

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

BQD  青岛银行
Bank of Qingdao Co., Ltd.*
青島銀行股份有限公司*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(H Shares Stock Code: 3866)

Announcement of Interim Results for the Six Months Ended 30 June 2023

The board of directors of Bank of Qingdao Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited interim results of the Bank and its subsidiaries (the “**Company**”) for the six months ended 30 June 2023. This announcement, containing the full text of the 2023 interim report of the Bank, complies with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) in relation to information to accompany preliminary announcements of interim results.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The Chinese and English versions of this results announcement will be available on the website of the Bank (<http://www.qdccb.com/>) and the HKEXnews website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk/>). If there are any discrepancies in interpretations between the Chinese and English versions, the Chinese version shall prevail. The printed version of the Bank's 2023 interim report will be dispatched to the shareholders of the Bank subsequently and will be available on the website of the Bank (<http://www.qdccb.com/>) and the HKEXnews website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk/>) in due course.

By order of the Board
Bank of Qingdao Co., Ltd.*
Jing Zailun
Chairman

Qingdao, Shandong Province, the PRC
30 August 2023

As at the date of this announcement, the Board comprises Mr. Jing Zailun, Mr. Wu Xianming and Mr. Liu Peng as executive Directors; Mr. Zhou Yunjie, Mr. Rosario Strano, Ms. Tan Lixia, Mr. Marco Mussita and Mr. Deng Youcheng as non-executive Directors; Mr. Simon Cheung, Ms. Fang Qiaoling, Mr. Xing Lecheng, Mr. Zhang Xu and Mr. Cheung Man Chor, Elton as independent non-executive Directors.

* *Bank of Qingdao 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 out banking and/or deposit-taking business in Hong Kong.*

SECTION I IMPORTANT NOTICE

1. The Board of Directors, Board of Supervisors, Directors, Supervisors and senior management of the Bank assure that the information in this interim report contains no false records, misleading statements or material omissions, and severally and jointly take full responsibility for the authenticity, accuracy and completeness of the information in this interim report.
2. The proposal on the 2023 interim report of Bank of Qingdao Co., Ltd., its summary and results announcement was considered and approved at the 37th meeting of the eighth session of the Board of Directors of the Bank held on 30 August 2023. There were 13 Directors eligible for attending the meeting, and 13 Directors actually attended the meeting (Among them, one director was entrusted to attend the meeting. Due to other work arrangements, Mr. Zhou Yunjie entrusted the chairman Mr. Jing Zailun to attend the meeting and vote on his behalf).
3. The Bank's chairman Mr. Jing Zailun, president Mr. Wu Xianming, vice president in charge of finance function Ms. Chen Shuang and general manager of Financial Planning Department Mr. Li Zhenguo assure the authenticity, accuracy and completeness of the financial statements in this interim report.
4. The financial report of the Company during the first half of 2023 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards has been reviewed by KPMG Huazhen LLP and KPMG in accordance with the PRC and International Standards on Review Engagements respectively.
5. No cash dividend distribution of ordinary shares, no distribution of bonus shares and no increase in share capital with provident fund were planned by the Bank in the interim period of 2023.
6. Unless otherwise specified, the currency of the amounts mentioned in this interim report is RMB.
7. This report contains certain forward-looking statements about the financial conditions, operating results and business development of the Company. The report uses the words "will", "may", "strive", "plan", "hope", "endeavor", "expect", "aim" and similar wording to express forward-looking statements. These statements are made based on current plans, estimates and projections, and although the Company believes that the expectations reflected in these forward-looking statements are reasonable, the Company cannot assure that these expectations will be attained or confirmed to be correct and therefore they do not constitute substantive undertakings of the Company. Investors and relevant individuals should cultivate the adequate risk awareness in this regard, understand the differences between plans, forecasts and commitments, and not unduly rely on such statements, and should be aware of investment risks. Please note that these forward-looking statements are related to future events or future financial, business or other performance of the Company, and are subject to certain uncertainties which may cause the actual results to differ substantially.
8. The Company invites investors to read the full text of this interim report carefully. The Company has described in detail the major risks and countermeasures in this report. For details, please refer to the content related to risk management set out in "Section III Management Discussion and Analysis".

Contents

SECTION I	IMPORTANT NOTICE	
SECTION II	CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS	4
SECTION III	MANAGEMENT DISCUSSION AND ANALYSIS	10
SECTION IV	CORPORATE GOVERNANCE	93
SECTION V	ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	99
SECTION VI	SIGNIFICANT EVENTS	102
SECTION VII	CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS	114
SECTION VIII	PREFERENCE SHARES	127
SECTION IX	EMPLOYEES AND INSTITUTIONS	128
SECTION X	REVIEW REPORT	131
SECTION XI	UNAUDITED INTERIM FINANCIAL REPORT	132
SECTION XII	UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION	231

DEFINITIONS

Term	Definition
Company	Bank of Qingdao Co., Ltd. and its subsidiaries
Bank or parent company	Bank of Qingdao Co., Ltd.
A Share(s)	shares issued in China, listed on the Shenzhen Stock Exchange and subscribed for and traded in RMB
H Share(s)	shares issued outside China, listed on The Stock Exchange of Hong Kong Limited and subscribed for and traded in foreign currencies
CSRC	China Securities Regulatory Commission
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
SZSE	the Shenzhen Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association	Articles of Association of the Bank of Qingdao Co., Ltd.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Reporting Period	from 1 January 2023 to 30 June 2023 (both days inclusive)
Latest Practicable Date	being 30 August 2023
RMB	the lawful currency of the PRC
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Director(s)	director(s) of the Bank
Supervisor(s)	supervisor(s) of the Bank

Board of Directors or Board	the board of Directors of the Bank
Board of Supervisors	the board of Supervisors of the Bank
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Green Credit	the Bank commenced energy saving and environmental protection project and service loans as well as loans that comply with Catalog of Projects Backed by Green Bonds (2015 version) issued by the Green Finance Professional Committee of the China Society for Finance and Banking (中國金融學會綠色金融專業委員會). “Energy saving and environmental protection project and service loans” refers to the Notice on Submitting Statistical Table on Green Credit issued by the China Banking Regulatory Commission (Yin Jian Ban Fa [2013] No. 185).
IFRSs	the International Financial Reporting Standards issued by the International Accounting Standards Board; the International Financial Reporting Standards includes the International Accounting Standards.

