)	(757,844)
As at 30 June 2023	2,029,859	-	63,500	2,093,359
Discounted bills	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	3,239,214	373,029	-	3,612,243
New financial assets originated	732,960	-	-	732,960
Proceeds received	(3,239,214)	(283,199)	-	(3,522,413)
Transfers:				
<i>Transfer from Stage 2 to Stage 3</i>	-	(89,830)	89,830	-
As at 31 December 2022	732,960	-	89,830	822,790

(d) Customer loans listed by stages

As at 30 June 2023	Stage 1	Stage 2	Stage 3	Total
Total customer loans	83,267,079	3,580,298	1,502,308	88,349,685
- Corporate loans	68,331,656	3,450,029	1,142,589	72,924,274
- Personal loans	12,905,564	130,269	296,219	13,332,052
- Discounted bills	2,029,859	-	63,500	2,093,359
Accrued interest	203,097	124,126	151,449	478,672
Less: ECL allowance	(1,692,760)	(1,043,639)	(1,074,876)	(3,811,275)
Net customer loans	81,777,416	2,660,785	578,881	85,017,082
As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Total customer loans	77,970,402	3,588,014	1,267,496	82,825,912
- Corporate loans	65,165,015	3,463,205	917,351	69,545,571
- Personal loans	12,072,427	124,809	260,315	12,457,551
- Discounted bills	732,960	-	89,830	822,790
Accrued interest	187,928	68,858	98,471	355,257
Less: ECL allowance	(1,396,372)	(957,312)	(828,090)	(3,181,774)
Net customer loans	76,761,958	2,699,560	537,877	79,999,395

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16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS

The Bank's financial investments – credit related financial assets are corporate loans issued through consolidated structured entities (trust plans).

	30 June 2023	31 December 2022
Financial investments – credit related financial assets ⁽¹⁾	2,882,850	2,921,600
Accrued interest	180,817	157,492
Gross amount	3,063,667	3,079,092
Less: ECL allowance	(484,846)	(435,828)
Total	2,578,821	2,643,264

(1) Analysis by type of collateral:

	30 June 2023	31 December 2022
Guaranteed	2,378,350	2,088,350
Pledged	357,500	665,250
Unsecured	147,000	168,000
Total	2,882,850	2,921,600

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16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

The movement of ECL of financial investments – credit related financial assets is as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023	36,641	–	399,187	435,828
New financial assets originated or purchased	5,765	–	–	5,765
Remeasurement	6,605	–	25,833	32,438
Repayment	(5,114)	–	–	(5,114)
Unwinding of discount	–	–	15,929	15,929
As at 30 June 2023	43,897	–	440,949	484,846

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022	43,326	194,039	–	237,365
Remeasurement	(2,205)	–	184,391	182,186
Repayment	(4,480)	–	–	(4,480)
Transfers:				
<i>Transfer from Stage 2 to Stage 3</i>	–	(194,039)	194,039	–
Unwinding of discount	–	–	20,757	20,757
As at 31 December 2022	36,641	–	399,187	435,828

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For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

16 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

The movement on gross amount (excluding accrued interest) of financial investments – credit related financial assets is as follows:

Gross amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	2,283,250	–	638,350	2,921,600
New financial assets originated or purchased	300,000	–	–	300,000
Proceeds received	(338,750)	–	–	(338,750)
As at 30 June 2023	2,244,500	–	638,350	2,882,850

Gross amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	2,580,750	638,350	–	3,219,100
Repayment	(297,500)	–	–	(297,500)
Transfers:				
<i>Transfer from Stage 2 to Stage 3</i>	–	(638,350)	638,350	–
As at 31 December 2022	2,283,250	–	638,350	2,921,600

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17 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2023	31 December 2022
Financial investments – fair value through profit or loss		
– Listed outside Hong Kong	10,658,396	6,613,028
– Unlisted ⁽¹⁾	18,505,194	14,593,895
Total	29,163,590	21,206,923

(1) Unlisted financial investments measured at fair value through profit or loss are set out below:

	30 June 2023	31 December 2022
Financial assets measured at fair value through profit or loss (unlisted)		
– Mutual funds	6,783,533	9,261,286
– Corporate entity bonds	3,091,953	2,022,068
– Commercial bank bonds	6,466,906	2,919,330
– Policy bank bonds	1,725,553	152,163
– Trust plans	94,978	93,387
– Central government bonds	285,367	90,027
– Equity investments at fair value	56,904	55,634
Total	18,505,194	14,593,895

The Bank's unlisted corporate entity bonds are traded in the inter-bank bond market in Mainland China.

As at 30 June 2023, no financial investments measured at fair value through profit or loss of the Bank were pledged to third parties under repurchase agreements (as at 31 December 2022: Nil).

Financial investments measured at fair value through profit or loss by the issuer are set out below:

	30 June 2023	31 December 2022
Financial investments – fair value through profit or loss		
– Corporates	13,845,327	8,728,483
– Other financial institutions	6,783,533	9,261,286
– Commercial banks	6,466,906	2,919,330
– Policy banks	1,725,553	152,163
– Governments	285,367	90,027
– Equity investments at fair value	56,904	55,634
Total	29,163,590	21,206,923

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For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

18 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2023	31 December 2022
Financial investments – FVOCI		
– Listed outside Hong Kong	2,063,885	2,218,641
– Listed in Hong Kong	35,908	34,518
– Unlisted ⁽¹⁾	5,746,383	6,937,718
Subtotal	7,846,176	9,190,877
Accrued interest	149,182	148,923
Total	7,995,358	9,339,800

(1) Unlisted financial investments measured at fair value through other comprehensive income are set out below:

	30 June 2023	31 December 2022
Financial investments – FVOCI (unlisted)		
– Policy bank bonds	2,802,821	2,356,853
– Central government bonds	1,323,829	1,267,706
– Corporate entity bonds	1,049,184	1,024,882
– Commercial bank bonds	389,442	2,108,183
– Provincial government bonds	181,107	180,094
Total	5,746,383	6,937,718

The Bank's unlisted bonds are traded in the inter-bank bond market in Mainland China.