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

I. CORPORATE INFORMATION

Stock abbreviation (A Shares)	BQD	Stock code (A Shares)	002948
Listing stock exchange of A Shares	Shenzhen Stock Exchange		
Stock abbreviation (H Shares)	BQD	Stock code (H Shares)	3866
Listing stock exchange of H Shares	The Stock Exchange of Hong Kong Limited		
Company name in Chinese	青島銀行股份有限公司		
Abbreviation in Chinese	青島銀行		
Company name in English	BANK OF QINGDAO CO., LTD.		
Abbreviation in English	BANK OF QINGDAO		
Legal representative	JING Zailun		
Authorized representatives	JING Zailun, ZHANG Qiaowen		
Joint company secretaries	ZHANG Qiaowen, YU Wing Sze		
Registered address	Building 3, No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Postal code of registered address	266061		
Office address	No. 6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC		
Postal code of office address	266061		
Registered office address in Hong Kong	31st Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong		
Company website	http://www.qdccb.com/		
Email	ir@qdbankchina.com		

II. CONTACT PERSONS AND CONTACT INFORMATION

Item	Secretary to the Board	Securities Affairs Representative
Name	ZHANG Qiaowen	LU Zhenzhen
Address	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC	No.6 Qinling Road, Laoshan District, Qingdao, Shandong Province, the PRC
Tel	+86 40066 96588 ext. 6	+86 40066 96588 ext. 6
Fax	+86 (532) 85783866	+86 (532) 85783866
Email	ir@qdbankchina.com	ir@qdbankchina.com

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

III. OTHER INFORMATION

(I) Contact information of the Bank

The Bank's registered address, office address and corresponding postal code, the Bank's website and email address remained unchanged during the Reporting Period. Please refer to 2022 Annual Report of the Bank for details.

(II) Information disclosure and place of inspection

The website of stock exchange, names and websites of the media designated by the Bank for the disclosure of interim report, and the place of inspection for interim report of the Bank remain unchanged during the Reporting Period. Please refer to 2022 Annual Report for details.

(III) Other relevant information

During the Reporting Period, there were no changes in the Bank's other relevant information.

IV. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

The financial information and indicators set out in this interim report which have been prepared in accordance with the IFRSs and the relevant provisions are consolidated information of the Company unless otherwise specified.

Item	January to June 2023	January to June 2022	Year-on-year change
Business performance (RMB'000)			Change (%)
Net interest income	4,509,411	3,974,750	13.45
Net non-interest income	1,861,400	2,236,590	(16.78)
Operating income	6,370,811	6,211,340	2.57
Operating expenses	(1,774,676)	(1,822,459)	(2.62)
Credit losses	(1,809,832)	(2,058,483)	(12.08)
Profit before taxation	2,786,303	2,324,371	19.87
Net profit	2,407,536	2,060,334	16.85
Net profit attributable to shareholders of the Bank	2,335,704	2,018,395	15.72
Per share (RMB/share)			Change (%)
Basic earnings per share ⁽¹⁾	0.40	0.36	11.11
Diluted earnings per share ⁽¹⁾	0.40	0.36	11.11

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	30 June 2023	31 December 2022	Change from the end of last year
Scale indicators (RMB'000)			Change (%)
Total assets ⁽²⁾	568,400,907	529,613,992	7.32
Loans and advances to customers:			
Total loans to customers ⁽²⁾	288,835,557	269,029,452	7.36
Add: Accrued interest	569,950	598,681	(4.80)
Less: Impairment provision for loans and advances to customers measured at amortized cost	(7,629,165)	(7,109,471)	7.31
Loans and advances to customers	281,776,342	262,518,662	7.34
Provision for loan impairment	(7,814,419)	(7,137,141)	9.49
Of which: Impairment provision for loans and advances to customers at fair value through other comprehensive income	(185,254)	(27,670)	569.51
Total liabilities ⁽²⁾	529,613,356	493,020,697	7.42
Deposits from customers:			
Total deposits from customers ⁽²⁾	370,052,195	341,347,176	8.41
Add: Accrued interest	7,684,398	6,696,131	14.76
Deposits from customers	377,736,593	348,043,307	8.53
Share capital	5,820,355	5,820,355	–
Equity attributable to equity shareholders of the Bank	37,938,736	35,816,312	5.93
Equity attributable to shareholders	38,787,551	36,593,295	6.00
Total net capital	47,947,821	45,212,218	6.05
Of which: Net core tier-one capital	31,530,595	29,169,606	8.09
Other tier-one capital	6,481,421	6,473,571	0.12
Tier-two capital	9,935,805	9,569,041	3.83
Total risk-weighted assets	358,521,966	333,440,925	7.52
Per share (RMB/share)			Change (%)
Net assets per share attributable to ordinary shareholders of the Bank ⁽³⁾	5.42	5.05	7.33

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Item	January to June 2023	January to June 2022	Year-on-year change
Profitability indicators (%)			
Return on average total asset ⁽⁴⁾ (annualized)	0.88	0.78	0.10
Weighted average return on net assets ⁽¹⁾ (annualized)	15.17	14.03	1.14
Net interest spread ⁽⁵⁾ (annualized)	1.87	1.89	(0.02)
Net interest margin ⁽⁶⁾ (annualized)	1.85	1.76	0.09
Net fee and commission income to operating income	14.76	13.46	1.30
Cost-to-income ratio ⁽⁷⁾	26.58	28.13	(1.55)

Item	30 June 2023	31 December 2022	Change from the end of last year
Asset quality indicators (%)			
Non-performing loan ratio	1.14	1.21	(0.07)
Provision coverage ratio	237.34	219.77	17.57
Loan provision ratio	2.71	2.65	0.06
Indicators of capital adequacy ratio (%)			
Core tier-one capital adequacy ratio ⁽⁸⁾	8.79	8.75	0.04
Tier-one capital adequacy ratio ⁽⁸⁾	10.60	10.69	(0.09)
Capital adequacy ratio ⁽⁸⁾	13.37	13.56	(0.19)
Total equity to total assets ratio	6.82	6.91	(0.09)
Other indicators (%)			
Liquidity coverage ratio	127.67	122.83	4.84
Liquidity ratio	78.65	88.21	(9.56)