Financial investments measured at fair value through other comprehensive income by the issuer are set out below:

	30 June 2023	31 December 2022
Financial investments – FVOCI		
– Corporates	3,148,977	3,278,041
– Commercial banks	389,442	2,108,183
– Governments	1,504,936	1,447,800
– Policy banks	2,802,821	2,356,853
Total	7,846,176	9,190,877

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18 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The movement of ECL allowance of financial investments – FVOCI is as follows:

	Financial investments – FVOCI			Total
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	
As at 1 January 2023	80,471	–	16,587	97,058
New financial assets originated or purchased	1,097	–	–	1,097
Remeasurement	2,369	–	2,117	4,486
Repayment	(5,630)	–	–	(5,630)
As at 30 June 2023	78,307	–	18,704	97,011

	Financial investments – FVOCI			Total
	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	
As at 1 January 2022	231,996	11,748	–	243,744
New financial assets originated or purchased	12,114	–	–	12,114
Remeasurement	(7,498)	–	4,839	(2,659)
Repayment	(156,141)	–	–	(156,141)
Transfer:				
<i>Transfer from Stage 2 to Stage 3</i>	–	(11,748)	11,748	–
As at 31 December 2022	80,471	–	16,587	97,058

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For the six months ended 30 June 2023

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19 FINANCIAL INVESTMENTS – AMORTISED COST

	30 June 2023	31 December 2022
Financial investments – amortised cost		
– Listed in Hong Kong	36,129	34,823
– Listed outside Hong Kong	2,536,245	1,758,980
– Unlisted ⁽¹⁾	13,347,934	14,080,296
Subtotal	15,920,308	15,874,099
Accrued interest	463,116	459,488
Less: ECL allowance	(1,193,513)	(995,887)
Total	15,189,911	15,337,700

(1) Unlisted financial investments measured at amortised cost are set out below:

	30 June 2023	31 December 2022
Financial investments – amortised cost (unlisted)		
– Corporate entity bonds	3,406,266	4,634,786
– Policy bank bonds	6,596,115	5,313,842
– Central government bonds	1,177,192	1,878,006
– Provincial government bonds	637,161	772,462
– Collective Trust plans	1,531,200	1,331,200
– Industry funds (Senior tranche)	–	150,000
Total	13,347,934	14,080,296

Financial investments – amortised cost are analysed by issuer as follows:

	30 June 2023	31 December 2022
Financial investments – amortised cost		
– Corporate companies	5,978,640	6,428,589
– Policy banks	6,596,115	5,313,842
– Governments	1,814,353	2,650,468
– Trust companies	1,531,200	1,331,200
– Fund companies	–	150,000
Total	15,920,308	15,874,099

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19 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

The movement of ECL allowance of financial investments – amortised cost is as follows:

	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2023	101,459	681,700	212,728	995,887
New financial assets originated or purchased	29,268	–	–	29,268
Remeasurement	14,197	33,079	179,452	226,728
Repayment	(21,366)	(46,909)	–	(68,275)
Transfer:				
<i>Transfer from Stage 2 to Stage 3</i>	–	(116,386)	116,386	–
Unwinding of discount	–	–	9,903	9,903
Exchange differences	2	–	–	2
As at 30 June 2023	123,560	551,484	518,469	1,193,513

	12-month ECL for Stage 1	Lifetime ECL for Stage 2	Lifetime ECL for Stage 3	Total
As at 1 January 2022	129,189	287,466	212,271	628,926
New financial assets originated or purchased	23,113	–	–	23,113
Remeasurement	10,906	403,112	457	414,475
Repayment	(34,770)	(35,859)	–	(70,629)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(26,981)	26,981	–	–
Exchange differences	2	–	–	2
As at 31 December 2022	101,459	681,700	212,728	995,887

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19 FINANCIAL INVESTMENTS – AMORTISED COST (continued)

The movement on gross amount (excluding accrued interest) of financial investments – amortised cost is as follows:

Gross amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	13,319,663	2,304,436	250,000	15,874,099
New financial assets originated or purchased	3,414,804	–	–	3,414,804
Proceeds received	(3,203,451)	(166,450)	–	(3,369,901)
Transfer:				
<i>Transfer from Stage 2 to Stage 3</i>	–	(407,400)	407,400	–
Exchange differences	1,306	–	–	1,306
As at 30 June 2023	13,532,322	1,730,586	657,400	15,920,308

Gross amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	15,467,761	917,226	250,000	16,634,987
New financial assets originated or purchased	2,536,717	–	–	2,536,717
Proceeds received	(3,191,910)	(108,640)	–	(3,300,550)
Transfer:				
<i>Transfer from Stage 1 to Stage 2</i>	(1,495,850)	1,495,850	–	–
Exchange differences	2,945	–	–	2,945
As at 31 December 2022	13,319,663	2,304,436	250,000	15,874,099

20 INVESTMENT IN AN ASSOCIATE

	30 June 2023	31 December 2022
Balance at the beginning of the period/year	52,474	48,924
Share of profit after tax	2,771	3,550
Balance at the end of the period/year	55,245	52,474

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

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20 INVESTMENT IN AN ASSOCIATE (continued)

Investment in the associate of the Bank is in unlisted company equity interest. Assets, liabilities, revenue and profit of the associate are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Interest held (%)
30 June 2023						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,194,401	1,010,598	18,916	9,235	30%
31 December 2022						
Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	1,257,080	1,082,512	41,001	11,834	30%

21 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress ^(a)	Total
Cost						
As at 1 January 2023	821,355	10,438	198,296	64,220	164,866	1,259,175
Additions	-	1,139	24,031	6,533	26,361	58,064
Transfer from/(to) Construction in progress	1,102	-	-	-	(1,102)	-
Less: Disposal in the current period	-	(478)	(2,899)	(1,993)	-	(5,370)
Transfer to amortisation of long-term deferred expenses	-	-	-	-	(18,072)	(18,072)
Transfer to intangible assets (Note 23(4))	-	-	-	-	(4,674)	(4,674)
As at 30 June 2023	822,457	11,099	219,428	68,760	167,379	1,289,123
Accumulated depreciation						
As at 1 January 2023	(175,582)	(7,100)	(145,696)	(34,274)	-	(362,652)
Depreciation in the current period	(18,219)	(547)	(14,700)	(4,866)	-	(38,332)
Disposals	-	454	879	466	-	1,799
As at 30 June 2023	(193,801)	(7,193)	(159,517)	(38,674)	-	(399,185)
Net book value						
As at 30 June 2023	628,656	3,906	59,911	30,086	167,379	889,938

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(All amounts expressed in thousands of RMB unless otherwise stated)

21 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress ^(a)	Total
Cost						
As at 1 January 2022	780,062	10,438	186,603	55,808	101,312	1,134,223
Additions	41,293	–	13,614	8,811	94,234	157,952
Transfer from/(to) Construction in progress	–	–	731	–	(731)	–
Less: Disposals in the current year	–	–	(2,652)	(399)	–	(3,051)
Transfer to amortisation of long-term deferred expenses	–	–	–	–	(27,394)	(27,394)
Transfer to intangible assets (Note 23(4))	–	–	–	–	(2,555)	(2,555)
As at 31 December 2022	821,355	10,438	198,296	64,220	164,866	1,259,175
Accumulated depreciation						
As at 1 January 2022	(136,041)	(5,758)	(117,516)	(24,826)	–	(284,141)
Depreciation in the current year	(39,541)	(1,342)	(29,798)	(9,812)	–	(80,493)
Disposals	–	–	1,618	364	–	1,982
As at 31 December 2022	(175,582)	(7,100)	(145,696)	(34,274)	–	(362,652)
Net book value						
As at 31 December 2022	645,773	3,338	52,600	29,946	164,866	896,523

As at 30 June 2023, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, was RMB26,426 thousand (31 December 2022: RMB27,274 thousand). However, the directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

None of the land or property the Bank owned is located in Hong Kong.