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

Notes:

1. Earnings per share and weighted average return on net assets were calculated in accordance with the “Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Computation and Disclosure of Return on Net Assets and Earnings per Share” (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂)). Basic earnings per share and weighted average return on net assets increased year-on-year, mainly due to the increase in net profit. The Bank issued offshore preference shares in 2017, which were redeemed in September 2022. The Bank issued perpetual bonds from July to August 2022, which were classified as other equity instruments. In calculating the weighted average return on net assets, the effect of the preference shares and perpetual bonds has been deducted from the “weighted average net assets”.
2. For details of the structure of total assets, total liabilities, total loans to customers and total deposits from customers, please refer to “5. Analysis of Major Items of the Statement of Financial Position in Section III. Management Discussion and Analysis” of this interim report.
3. Net assets per share attributable to ordinary shareholders of the Bank = (equity attributable to equity shareholders of the Bank – other equity instruments)/the number of ordinary shares as at the end of the period.
4. Return on average total assets = net profit/average balance of total assets at the beginning and at the end of the period.
5. Net interest spread = average yield of interest-earning assets – average cost rate of interest-bearing liabilities.
6. Net interest margin = net interest income/average balance of interest-earning assets.
7. Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.
8. The relevant indicators of capital adequacy ratio were calculated in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory regulations.

SECTION II CORPORATE INFORMATION AND KEY FINANCIAL HIGHLIGHTS

V. ACCOUNTING DATA DIFFERENCE UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

The net profit attributable to shareholders of the Bank for the Reporting Period and the equity attributable to the equity shareholders of the Bank as at the end of the Reporting Period as disclosed in the financial statements of the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises are consistent with those prepared in accordance with the IFRSs.

VI. SUPPLEMENTARY INDICATORS

Name of indicators(%)	30 June 2023	31 December 2022	31 December 2021
Single largest customer loan ratio	5.21	4.78	5.82
Ten largest customers loan ratio	37.19	38.89	37.30

Migration rate indicators (%)	30 June 2023	31 December 2022	31 December 2021
Normal loan migration rate	1.06	1.01	1.07
Special mention loan migration rate	45.86	43.54	78.54
Substandard loan migration rate	26.11	22.43	19.28
Doubtful loan migration rate	21.25	3.19	2.45

Note: The migration rate indicators on 31 December 2021 and at the end of the Reporting Period thereafter were calculated in accordance with the requirements of the Notice of the CBIRC on Revising the Definition and Calculation Formula of Basic Indicators for Off-site Regulation of the Banking Industry (Yin Jian Fa [2022] No. 2) (《中國銀保監會關於修訂銀行業非現場監管基礎指標定義及計算公式的通知》(銀監發[2022]年2號)).

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

I. THE BANK'S PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

The Bank, formerly known as Qingdao City Cooperative Bank and Qingdao City Commercial Bank, was established in November 1996 and is headquartered in Qingdao, Shandong Province. Maintaining an unswerving theme of “high-quality development”, the Bank seeks both reasonable growth in quantity and steady improvement in quality in order to build a value-leading bank that gives priority to quality and efficiency, with distinctive characteristics and flexible mechanisms. In December 2015, the Bank's H Shares were listed on the Hong Kong Stock Exchange; in January 2019, the Bank's A Shares were listed on the SZSE.

The Bank mainly offers several services and products such as corporate and personal deposits, loans, payment and settlement to its customers, and its development is driven by three major business segments including retail banking, corporate banking and financial markets, which have formed a strong customer base and shaped a new financial business model of distinctive and high-quality development. The Bank's business is based in Qingdao with a footprint extending to other regions of Shandong. As at the end of the Reporting Period, there were 16 branches and 181 branch offices in major cities of Shandong Province such as Jinan, Yantai and Weihai. The Bank has two subsidiaries. In February 2017, the Bank initiated the establishment of BQD Financial Leasing Company Limited (“**BQD Financial Leasing**”), which was owned as to 51% by the Bank. In September 2020, the Bank initiated the establishment of BQD Wealth Management Company Limited (“**BQD Wealth Management**”), which was wholly owned by the Bank. As at the end of the Reporting Period, the Company had more than 4,700 employees.

As at the end of the Reporting Period, total assets of the Company amounted to RMB568.401 billion, total liabilities amounted to RMB529.613 billion, capital adequacy ratio was 13.37%, and non-performing loan ratio was 1.14%, down by 0.07 percentage point as compared with that at the end of the previous year. During the Reporting Period, the accumulated net profit was RMB2.408 billion, representing an increase of 16.85% over the same period of last year.

II. ANALYSIS OF THE CORE COMPETITIVENESS

Centering on the development vision of “Innovative Finance, Brilliant Banking”, the Bank is firmly committed to the strategic goal of being a value-leading bank with leading quality and efficiency, distinct characteristics and flexible mechanisms to continuously promote stable, balanced and high-quality business development. The Bank’s core competitiveness is mainly reflected in:

- 1. Prudent and efficient corporate governance strengthens business foundation.** The Bank insists on integrating the Party leadership into the entire process of its corporate governance, endeavors to establish a sound, standardized and efficient mechanism for corporate governance operation, promote the corporate governance structure comprising the general meeting, the Board and the Board of Supervisors and the management with clear powers and responsibilities, and operate in a standardized manner, and continues to enhance the standardization and effectiveness of corporate governance. With a scientific and reasonable equity structure, the Bank has built a sound equity structure comprising state-owned shareholders, overseas strategic investors, private enterprises and individual shareholders, which is diversified, reasonable and subject to mutual checks and balances. The major shareholders are advanced in their concepts, based on a long-term perspective, and actively support the development of the Bank, and has developed a good cooperative and supportive relationship with the Bank.
- 2. Clear and firm strategic planning leads to high-quality development.** Guided by the three-year strategic plan (2023-2025), the Bank firmly adheres to the strategic core of “high-quality development and prioritizing quality and efficiency”, focuses on the four strategic themes of “adjusting structure, strengthening customer base, optimizing synergies, and enhancing capacity”, places emphasis on in-depth customer management and operational efficiency enhancement, continues to improve the support and guarantee systems for risk management, technological support, organization and performance, financial management and operational management, and advances the upgrading of the business models of retail business, corporate business and financial market, so as to promote the Bank’s high-quality development in a comprehensive manner.
- 3. The coherent and efficient group operations enhance value-creating ability.** BQD Financial Leasing and BQD Wealth Management, two subsidiaries of the Bank, were established successively. Since establishment, such two subsidiaries have achieved steady growth in asset scale and continued improvement of profitability. As BQD Financial Leasing, BQD Wealth Management and the Bank complement and reinforce each other, the layout of “One Core with Two Complements” for group operations has taken initial shape. Relying on the concerted efforts within the group, the Bank effectively allocates and integrates various resources to provide customers with comprehensive and quality services. The Bank has witnessed its brand effect continually improved and business potential released, which significantly strengthen its ability to create value.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4. **Rich and diversified resources in financial licenses expand business space.** The Bank has obtained diversified license qualifications, including the qualification of Class B independent lead underwriter, securities and fund custodian license and the first-tier trader qualification in open market. By combining the advantages of its diversified financial licenses with its own actual operations, the Bank continues to provide customers with package solution through professional and standardized financial services, tapping into a broad space for the Bank' strategic transformation and business development.
5. **A robust and effective internal control risk system ensures the Bank's sustainable development.** The Bank prioritizes compliance and has firmly established a comprehensive, prudent, solid and effective internal control mechanism. The Bank continuously enhances the comprehensive risk management system and optimizes risk management framework, as well as consolidating the unified credit system and risk accounting system covering the entire group. The Bank will strengthen the risk control system through technology, and continuously improve the risk management capabilities in differentiation and refinement to support the robust development of the Bank.
6. **"BQD Service" creating a distinctive financial service experience.** The Bank actively builds the brand of "BQD Service" by upholding the service concept of "doing better in providing warm and reassuring service" to deliver exceptional financial services to customers. "BQD Service" focuses on customer needs and improves the system, framework, product design and service processes. The Bank empowers its services by digitalization to achieve constant improvement of net promoter score and has been honored with the prestigious "Five-Star Diamond Award" for seven consecutive years, which is the global highest honor in service.

III. SUMMARY OF OVERALL OPERATIONS

3.1 Status of Key Operational Indicators Achievements

- (1) Total assets amounted to RMB568.401 billion, representing an increase of RMB38.787 billion or 7.32% as compared with that at the end of last year;
- (2) Total loans to customers amounted to RMB288.836 billion, representing an increase of RMB19.806 billion or 7.36% as compared with that at the end of last year;
- (3) Total deposits from customers amounted to RMB370.052 billion, representing an increase of RMB28.705 billion or 8.41% as compared with that at the end of last year;
- (4) Operating income amounted to RMB6.371 billion, representing a year-on-year increase of RMB0.159 billion or 2.57%; net profit amounted to RMB2.408 billion, representing a year-on-year increase of RMB0.347 billion or 16.85%; net profit attributable to shareholders of the Bank amounted to RMB2.336 billion, representing a year-on-year increase of RMB0.317 billion or 15.72%;

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

- (5) Non-performing loan ratio was 1.14%, representing a decrease of 0.07 percentage point as compared with that at the end of last year; provision coverage ratio was 237.34%, representing an increase of 17.57 percentage points as compared with that at the end of last year; capital adequacy ratio was 13.37%, and core tier-one capital adequacy ratio was 8.79%, representing an increase of 0.04 percentage point as compared with that at the end of last year;
- (6) Return on average total assets was 0.88%, representing an increase of 0.10 percentage point as compared with that of last year;
- (7) Basic earnings per share were RMB0.40, representing a year-on-year increase of RMB0.04 or 11.11%; weighted average return on net assets was 15.17%, representing an increase of 1.14 percentage points as compared with that of last year.

3.2 Major Tasks of Operational Management

The year of 2023 is the first year of fully implementation of the spirit of the 20th National Congress, as well as the beginning year of the implementation on the new three-year strategic plan for promoting high-quality development of the Bank. In the first half of the year, the Bank strictly implemented the major strategy arrangements of the CPC Central Committee, the CPC Shandong Provincial Committee and the CPC Qingdao Municipal Committee, strengthened the support and assurance of the financial services to real economy. The Bank also implemented its annually basic operating guiding ideology in strict compliance to the requirements of high-quality development, made early layout and deployments in prompt actions and precise efforts, resulting in a better operating performance with our total assets under management exceeding RMB800.0 billion and reaching RMB803.171 billion, representing an increase of 8.40% compared to the end of the previous year.

- (1) Corporate business: strengthened the synergic and innovative products and focused on the structural optimization of customer base. During the Reporting Period, corporate customers increased by 23.0 thousand, with the rate of increase hitting an all-time high. The number of borrowers increased by 1,950 or 38.61% as compared to the beginning of the year. We collaboratively carried out various special programs including “Spring Ploughing Initiative” and “Spring Rain Action”, so as to support the grasp of high quality assets and the research and development of competitive products. The Bank launched a three-year marketing campaign for manufacturing customers, and shifted the focus of its asset and business to the manufacturing and public utility customer.
- (2) Retail business: consolidated customer base with scale increase and structure optimization. During the Reporting Period, retail deposits increased by RMB20.682 billion with a record high over the same period. The market share of the individual loans business increased steadily with an increase in balance of RMB1.902 billion as compared to the beginning of the year; the agriculture-related loans granted over RMB0.20 billion exceeding the target set, and the structure of personal loans continued to be optimised. The income from wealth management achieved RMB0.204 billion, representing an increase of 29.94% year on year.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