(a) Construction in progress

	30 June 2023	31 December 2022
Software engineering	78,454	76,302
Business building and decoration projects	64,197	64,793
Others	24,728	23,771
Total	167,379	164,866

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22 DEFERRED INCOME TAX

Deferred income taxes were calculated on all temporary differences under the liability method using an effective tax rate of 25% as at 30 June 2023 and 31 December 2022 for transactions in the PRC.

Movements in the deferred income tax account are as follows:

	For the six months ended 30 June 2023	For the year ended 31 December 2022
Balance at the beginning of the period/year	1,092,564	777,630
Income tax expense (Note 11)	168,870	241,944
Changes in fair value of financial investments at FVOCI	(21,458)	19,533
Changes in ECL allowance of financial investments at FVOCI	(3,995)	53,457
Balance at the end of the period/year	1,235,981	1,092,564

Deferred income tax assets and liabilities are attributable to the following items:

	30 June 2023		31 December 2022	
	Deductible/ (taxable) Temporary differences	Deferred income tax assets/ (liabilities)	Deductible Temporary differences	Deferred income tax assets
Deferred income tax assets				
Asset impairment allowances	4,670,273	1,167,567	3,819,963	954,990
Unrealised losses on fair value measurements of financial investments at FVPL	-	-	44,365	11,091
Unrealised losses on fair value measurement of financial investments at FVOCI	31,981	7,995	117,811	29,453
Payroll payable	433,620	108,405	388,118	97,030
Subtotal	5,135,874	1,283,967	4,370,257	1,092,564
Deferred tax liabilities				
Unrealised gains on fair value measurement of financial investments at FVPL	(191,945)	(47,986)	-	-
Subtotal	(191,945)	(47,986)	-	-
Net deferred income tax assets	4,943,929	1,235,981	4,370,257	1,092,564

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23 OTHER ASSETS

	30 June 2023	31 December 2022
Office building prepayment	414,435	414,435
Foreclosed assets ⁽²⁾	295,008	290,842
Less: Impairment allowance ⁽³⁾	(25,335)	(18,941)
Settlement fund ⁽⁶⁾	182,489	68,425
Right-of-use assets ⁽¹⁾	138,437	117,193
Other receivables	90,100	89,706
Long-term prepaid expenses	49,106	43,686
Prepaid expenses	40,261	79,796
Intangible assets ⁽⁴⁾	17,916	16,858
Interest receivable from customer loans	13,852	8,492
Investment properties ⁽⁵⁾	728	801
Total	1,216,997	1,111,293

(1) Right-of-use assets

	Buildings	Office equipment	Total
Cost			
As at 1 January 2023	173,917	110	174,027
Additions	38,337	–	38,337
Decreases	(11,542)	–	(11,542)
As at 30 June 2023	200,712	110	200,822
Accumulated depreciation			
As at 1 January 2023	(56,757)	(77)	(56,834)
Depreciation in the period	(17,082)	(11)	(17,093)
Decreases	11,542	–	11,542
As at 30 June 2023	(62,297)	(88)	(62,385)
Net book value			
As at 30 June 2023	138,415	22	138,437

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

23 OTHER ASSETS (continued)

(1) Right-of-use assets (continued)

	Buildings	Office equipment	Total
Cost			
As at 1 January 2022	126,903	110	127,013
Additions	52,866	–	52,866
Decreases	(5,852)	–	(5,852)
As at 31 December 2022	173,917	110	174,027
Accumulated depreciation			
As at 1 January 2022	(39,045)	(55)	(39,100)
Charge for the year	(23,564)	(22)	(23,586)
Decreases	5,852	–	5,852
As at 31 December 2022	(56,757)	(77)	(56,834)
Net book value			
As at 31 December 2022	117,160	33	117,193

(2) Foreclosed assets

	Buildings
As at 1 January 2023	290,842
Additions	4,166
As at 30 June 2023	295,008
As at 1 January 2022	41,940
Additions	251,878
Disposals	(2,976)
As at 31 December 2022	290,842

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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23 OTHER ASSETS (continued)

(3) Impairment for foreclosed assets

	Buildings
As at 1 January 2023	(18,941)
Additions	(6,394)
As at 30 June 2023	(25,335)
As at 1 January 2022	(15,310)
Additions	(5,030)
Disposals	1,399
As at 31 December 2022	(18,941)

(4) Intangible assets

	Software
Cost	
As at 1 January 2023	59,769
Additions	475
Transfers from Construction in progress	4,674
As at 30 June 2023	64,918
Accumulated amortisation	
As at 1 January 2023	(42,911)
Amortisation expense	(4,091)
As at 30 June 2023	(47,002)
Net book value	17,916

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

23 OTHER ASSETS (continued)

(4) Intangible assets (continued)

	Software
Cost	
As at 1 January 2022	45,325
Additions	11,889
Transfers from Construction in progress	2,555
<hr/>	
As at 31 December 2022	59,769
Accumulated amortisation	
As at 1 January 2022	(30,875)
Amortisation expense	(12,036)
<hr/>	
As at 31 December 2022	(42,911)
<hr/>	
Net book value	16,858
<hr/>	

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

23 OTHER ASSETS (continued)

(5) Investment properties

	30 June 2023	31 December 2022
Cost		
Balance at the beginning of the period/year	11,453	11,453
Balance at the end of the period/year	11,453	11,453
Accumulated depreciation		
Balance at the beginning of the period/year	(10,652)	(10,506)
Charge for the year	(73)	(146)
Balance at the end of the period/year	(10,725)	(10,652)
Net book value		
Balance at the end of the period/year	728	801

The analysis of the value of investment properties by remaining leasehold period are as follows:

	30 June 2023	31 December 2022
Located in PRC		
Leased out (within 10 years)	380	393
Held and prepared for operating lease	348	408
Total	728	801

(6) The clearing and settlement are balances in the large payment system and UnionPay settlement funds.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

24 DUE TO AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
Due to banks and other financial institutions	522,394	680,183
Repurchase agreements – securities	8,309,700	5,112,100
Placements from banks and other financial institutions	3,366,200	3,476,200
Accrued interest	6,281	14,835
Total	12,204,575	9,283,318

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2023	31 December 2022
Short sell of borrowed securities	307,599	150,905

26 CUSTOMER DEPOSITS

	30 June 2023	31 December 2022
Corporate demand deposits	41,665,466	38,029,877
Including:		
Guarantee deposits	2,050,694	1,560,479
Corporate time deposits	6,974,567	7,450,322
Individual demand deposits	15,551,494	14,434,768
Individual time deposits	48,916,164	47,450,595
Accrued interest	2,373,899	2,080,095
Total	115,481,590	109,445,657

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

27 DEBT SECURITIES ISSUED

	30 June 2023	31 December 2022
Inter-bank certificates of deposit	4,760,014	8,615,706
Fixed rate tier-2-capital debt – 2030 ^(a)	1,500,000	1,500,000
Fixed rate tier-2-capital debt – 2032 ^(b)	800,000	800,000
Fixed rate SME debt – 2024 ^(c)	2,000,000	2,000,000
Accrued interest	83,092	67,163
Total	9,143,106	12,982,869

- (a) The Bank issued RMB0.8 billion tier-2 capital debt in September 2020. The term of this capital debt lasts for 10 years, and the fixed interest rate is 5.00%. The Bank, as an issuer, can choose to redeem the debt in part or for all at the face value on 29 September 2025, the last day of the interest rate year that is set to redeem in advance in this year, if the capital level of the Bank still meets the requirement of former CBIRC requirement after exercising the right of redemption and subject to the National Financial Regulatory Administration Sichuan Bureau approval.

The Bank issued RMB0.7 billion tier-2 capital debt in November 2020. The term of this capital debt lasts for 10 years, and the fixed interest rate is 4.80%. The Bank, as an issuer, can choose to redeem the debt in part or for all on at the face value 13 November 2025, the last day of the interest rate year that is set to redeem in advance in this year, if the capital level of the Bank still meets the requirement of former CBIRC requirement after exercising the right of redemption and subject to the National Financial Regulatory Administration Sichuan Bureau approval.

- (b) The Bank issued RMB0.8 billion tier-2 capital debt in November 2022. The term of this capital debt lasts for 10 years, and the fixed interest rate is 4.60%. The Bank has an option to redeem the debt at the par value partially or as a whole on 1 November 2027, the last day of the interest-bearing year with early redemption option embedded, provided that National Financial Regulatory Administration Sichuan Bureau's permission is acquired in advance and the Bank's capital structure fulfills the former CBIRC requirements on capital if the redemption is exercised.
- (c) The Bank issued RMB2 billion special financial debt for loans to small and micro enterprises (the "SME debt") in May 2021. The term of this SME debt lasts for 3 years, and the fixed interest rate is 3.85%. The Bank has no option to redeem the bond before maturity.

The tier-2 capital debts the Bank issued have the write-down feature, which allows the Bank to write down the entire principals of the debts when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. According to the relevant former CBIRC regulations, the tier-2 capital debt issued meets the standards of qualified tier-2 capital instruments.

As at 30 June 2023, the Bank did not have overdue principal or interest on debt issued or certificates of deposit, or any other default (as at 31 December 2022: Nil).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

28 OTHER LIABILITIES

	30 June 2023	31 December 2022
Employee benefits payable	433,620	388,118
Lease liabilities	132,623	116,680
Dividends payable	118,484	118,557
Other payables	71,959	128,910
Deferred income	47,226	13,333
Provisions	11,748	20,193
Security deposits	7,055	8,795
Advances from customers	2,758	18
Others	28,667	12,723
Total	854,140	807,327

29 SHARE CAPITAL AND CAPITAL SURPLUS

All shares of the Bank issued are fully paid ordinary shares. The par value per share is RMB1.00. The Bank's number of shares is as follows:

	30 June 2023	31 December 2022
Number of shares ('000)	2,717,752	2,717,752

Generally, transactions of the following nature are recorded in the capital surplus:

- (a) Share premium arising from the issue of shares at prices in excess of their par value;
- (b) Donations received from shareholders; and
- (c) Any other items required by the PRC regulations to be so treated.

Capital surplus can be utilised for increasing capital as approved by the shareholders.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

29 SHARE CAPITAL AND CAPITAL SURPLUS (continued)

As at 31 December 2022 and 30 June 2023, the Bank's capital surplus was shown as follow:

	31 December 2022	Additions	30 June 2023
Share premium	1,786,355	–	1,786,355

	31 December 2021	Additions	31 December 2022
Share premium	1,786,355	–	1,786,355

30 OTHER EQUITY INSTRUMENTS

30.1 Perpetual bonds

30.1.1 Perpetual bonds outstanding as at 30 June 2023 and 31 December 2022

	Issue date	Accounting classification	Original interest rate	Issue price	Amount in shares	In RMB (in thousands)	Maturity
Perpetual bonds in RMB	18 March 2020	Equity	5.80%	RMB100/bond	10,000,000	1,000,000	No fixed maturity date
Perpetual bonds in RMB	11 June 2020	Equity	5.30%	RMB100/bond	7,000,000	700,000	No fixed maturity date
					Total	<u>1,700,000</u>	
					Less: Offering related expenses	<u>(3,176)</u>	
					Carrying amount	<u>1,696,824</u>	

With the approval of relevant Chinese regulatory authorities, the Bank issued perpetual bonds in the inter-bank bond market on 18 March 2020 and 11 June 2020, with a total face value of RMB1.7 billion and each face value of RMB100. The interest rate of the perpetual bonds does not contain any interest rate step-up mechanism or any other redemption incentives. The coupon rate is determined by a benchmark rate plus a fixed spread, and it will be adjusted every 5 years, the coupon rate for the first 5 years is respectively 5.80% and 5.30%.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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30 OTHER EQUITY INSTRUMENTS (continued)

30.1 Perpetual bonds (continued)

30.1.2 Main clauses

The perpetual bonds will continue to be outstanding so long as the Bank's business continues to operate. After five years from the issuance of the perpetual bonds, the Bank may redeem the perpetual bonds in whole or in part on each distribution payment date. Upon the occurrence of Write-down Event, the Bank has the right, subject to the approval of the National Financial Regulatory Administration Sichuan Bureau but without the need for the consent of the bondholders, to write down whole or part of the aggregate amount of the perpetual bonds. The claims in respect of the perpetual bonds are subordinated to the claims of depositors, general creditors, and subordinated indebtedness that rank senior to the perpetual bonds; and will rank in priority to all classes of equity shares held by the Bank's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Bank that rank pari passu with the perpetual bonds.