- (3) Financial market: adjusted the structure to lower cost and improve efficiency and increased income through innovative development. In terms of assets, the Bank continued to make efforts to reduce non-standard assets and increase investment in standardized debt securities; optimised the structure over the interbank liabilities, repurchased financial assets with short-term and low-cost debt securities to replace high-cost interbank deposit certificates. The custody business has formally commenced upon the successful completion of the on-site acceptance and the renewal of business licence conducted by the CSRC. During the Reporting Period, the revenue from the financial market business of the Company reached RMB1.365 billion, accounting 21.42% of the Company's revenue.
- (4) Subsidiaries: BQD Financial Leasing and BQD Wealth Management kept pace with each other, and the scale efficiency has rapidly improved. Focusing on its main leasing business, BQD Financial Leasing has focused on supporting green agriculture, blue sea, private manufacturing and other special industries, and has maintained a stable asset quality, with total assets exceeding RMB17.0 billion. BQD Wealth Management has continued to expand its off-bank channels and grew amid a downward trend. BQD Wealth Management had its product size and asset scale increased to RMB222.600 billion and RMB234.770 billion, respectively, with well-performed wealth management products and steadily increasing profitability.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

- (5) Technology Empowerment: orderly digital transformation drives the effectiveness of data empowerment. During the Reporting Period, the Bank established the Digital Strategy Transformation Committee to initiate a comprehensive digital transformation process. This has led to gradual enhancements in the Bank's integrated corporate online and offline operational system, bolstered digital transformation efforts in the retail sector, and fortified our risk control, compliance management, and internal control standards. Moreover, the Bank prioritized data governance and improved its big data platform, with a core focus on integrating Agile Mode and Traditional Mode, as well as the fusion of industry and technology. These initiatives have resulted in a significant enhancement of data quality across the Bank.
- (6) Risk Management: optimise comprehensive risk management and enhance the effectiveness of approval services. The Bank developed risk management strategies and risk appetite plans to strengthen proactive risk management. The Bank also optimised the Head Office's loan approval process to enhance the efficiency of the approval process. Through augmenting revenue generation from loan recoveries, introducing innovative approaches to loan recovery, the Bank achieved notable capital saving results. The Bank not only insisted on reinforcing the second line of defence in internal control management by giving top priority to compliance, but also strengthened the third line of defence in internal control by meticulous and truthful project auditing. Lastly, the establishment of branch office management committees has been undertaken to gradually improve the organisational structure.

In the second half of the year, the Bank will continue to uphold the guiding business philosophy of "consolidating the strength and making up for the weakness, serving the real economy, governing the risks and standardizing the management", and maintain the positive development trend in the first half of the year by adhering to the four major strategic themes of "adjusting the structure, strengthening customer base, optimizing coordination and enhancing capabilities".

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF PROFIT OR LOSS

4.1 Financial Performance Summary

During the Reporting Period, the Company's net profit amounted to RMB2.408 billion, representing a year-on-year increase of RMB347 million or 16.85%; net profit attributable to equity shareholders of the Bank amounted to RMB2.336 billion, representing a year-on-year increase of RMB317 million or 15.72%. During the Reporting Period, the Company put new 3-year strategic plan into practice, kicking off a chapter for high-quality development and leading to the improvement and enhancement on quality and efficiency in various businesses as well as continuous strengthening of risk control and cost management. The Company achieved well-performed operating results because the net profit steadily increased due to the credit impairment and expense decreased while there was a steady increase in operating income. Effective income tax rate was 13.59%, representing a year-on-year increase of 2.23 percentage points, which was mainly due to the increase in profit before tax. The following table sets forth the changes in the Company's major profit items during the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022	Change in amount	Change (%)
Net interest income	4,509,411	3,974,750	534,661	13.45
Net fee and commission income	940,033	835,845	104,188	12.46
Other net non-interest income	921,367	1,400,745	(479,378)	(34.22)
Operating expenses	(1,774,676)	(1,822,459)	47,783	(2.62)
Credit losses	(1,809,832)	(2,058,483)	248,651	(12.08)
Impairment losses on other assets	–	(6,027)	6,027	(100.00)
Profit before taxation	2,786,303	2,324,371	461,932	19.87
Income tax expenses	(378,767)	(264,037)	(114,730)	43.45
Net profit	2,407,536	2,060,334	347,202	16.85
Of which: Net profit attributable to equity shareholders of the Bank	2,335,704	2,018,395	317,309	15.72
Net profit attributable to non-controlling interests	71,832	41,939	29,893	71.28

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.2 Operating Income

During the Reporting Period, the Company's operating income amounted to RMB6.371 billion, representing a year-on-year increase of RMB159 million or 2.57% and a year-on-year increase of RMB562 million or 9.67% after deducting the effect of redeemed offshore preference shares. During the Reporting Period, the Company expanded its business scale in a steady manner and continuously optimized its business structure resulting in the increase in net interest income and net fee and commission income which drove the increase in operating income. Among the operating income, net interest income accounted for 70.78%, representing a year-on-year increase of 6.79 percentage points; net fee and commission income accounted for 14.76%, representing a year-on-year increase of 1.30 percentage points. The following table sets forth the principal components of the Company's operating income and the changes during the periods indicated.

Unit: RMB'000

Item	January to June 2023		January to June 2022		Percentage changes (percentage point)
	Amount	Percentage (%)	Amount	Percentage (%)	
Net interest income	4,509,411	70.78	3,974,750	63.99	6.79
Interest income	10,251,650	160.91	9,758,810	157.11	3.80
Of which: Interest income from loans and advances to customers	6,622,040	103.94	6,291,728	101.29	2.65
Interest income from financial investments	2,672,836	41.95	2,550,980	41.07	0.88
Interest income from deposits with banks and other financial institutions	20,843	0.33	16,229	0.27	0.06
Interest income from placements with banks and other financial institutions	203,454	3.19	105,228	1.69	1.50
Interest income from financial assets held under resale agreements	68,460	1.07	173,802	2.80	(1.73)
Interest income from deposits with central banks	151,990	2.39	153,617	2.47	(0.08)
Interest income from long-term receivables	512,027	8.04	467,226	7.52	0.52
Interest expense	(5,742,239)	(90.13)	(5,784,060)	(93.12)	2.99
Net non-interest income	1,861,400	29.22	2,236,590	36.01	(6.79)
Of which: Net fee and commission income	940,033	14.76	835,845	13.46	1.30
Other net non-interest income	921,367	14.46	1,400,745	22.55	(8.09)
Operating income	6,370,811	100.00	6,211,340	100.00	-