The distributions on the perpetual bonds are non-cumulative. The Bank shall have the right to cancel, in whole or in part, distributions on the bonds and any such cancellation shall not constitute an event of default. The Bank may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. However, the Bank will not distribute income to ordinary shareholders until it decides to start paying full distributions to the bondholders.

The net proceeds from the Bank's issuance of the above bonds, after deducting offering related expenses, will be used to replenish the Additional Tier 1 Capital of the Bank.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

31 OTHER RESERVES

	Surplus reserve ^(a)	General reserve ^(b)	Revaluation reserve of financial assets at FVOCI	Impairment allowances for financial assets at FVOCI	Total
As at 1 January 2023	611,517	1,737,305	(88,359)	128,873	2,389,336
Other comprehensive income	-	-	64,372	11,986	76,358
Additions	-	188,883	-	-	188,883
As at 30 June 2023	611,517	1,926,188	(23,987)	140,859	2,654,577
As at 1 January 2022	530,764	1,539,567	(29,760)	289,244	2,329,815
Other comprehensive income	-	-	(58,599)	(160,371)	(218,970)
Additions	80,753	197,738	-	-	278,491
As at 31 December 2022	611,517	1,737,305	(88,359)	128,873	2,389,336

(a) Surplus reserve

In accordance with “the Company Law of the People’s Republic of China” and the Bank’s Articles of Association, 10% of the net distributable profit of the Bank, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. With approval, statutory surplus reserve can be used for making up losses, or increasing the share capital.

(b) General reserve

The Bank follows “the management methods of financial institutions reserve” (CAIJIN [2012] No. 20) issued by the Ministry of Finance. According to these requirements, the general reserve should not be lower than the 1.5% of the year end risk weighted assets.

On March 28 2023, the Board of Directors of the Bank proposed that 1.5% of the risk weighted assets at the end of 2022 should be appropriated to general risk reserve amounting to RMB172,706 thousand. This proposal was pending approval by the General Meeting. As at 30 June 2023, the ending balance of general reserve was RMB1,926,188 thousand (as at 31 December 2022: RMB1,737,305 thousand).

32 DIVIDENDS

The resolution in relation to the 2022 profit distribution plan of the Bank was not approved by the Shareholders by way of special resolution at the annual general meeting, and was not approved by the holders of domestic Shares and the holders of H Shares at the domestic shareholders’ class meeting and H shareholders’ class meeting, respectively. Accordingly, the distribution of cash dividends and bonus issue proposed in the 2022 profit distribution plan of the Bank were not carried out.

As reviewed and approved by the Bank’s shareholders’ general meeting held on May 25, 2022, no cash dividend distribution are made for 2021.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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32 DIVIDENDS (Continued)

On August 17 2023, the Board of Directors of the Bank proposed that distribute a cash dividend of RMB0.8 (inclusive of tax) for every 10 shares to all Shareholders for the year ended December 31, 2022, totaling RMB217.42 million (inclusive of tax). This proposal was pending approval by the General Meeting.

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

33 STRUCTURED ENTITIES

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as asset manager. Based on the analysis and research on the potential targeted clients, the Bank designs and sells wealth management products to targeted clients, and the raised funds are then put into related financial market or invested in related financial products according to the product contracts. Investment returns would be allocated to investors according to the contract. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank had recognised net commission income from asset management service of non-principal-guaranteed wealth management products with the amount of RMB80,513 thousands for the six months ended 30 June 2023 (for the six months ended 30 June 2022: RMB94,183 thousands). The Bank did not provide any liquidity support to the wealth management products for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

The Bank issues and manages non-principal-guaranteed wealth management products to individual and institutional investors. The funds raised from the individual investors are mainly invested in the open market bonds and money market instruments.

The Bank assesses its control on the non-principal-guaranteed wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of public funds. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

As at 30 June 2023, the balance of unconsolidated wealth management products issued and managed by the Bank was RMB16,410,814 thousands (as at 31 December 2022: RMB16,308,990 thousands).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

33 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

(ii) Unconsolidated structured entities invested by the Bank

In order to increase the return of extra funds, the Bank invests in the unconsolidated structured entities which mainly included the funds and trust plans issued and managed by third parties. The Bank classified the investments in the unconsolidated structured entities as financial assets at FVPL or amortised cost (for the six months ended 30 June 2022: the unconsolidated structured entities invested by the Bank mainly included the funds, trust plans issued and managed by third parties).

The table below lists the book value (including accrued interest) and maximum credit risk exposure of the assets as a result of the holdings of benefits from unconsolidated structured entities.

As at 30 June 2023	Book value	Maximum exposure to loss
Financial investments – amortised cost	1,394,136	1,394,136
Financial investments – fair value through profit or loss	6,878,511	6,878,511
Total	8,272,647	8,272,647

As at 31 December 2022	Book value	Maximum exposure to loss
Financial investments – amortised cost	1,210,485	1,210,485
Financial investments – fair value through profit or loss	9,354,673	9,354,673
Total	10,565,158	10,565,158

For the six months ended 30 June 2023 and 2022, the interest income, net gains on financial investments and fee and commission income from the above unconsolidated structured entities were:

	For the six months ended 30 June	
	2023	2022
Interest income	54,435	35,682
Net gains on financial investments	79,891	31,119
Fee and commission income	80,513	94,183
Total	214,839	160,984

For the six months ended 30 June 2023, the Bank has not provided any financial or other support to unconsolidated structured entities (for the year ended 2022: Nil).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

33 STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities

As at 30 June 2023	Book value	Maximum exposure to loss
Financial investments – credit related financial assets	2,578,821	2,578,821
Financial investments – amortised cost	1,447,034	1,447,034
Total	4,025,855	4,025,855

As at 31 December 2022	Book value	Maximum exposure to loss
Financial investments – credit related financial assets	2,643,264	2,643,264
Financial investments – amortised cost	2,113,407	2,113,407
Total	4,756,671	4,756,671

The Bank's interest income obtained from the above-mentioned structured entities are as follows:

	For the six months ended 30 June	
	2023	2022
Interest income	167,504	285,769

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	30 June 2023	31 December 2022
Bank acceptance notes	1,204,113	638,866
Letter of credits	250,000	100,000
Letter of guarantees	70,052	60,017
Credit card commitments	4,086	537
Total	1,528,251	799,420

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Capital expenditure commitments

	30 June 2023	31 December 2022
Contracted but not provided for		
– Capital expenditure commitments for buildings	52,568	52,698
– Acquisition of IT system	144,464	106,778
	197,032	159,476
Authorised but not contracted for		
– Capital expenditure commitments for buildings	238,959	200,000
– Acquisition of IT system	3,350	76,460
– Acquisition of official motor vehicles	360	–
	242,669	276,460
Total	439,701	435,936

Legal proceedings

The Bank has involved as defendants in certain lawsuits arising from its normal business operations. The Bank had no outstanding legal claims as at 30 June 2023 (as at 31 December 2022: Nil).

35 COLLATERALS

(a) Assets pledged:

Assets pledged by the Bank as collateral are mainly for repurchase agreements and PBOC re-lending. All of these arrangements will be mature within 12 months from the date they take effect (as at 31 December 2022: Same). The carrying amount of these collaterals are listed below:

	30 June 2023	31 December 2022
Debt securities	11,091,200	8,272,100
Loans	4,796,902	3,788,420
Total	15,888,102	12,060,520

(b) Collateral accepted:

The Bank received debt securities and inter-bank certificates of deposits as collateral in connection with the reverse repurchase agreements, the Bank has not accepted collateral that can be resold or repledged. The bank did not have collateral as at 30 June 2023 (as at 31 December 2022: RMB5,351,800 thousand). The Bank did not resell or repledge such collateral.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

36 OTHER COMPREHENSIVE INCOME

	Before tax amount	Tax benefit	Net of tax amount
For the six months ended 30 June 2023			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of financial investments measured at FVOCI	85,830	(21,458)	64,372
Expected credit losses of financial investments measured at FVOCI	15,981	(3,995)	11,986
Other comprehensive income for the period	101,811	(25,453)	76,358
	Before tax amount	Tax benefit	Net of tax amount
For the six months ended 30 June 2022			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of financial investments measured at FVOCI	62,064	(15,516)	46,548
Expected credit losses of financial investments measured at FVOCI	(191)	49	(142)
Other comprehensive income for the period	61,873	(15,467)	46,406

37 NOTES TO STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	30 June 2023	30 June 2022
Cash and balances with central bank	4,064,371	5,768,431
Financial assets due from other banks and financial institutions	361,691	1,053,093
Total	4,426,062	6,821,524

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

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38 RELATED PARTY TRANSACTIONS

38.1 Related party relationships

The related parties of the Bank mainly include: the major shareholders as well as the entities controlled by them, the key management personnel (including the Bank's directors and senior management) and their family members who have close relationships with them as well as the entities which are controlled, joint controlled or can be significantly influenced by the Bank's key management personnel or their family members.

As at 30 June 2023 and 31 December 2022, the major shareholders of the Bank, holding 5% or more of the equity interest in the Bank, or holding less than 5% of the equity interest of the Bank but able to exercise significant influence over the operation and management of the Bank, were as follows:

Name of shareholders	Number of shares held (share '000)	Percentage (%)
Luzhou Laojiao Group Co., Ltd.	390,528	14.37
Luzhou Laojiao Co., Ltd.	43,392	1.60
Sichuan Jiale Enterprise Group Co., Ltd.	325,440	11.97
Sichuan Luzhou Jiale Real Estate Co., Ltd.	8,678	0.32
Luzhou Xinfu Mining Group Co., Ltd.	325,440	11.97
Luzhou Finance Bureau	193,854	7.13
Luzhou State Owned Assets Management Co., Ltd.	173,568	6.39
Luzhou Industrial Development Investment Group Co., Ltd.	88,155	3.24
Sichuan Lutianhua Co., Ltd.	13,017	0.48
Lutianhua Group Co., Ltd.	241	0.01
Luzhou Xinglu Jutai Construction Engineering Group Co., Ltd	110,059	4.05
Luzhou Xinglu Investment Group Co., Ltd.	48,659	1.79
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.	18,007	0.66
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	13,495	0.50
Total	1,752,533	64.48

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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38 RELATED PARTY TRANSACTIONS (continued)

38.2 Related party transactions

Transactions between the Bank and related parties are conducted in accordance with general commercial terms and normal business procedures. The pricing principle is consistent with that of an independent third-party transaction. The related party transactions of the Bank are as follows:

(1) Related party customer loans (including discounted bills)

	30 June 2023	31 December 2022
Major shareholders	268,980	298,980
Other related companies	4,027,578	3,566,662
Related natural persons	20,399	33,004
Total	4,316,957	3,898,646

(2) Related party loan interest income (including discounted bills)

	For the six months ended 30 June	
	2023	2022
Major shareholders	11,115	10,784
Other related companies	137,233	108,577
Related natural persons	630	845
Total	148,978	120,206

(3) Related party deposits

	30 June 2023	31 December 2022
Major shareholders	7,411,236	5,515,091
Other related companies	1,668,179	1,568,645
Related natural persons	286,228	340,776
Total	9,365,643	7,424,512

(4) Related party deposit interest expense

	For the six months ended 30 June	
	2023	2022
Major shareholders	124,999	98,026
Other related companies	16,858	14,257
Related natural persons	5,490	6,770
Total	147,347	119,053

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (continued)

38.2 Related party transactions (continued)

(5) Related party other receivables and pre-payments

	30 June 2023	31 December 2022
Major shareholders	70	70
Other related companies	44,803	44,572
Related natural persons	82	–
Total	44,955	44,642

(6) Related party financial investments – fair value through profit or loss

	30 June 2023	31 December 2022
Major shareholders	18,808	18,572
Other related companies	72,016	80,198
Total	90,824	98,770

(7) Related party net gains on financial investments – fair value through profit or loss

	For the six months ended 30 June	
	2023	2022
Major shareholders	873	7,290
Other related companies	1,727	1,244
Total	2,600	8,534

(8) Related party financial investments – fair value through other comprehensive income

	30 June 2023	31 December 2022
Major shareholders	10,080	9,873
Total	10,080	9,873

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (continued)

38.2 Related party transactions (continued)

(9) Related party interest income from financial investments – fair value through other comprehensive income

	For the six months ended 30 June	
	2023	2022
Major shareholders	273	11,682
Other related companies	–	16,682
Total	273	28,364

(10) Related party fees commission and income

	For the six months ended 30 June	
	2023	2022
Major shareholders	–	4
Other related companies	–	30
Related natural persons	1	2
Total	1	36

(11) Key management compensation:

Key management personnel refer to those who have authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of key management personnel during the reporting periods are as follows:

	For the six months ended 30 June	
	2023	2022
Remuneration, salary, allowances and benefits	4,420	3,787
Discretionary bonuses	1,713	1,354
Contribution to pension schemes	147	116
Total	6,280	5,257