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.3 Net Interest Income

During the Reporting Period, the Company's net interest income amounted to RMB4.509 billion, representing a year-on-year increase of RMB535 million or 13.45%. This was primarily due to the growth in net interest income as the steady rebound of margin, the increase in interest income on loans and investments and the decrease in interest expense due to the Company expanded the scale of assets and liability while continuously making structural adjustments. The following table sets forth the average balance of interest-earning assets and interest-bearing liabilities items, interest income/expense and average yield/cost rate of the Company for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

Unit: RMB'000

Item	January to June 2023			January to June 2022		
	Average balance	Interest income/expense	Average yield/cost rate	Average balance	Interest income/expense	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	272,667,919	6,622,040	4.90%	249,690,713	6,291,728	5.08%
Financial investments	157,965,031	2,672,836	3.41%	137,238,414	2,550,980	3.75%
Deposits and placements with banks and other financial institutions ⁽¹⁾	23,439,431	292,757	2.52%	30,439,323	295,259	1.96%
Deposits with central banks	22,180,940	151,990	1.38%	23,700,664	153,617	1.31%
Long-term receivables	15,793,102	512,027	6.54%	14,711,185	467,226	6.40%
Total	492,046,423	10,251,650	4.20%	455,780,299	9,758,810	4.32%
Interest-bearing liabilities						
Deposits from customers	350,628,426	3,916,864	2.25%	308,459,110	3,353,888	2.19%
Deposits and placements from banks and other financial institutions ⁽²⁾	55,705,853	642,793	2.33%	49,399,977	606,075	2.47%
Debt securities issued	74,692,444	987,817	2.67%	96,808,249	1,499,946	3.12%
Others	15,783,122	194,765	2.49%	25,826,740	324,151	2.53%
Total	496,809,845	5,742,239	2.33%	480,494,076	5,784,060	2.43%
Net interest income	/	4,509,411	/	/	3,974,750	/
Net interest spread	/	/	1.87%	/	/	1.89%
Net interest margin	/	/	1.85%	/	/	1.76%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. Deposits and placements with banks and other financial institutions include financial assets held under resale agreements.
2. Deposits and placements from banks and other financial institutions include financial assets sold under repurchase agreements.

During the Reporting Period, the average balance of interest-earning assets was RMB492.046 billion, representing a year-on-year increase of RMB36.266 billion or 7.96%; net interest spread was 1.87%, representing a year-on-year decrease of 0.02 percentage point; net interest margin was 1.85%, representing a year-on-year increase of 0.09 percentage point. Under the backdrop of general downturn in market interest rate and increase in the level of the benefit supported to real economy, the Company achieved the steady rebound in net interest margin through continuously making structural adjustments on interest-earning assets and interest-bearing liabilities leading to an increase in proportion of loans and investment and a decrease in debt securities issued which offset the effects of the downturn in yield of assets and the increase in the cost rate of deposits.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

Unit: RMB'000

Item	January to June 2023 vs. January to June 2022		
	Due to volume	Due to rate	Net increase (decrease)
Interest-earning assets			
Loans and advances to customers	553,187	(222,875)	330,312
Financial investment	353,244	(231,388)	121,856
Deposits and placements with banks and other financial institutions	(87,032)	84,530	(2,502)
Deposits with central banks	(9,854)	8,227	(1,627)
Long-term receivables	34,588	10,213	44,801
Interest income changes	844,133	(351,293)	492,840
Interest-bearing liabilities			
Deposits from customers	471,199	91,777	562,976
Deposits and placements from banks and other financial institutions	71,014	(34,296)	36,718
Debt securities issued	(296,101)	(216,028)	(512,129)
Others	(124,263)	(5,123)	(129,386)
Interest expense changes	121,849	(163,670)	(41,821)
Net interest income changes	722,284	(187,623)	534,661

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.4 Interest Income

During the Reporting Period, the Company's interest income was RMB10.252 billion, representing a year-on-year increase of RMB493 million or 5.05%, mainly due to the increase in the size of loans and investments of the Company and the corresponding growth in interest income. The interest income from loans and advances to customers and from financial investments constituted the major components of the interest income of the Company.

Interest income of loans and advances to customers

During the Reporting Period, the Company's interest income from loans and advances to customers amounted to RMB6.622 billion, representing a year-on-year increase of RMB330 million or 5.25%, mainly due to the Company's increased credit support for the real economy and continuous expansion in size of loans issued, resulting in a year-on-year increase in the average balance of loans of RMB22.977 billion or 9.20%. Although the rate of return of loans continued to decline due to factors including the decline of market interest rates and the reduction of customer financing costs, the interest income of loans had stable growth in general. The following table sets forth the average balance, interest income and average yield of each component of the Company's loans and advances to customers for the periods indicated.

Unit: RMB'000

Item	January to June 2023			January to June 2022		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	181,778,397	4,541,188	5.04%	160,761,299	4,068,444	5.10%
Personal loans	66,536,990	1,839,402	5.57%	71,216,228	2,021,792	5.72%
Discounted bills	24,352,532	241,450	2.00%	17,713,186	201,492	2.29%
Total	272,667,919	6,622,040	4.90%	249,690,713	6,291,728	5.08%

Interest income from financial investments

During the Reporting Period, the Company's interest income from financial investments was RMB2.673 billion, representing a year-on-year increase of RMB122 million or 4.78%, mainly due to the fact that the Company strengthened market research and judgment and adjusted its investment structure by increasing the proportion of investments in interest-earning assets and increasing the size of bond investments, resulting in an increase in the average balance of financial investments of RMB20.727 billion or 15.10% year-on-year, which drove the growth of interest income from financial investments.

Interest income from deposits and placements with banks and other financial institutions

During the Reporting Period, the Company's interest income from deposits and placements with banks and other financial institutions amounted to RMB293 million, representing a year-on-year decrease of RMB3 million or 0.85%, and remained stable overall.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.5 Interest Expense

During the Reporting Period, the Company's interest expense amounted to RMB5.742 billion, representing a year-on-year decrease of RMB42 million or 0.72%, mainly due to a decrease in the interest expense resulting from a decrease in the size and cost of bonds issued and borrowings from the central banks despite an increase in the size and costs of deposits. Interest expenses on deposits from customers and interest expenses on debt securities issued were major components of the interest expense of the Company.