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (continued)

38.2 Related party transactions (continued)

(12) Balance of loan guarantee provided by related parties to the Bank

	As at 30 June 2023		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,391,002	2,600	2,393,602
Luzhou Development Financing Guarantee Co., Ltd.	962,710	7,800	970,510
Luzhou Jintong Financing Guarantee Co., Ltd.	117,750	27,590	145,340
Luxian Agriculture and SMEs Financing Guarantee Co., Ltd.	101,650	–	101,650
Sichuan Hongxin Financing Guarantee Co., Ltd.	79,100	39,300	128,400
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	38,778	–	38,778
Total	3,690,990	87,290	3,779,280

	As at 31 December 2022		
	Corporate loans	Personal loans	Total
Luzhou Xinglu Financing Guarantee Group Co., Ltd.	2,527,122	2,600	2,529,722
Luzhou Development Financing Guarantee Co., Ltd.	813,510	20,900	834,410
Luzhou Jintong Financing Guarantee Co., Ltd.	74,599	27,640	102,239
Luxian Agriculture and SMEs Financing Guarantee Co., Ltd.	99,850	–	99,850
Sichuan Hongxin Financing Guarantee Co., Ltd.	71,300	57,400	128,700
Luzhou Xinglu Agricultural Financing Guarantee Co., Ltd.	31,818	–	31,818
Total	3,618,199	108,540	3,726,739

For the six months ended 30 June 2023, the fees for the guarantee services provided by the related parties to the borrowers of the Bank shall be paid by the borrowers, and the Bank does not pay any fees to the related parties (for the six months ended 30 June 2022: same).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (continued)

38.2 Related party transactions (continued)

(13) Property leasing

Yijia Real Estate Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term is from 1 April 2023 to 31 March 2024. The rent of the first half of 2023 is RMB15,000.

Sichuan Kangrun Real Estate Co., Ltd., a related party of the Bank, leases a property located in Chengdu City, Sichuan Province to the Bank. The lease term is from 1 January 2023 to 31 October 2023. The rent of the first half of 2023 is RMB1,109,736.

Luzhou Xinglu Asset Management Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank for a period of five years from 2 May 2021 to 1 May 2026. The rent of the first half of 2023 is RMB102,480.

Luzhou Development Asset Management Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term is three years from 1 May 2020 to 30 April 2023. The bank signed a renewal contract in April 2023 for a three-year period from 1 May 2023 to 30 April 2026. The rent for the first half of 2023 was RMB441,016.

Yijia Real Estate Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term is from 1 August 2016 to 31 July 2026. The rent of the first half of 2023 is RMB42,506.

(14) Government related entities

The transactions between the Bank and the government related entities proceed under normal commercial terms and conditions. These transactions mainly include provision of deposits and agency service. The Bank considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

(15) Others

The above range of transaction interest rates with related parties is listed as follows:

	For the six months ended 30 June	
	2023	2022
Customer loans	3.70%-8.00%	4.00%-7.50%
Customer deposits	0.35%-5.23%	0.35%-5.23%
Financial investments – fair value through other comprehensive income	5.50%	5.50%-7.50%
Financial investments – fair value through profit or loss	5.85%-6.68%	5.85%-6.90%

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retail banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retail banking mainly provides individual customers with financial products and services including deposits and loans.

Financial markets mainly perform inter-bank lending and borrowing, bonds investment and re-purchasing activities, etc.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT ANALYSIS (continued)

	For the six months ended 30 June 2023				
	Corporate banking	Retail banking	Financial market	Others	Total
Net interest income/(expenses) from external customers	1,927,070	(759,078)	386,541	-	1,554,533
Inter-segment net interest income/(expenses)	(515,426)	1,105,090	(589,664)	-	-
Net interest income	1,411,644	346,012	(203,123)	-	1,554,533
Net fee and commission income	2,363	45,053	21,976	228	69,620
Net gains on trading activities	-	-	618,879	-	618,879
Net gains arising from financial investments	-	-	169,418	-	169,418
Other operating income	-	-	-	34,206	34,206
Operating income	1,414,007	391,065	607,150	34,434	2,446,656
Operating expenses	(402,165)	(69,126)	(239,596)	(5,901)	(716,788)
– Depreciation and amortisation	(37,347)	(9,139)	(26,954)	(603)	(74,043)
– Others	(364,818)	(59,987)	(212,642)	(5,298)	(642,745)
Expected credit losses	(567,349)	(80,003)	(216,308)	(8,682)	(872,342)
Share of profit of an associate	-	-	-	2,771	2,771
Profit before income tax	444,493	241,936	151,246	22,622	860,297
Capital expenditure	221,783	54,271	160,067	3,580	439,701
	As at 30 June 2023				
Segment assets	77,648,722	19,001,035	56,041,440	1,253,349	153,944,546
Segment liabilities	(49,733,942)	(66,617,525)	(26,723,829)	(17,104)	(143,092,400)

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

39 SEGMENT ANALYSIS (continued)

	For the six months ended 30 June 2022				
	Corporate banking	Retail banking	Financial market	Others	Total
Net interest income/(expenses) from external customers	1,934,901	(773,407)	629,244	–	1,790,738
Inter-segment net interest income/(expenses)	(823,215)	1,085,639	(262,424)	–	–
Net interest income	1,111,686	312,232	366,820	–	1,790,738
Net fee and commission income	6,437	49,122	36,790	28	92,377
Net gains on trading activities	–	–	348,530	–	348,530
Net gains arising from financial investments	–	–	117,519	–	117,519
Other operating income	–	–	–	9,536	9,536
Operating income	1,118,123	361,354	869,659	9,564	2,358,700
Operating expenses	(376,273)	(59,495)	(235,187)	(2,205)	(673,160)
– Depreciation and amortisation	(43,085)	(9,969)	(30,896)	(505)	(84,455)
– Others	(333,188)	(49,526)	(204,291)	(1,700)	(588,705)
Expected credit losses	(491,480)	(108,685)	(258,746)	(450)	(859,361)
Share of profit of an associate	–	–	–	3,145	3,145
Profit before income tax	250,370	193,174	375,726	10,054	829,324
Capital expenditure	106,984	24,755	76,718	1,254	209,711
	As at 31 December 2022				
Segment assets	73,870,365	18,756,041	54,898,573	1,104,848	148,629,827
Segment liabilities	(46,610,077)	(63,796,487)	(28,004,296)	(23,351)	(138,434,211)

There is no high reliance of the Bank to any of the major external customers.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

40 FIDUCIARY ACTIVITIES

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the condensed statement of financial position.

	30 June 2023	31 December 2022
Entrusted loans	2,058,349	1,868,960

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Fair value hierarchy

IFRS 7 specifies the levels of valuation techniques that based on the inputs of valuation techniques that are observable or not. The observable inputs reflect the market data obtained from independent sources. These two inputs lead to the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments in house (e.g. Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. This level includes the debt instruments dealing in the inter-bank market. For example, the input parameters of bond yield curves and counterparty credit risk stem from China bond information website and Bloomberg.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs). This level includes equity instruments and structural financial instruments.

The Bank determines the fair value of the financial instrument by valuation techniques when it is difficult to obtain quotations from the open market.

The main parameters of valuation techniques used in financial instruments include the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

The measurement of the fair value of those asset-backed securities and unlisted equity (private equity) held by the Bank adopts unobservable parameters that may have significant impact on the valuations. Thus, the Bank would better classify these financial instruments to the third level. Management has assessed the influence of macroeconomic factors, the valuation by external appraiser, loss coverage, and many other parameters, so as to examine the correlation between the fair value of third level financial instruments and the above parameters. The Bank has established an internal control system to supervise the exposure of the financial instrument above.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Financial instruments not measured at fair value

Financial assets and liabilities that are not measured at fair value in the statement of financial position mainly include: balances with central bank, due from other banks and financial institutions, financial assets held under reverse repurchase agreements, customer loans, credit related financial assets, financial investments – amortised cost, due to other banks and financial institutions, financial assets sold under repurchase agreements, customer deposits, debt securities issued. Except for the following financial assets and financial liabilities, the carrying amounts of financial assets and liabilities that are not measured at fair value approximate to the fair value.

The table below summarises the financial assets and liabilities that have difference between book value (including accrued interest) and fair value as at 30 June 2023 and 31 December 2022.

	Book value	As at 30 June 2023			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortised cost	15,189,911	–	11,532,842	4,158,163	15,691,005
Financial investments – credit related financial assets	2,578,821	–	–	2,644,761	2,644,761
Financial liabilities					
Debt securities issued	9,143,106	–	8,994,585	–	8,994,585

	Book value	As at 31 December 2022			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments – amortised cost	15,337,700	–	10,702,184	4,923,950	15,626,134
Financial investments – credit related financial assets	2,643,264	–	–	2,737,737	2,737,737
Financial liabilities					
Debt securities issued	12,982,869	–	12,899,470	–	12,899,470

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Financial instruments not measured at fair value (continued)

Financial investments – credit related financial assets

The fair value for financial investments – credit related financial assets is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

Financial investments – amortised cost

The fair value for trust and asset management plans measured at amortised cost is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

The fair value for bonds measured at amortised cost is based on market prices or broker/dealer price quotations. Where the information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.

Debt securities issued

The fair value of fixed interest-bearing debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve for the bonds with similar remaining term to maturity.

Other than above, the carrying values of those financial assets and liabilities not presented at their fair value in the statement of financial position are a reasonable approximation of their fair values. Those financial assets and liabilities include balances with central bank, due from other banks and financial institutions, customer loans, due to other banks and financial institutions, customer deposits, etc. and their fair value is measured using a discounted future cash flow model.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023

(All amounts expressed in thousands of RMB unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(c) Financial assets and financial liabilities measured at fair value

The financial assets and liabilities measured at fair value on a recurring basis by the three levels are analysed below:

As at 30 June 2023	Level 1	Level 2	Level 3	Total
Financial assets				
Customer loans – discounted bills	–	2,072,965	–	2,072,965
Financial investments – FVPL	6,773,160	22,333,526	56,904	29,163,590
Financial investments – FVOCI	–	7,995,358	–	7,995,358
Total	6,773,160	32,401,849	56,904	39,231,913
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	307,599	–	307,599
As at 31 December 2022				
Financial assets				
Customer loans – discounted bills	–	822,790	–	822,790
Financial investments – FVPL	9,261,286	11,890,003	55,634	21,206,923
Financial investments – FVOCI	–	9,339,800	–	9,339,800
Total	9,261,286	22,052,593	55,634	31,369,513
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	150,905	–	150,905

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
(All amounts expressed in thousands of RMB unless otherwise stated)

41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(c) Financial assets and financial liabilities measured at fair value (continued)

Specific valuation techniques used to value financial instruments include:

Quoted market prices or dealer quotes for similar instruments;

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Movement of Level – 3 valuation methodology

	Financial investments – fair value through profit or loss
As at 1 January 2023	55,634
Total gains or losses – Current profit and loss	1,270
As at 30 June 2023	56,904
Total gains for the period included in profit and loss for financial assets held as at 30 June 2023	1,270
	Financial investments – fair value through profit or loss
As at 1 January 2022	57,132
Total gains or losses – Current profit and loss	(1,498)
Additions	2,998,000
Disposals and settlement	(2,998,000)
As at 31 December 2022	55,634
Total gains for the year included in profit and loss for financial assets held as at 31 December 2022	3,433

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2023
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41 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(c) Financial assets and financial liabilities measured at fair value (continued)

Quantitative information about the significant unobservable inputs used in the fair value measurement of Level 3 for the period ended 30 June 2023 and the year ended 31 December 2022 presented as follows:

As at 30 June 2023	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range of discount rate/Net assets value
Financial investments – fair value through profit or loss				
– Equity investment ⁽ⁱ⁾	996	Recent transaction prices	Not applicable	Not applicable
– Equity investment	55,908	Net assets analysis	Net assets	1.3822

As at 31 December 2022	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range of discount rate/Net assets value
Financial investments – fair value through profit or loss				
– Equity investment ⁽ⁱ⁾	996	Recent transaction prices	Not applicable	Not applicable
– Equity investment	54,638	Net assets analysis	Net assets	1.3763

(i) As at 30 June 2023, unlisted equity investments using recent transaction prices without adjustment amounted to RMB996 thousand (as at 31 December 2022: RMB996 thousand).

42 SUBSEQUENT EVENTS

Up to the date of this report, the Bank has no material event for disclosure after the reporting date.

Definitions

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank”, “our Bank”, “we” or “us”	Luzhou Bank Co., Ltd. (瀘州銀行股份有限公司)
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of the Bank
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Former CBIRC”	Former China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange
“IAS”	International Accounting Standards and its interpretations
“IFRS”	International Financial Reporting Standards issued by the IAS Board
“Latest Practicable Date”	August 17, 2023, being the latest practicable date for the purpose of containing certain information in this report before this report is printed
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange



Definitions

“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Reporting Period”	six months ended June 30, 2023
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	the Domestic Shares and H Shares of the Bank
“Supervisor(s)”	the supervisor(s) of the Bank