Interest expense on deposits from customers

During the Reporting Period, the Company's interest expense on deposits from customers was RMB3.917 billion, representing a year-on-year increase of RMB563 million or 16.79%, mainly due to a year-on-year increase in average balances of RMB42.169 billion or 13.67% resulting from the expanded scale of deposit business of the Company, which drove an increase in the interest expenses on deposits. The average cost ratio of deposits was 2.25%, representing a year-on-year increase of 0.06 percentage point, mainly due to an increase in the proportion of time deposits, while the cost ratio of demand and time deposits and the cost ratio of personal deposits all recorded a year-on-year decrease. The following table sets forth the average balance, interest expense and average cost rate of each component of the Company's deposits from customers for the periods indicated.

Unit: RMB'000

Item	January to June 2023			January to June 2022		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
Corporate deposits						
Demand	87,383,276	378,804	0.87%	98,953,242	472,910	0.96%
Time	105,071,185	1,445,837	2.77%	92,261,487	1,294,382	2.83%
Sub-total	192,454,461	1,824,641	1.91%	191,214,729	1,767,292	1.86%
Personal deposits						
Demand	28,669,327	32,070	0.23%	26,678,617	40,189	0.30%
Time	129,504,638	2,060,153	3.21%	90,565,764	1,546,407	3.44%
Sub-total	158,173,965	2,092,223	2.67%	117,244,381	1,586,596	2.73%
Total	350,628,426	3,916,864	2.25%	308,459,110	3,353,888	2.19%

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Reporting Period, the Company's interest expense on deposits and placements from banks and other financial institutions amounted to RMB643 million, representing a year-on-year increase of RMB37 million or 6.06%, mainly due to the fact that the Company adjusted the allocation of funds in response to the interbank market condition, and moderately increased the scale of deposits and placements from banks and other financial institutions while the scale of debt securities issued declined, which led to a corresponding increase in the interest expense.

Interest expense on debt securities issued

During the Reporting Period, the Company's interest expense on debt securities issued amounted to RMB988 million, representing a year-on-year decrease of RMB512 million or 34.14%, mainly due to a corresponding decrease in the interest expense resulting from the year-on-year decrease in average balances of the debt securities issued of RMB22.116 billion or 22.84%, which was due to the fact that the scale of financial bonds, tier-two capital bonds and interbank deposit certificates issued by the Company decreased.

Other Interest Expense

During the Reporting Period, the Company's other interest expense amounted to RMB195 million, representing a year-on-year decrease of RMB129 million or 39.92%, mainly due to a corresponding decrease in the interest expense resulting from a decrease in the Company's borrowings from the central banks.

4.6 Net Non-interest Income

During the Reporting Period, the Company's net non-interest income was RMB1.861 billion, representing a year-on-year decrease of RMB375 million, or 16.78%. This was mainly due to the growth in net fee and commission income with the decrease in other net non-interest income. The following table sets forth the main components of the Company's net non-interest income for the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022
Fee and commission income	1,181,856	980,635
Less: Fee and commission expense	(241,823)	(144,790)
Net fee and commission income	940,033	835,845
Other net non-interest income	921,367	1,400,745
Net non-interest income	1,861,400	2,236,590

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.7 Net Fee and Commission Income

During the Reporting Period, the Company's net fee and commission income amounted to RMB940 million, representing a year-on-year increase of RMB104 million or 12.46%. This was mainly due to the fact that the Company continuously optimized its business structure and vigorously expanded its intermediary services such as financial management services wealth management and transaction banking, which led to an increase in fee and commission income. The following table sets forth the main components of the Company's net fee and commission income for the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022
Fee and commission income	1,181,856	980,635
Of which: Wealth management service fees	503,669	458,739
Agency service fees	345,653	276,796
Custody and bank card service fees	193,156	156,412
Settlement fees	64,456	55,924
Financial leasing fees	–	17,628
Others	74,922	15,136
Less: Fee and commission expense	(241,823)	(144,790)
Net fee and commission income	940,033	835,845

During the Reporting Period, the wealth management service fee income amounted to RMB504 million, representing a year-on-year increase of RMB45 million or 9.79%, mainly due to increased management service fees as the scale of wealth management increased; agency service fees amounted to RMB346 million, representing a year-on-year increase of RMB69 million or 24.88%, mainly due to increased service fees from agency business for insurance; custody and bank card service fees amounted to RMB193 million, representing a year-on-year increase of RMB37 million or 23.49%, mainly due to increased credit card service fees; settlement fees amounted to RMB64 million, representing a year-on-year increase of RMB9 million or 15.26%, mainly due to increased letters of credit fees; others service fees amounted to RMB75 million, representing a year-on-year increase of RMB60 million, mainly due to increased service fees from letters of guarantees; financial leasing service fees recorded a year-on-year decrease of RMB18 million, mainly due to the adjustment to the leased assets charging pattern of the leased subsidiaries. Fee and commission expense amounted to RMB242 million, representing a year-on-year increase of RMB97 million, mainly due to increased service fees arising from wealth management and credit card business.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.8 Other Net Non-interest Income

During the Reporting Period, the Company's other net non-interest income amounted to RMB921 million, representing a year-on-year decrease of RMB479 million or 34.22%. Net gains arising from investments, which were the main component of other net non-interest income, achieved RMB948 million in the current period, representing a year-on-year decrease of RMB3 million, and remained stable overall. Among other non-interest items, net trading gains or losses amounted to RMB-105 million, representing a year-on-year decrease of RMB527 million, mainly due to the significant reduction of the impact of exchange rate fluctuations on exchange gains and losses after the redemption of offshore preference shares, resulting in a decrease in net trading gains or losses. After excluding the impact of redeemed offshore preference shares, net trading gains or losses decreased by RMB125 million year on year, mainly due to the capital cost of the new foreign exchange swap business. The following table sets forth the main components of the Company's other net non-interest income for the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022
Net trading gains/(losses) ⁽¹⁾	(104,644)	422,623
Net gains arising from investments	948,234	951,323
Other net operating income	77,777	26,799
Total	921,367	1,400,745

Note: 1. From January to June 2022, as exchange rate fluctuated and the US dollar appreciated, the corresponding US dollar net position of the Company's offshore preference shares in the amount of US\$1.203 billion that had not been redeemed generated a foreign exchange gain or loss of RMB402 million. In September 2022, the Company redeemed its offshore preference shares, the corresponding US dollar net position was cleared to zero, and no such exchange gains or losses were incurred thereafter.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.9 Operating Expenses

During the Reporting Period, the Company's operating expenses amounted to RMB1.775 billion, representing a year-on-year decrease of RMB48 million or 2.62%, mainly because that while striving to expand business and increasing revenue, the Company carried out cost reduction and efficiency improvement, strictly managed costs, standardized the approval process, and scientifically allocated resources, as a result of which various expenses decreased steadily in general. The following table sets forth the main components of the Company's operating expenses for the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022
Staff costs	879,509	884,788
Property and equipment expenses	358,814	358,342
Tax and surcharges	81,190	75,089
Other general and administrative expenses	455,163	504,240
Operating expenses	1,774,676	1,822,459

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

4.10 Credit losses

During the Reporting Period, the Company's credit losses amounted to RMB1.810 billion, representing a year-on-year decrease of RMB249 million or 12.08%. Credit losses from loans and advances to customers constituted the largest component of the credit losses. During the Reporting Period, credit losses from loans and advances to customers amounted to RMB1.120 billion, representing a year-on-year decrease of RMB424 million or 27.47%, mainly due to the fact that the Company deepened risk management and control and improved loan quality while increasing the scale of loans, resulting in a decrease in provision for impairment. In addition, the total credit impairment loss of financial investments amounted to RMB512 million, representing a year-on-year increase of RMB149 million. The credit loss of credit commitment amounted to RMB106 million, representing a year-on-year increase of RMB83 million, both of which were in line with the credit risk profile of the corresponding businesses due to the moderate increase in provision for impairment to enhance the ability to offset risks. The following table sets forth the main components of the Company's credit losses for the periods indicated.

Unit: RMB'000

Item	January to June 2023	January to June 2022
Loans and advances to customers	1,120,494	1,544,922
Financial investments measured at amortised cost	548,228	378,103
Financial investments at fair value through other comprehensive income	(36,566)	(14,971)
Long-term receivables	63,850	98,264
Deposits with banks and other financial institutions	(1,738)	(307)
Placements with banks and other financial institutions	5,361	11,886
Financial assets held under resale agreements	14,122	(21,110)
Credit commitment	105,950	23,266
Others	(9,869)	38,430
Credit losses	1,809,832	2,058,483

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

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

5.1 Assets

As at the end of the Reporting Period, the Company's total assets amounted to RMB568.401 billion, representing an increase of RMB38.787 billion or 7.32% as compared with that at the end of the previous year. During the Reporting Period, the Company strengthened the role of finance in providing service to the real economy, enhanced market expansion and analysis and judgment, and steadily expanded the size of assets, loans and financial investment. The following table sets forth the components of the Company's total assets as at the dates indicated.

Unit: RMB'000

Item	30 June 2023		31 December 2022		Change from the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Loans and advances to customers	281,776,342	49.57	262,518,662	49.57	7.34	-	238,608,698	45.69
Financial investments measured at fair value through profit or loss	45,862,730	8.07	47,259,762	8.92	(2.96)	(0.85)	55,947,254	10.71
Financial investments measured at fair value through other comprehensive income	109,217,172	19.21	96,678,701	18.25	12.97	0.96	72,613,395	13.90
Financial investments measured at amortised cost	55,234,085	9.72	58,202,665	10.99	(5.10)	(1.27)	61,422,152	11.76
Cash and deposits with central banks	25,266,281	4.45	27,825,306	5.25	(9.20)	(0.80)	53,241,394	10.19
Deposits with banks and other financial institutions	2,129,920	0.37	2,301,037	0.43	(7.44)	(0.06)	2,126,922	0.41
Placements with banks and other financial institutions	12,879,648	2.27	8,432,022	1.59	52.75	0.68	5,108,646	0.98
Financial assets held under resale agreements	7,985,878	1.40	-	-	N/A	1.40	12,288,925	2.35
Derivative financial assets	104,771	0.02	108,376	0.02	(3.33)	-	146,617	0.03
Long-term receivables	16,571,885	2.92	15,280,949	2.89	8.45	0.03	11,688,253	2.24
Property and equipment	3,498,738	0.62	3,466,386	0.65	0.93	(0.03)	3,390,193	0.65
Right-of-use assets	835,413	0.15	826,958	0.16	1.02	(0.01)	845,889	0.16
Deferred tax assets	3,477,659	0.61	3,446,343	0.65	0.91	(0.04)	2,505,442	0.48
Other assets	3,560,385	0.62	3,266,825	0.63	8.99	(0.01)	2,315,830	0.45
Total assets	568,400,907	100.00	529,613,992	100.00	7.32	-	522,249,610	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.1.1 Loans and advances to customers

As at the end of the Reporting Period, the Company's loans and advances to customers amounted to RMB281.776 billion, representing an increase of RMB19.258 billion or 7.34% as compared with that at the end of the previous year; accounted for 49.57% of the total assets, the same as that at the end of the previous year. Total loans to customers (excluding accrued interest, the same below) amounted to RMB288.836 billion, representing an increase of RMB19.806 billion or 7.36% as compared with that at the end of the previous year, and accounting for 50.82% of the total assets, up by 0.02 percentage point as compared with that at the end of last year. During the Reporting Period, the Company comprehensively adhered to the guidelines of national monetary policy and continued to improve the ability to serve the real economy. Thus, the Company strengthened market expansion and business coordination, and recorded continuous growth in the loan scale, with a steady rise in the proportion of the total assets. The following table sets forth the components of the loans and advances to customers of the Company by product type as at the dates indicated.

Unit: RMB'000

Item	30 June 2023		31 December 2022		Change from the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in amount (%)	Change in % of total	Amount	% of total
Corporate loans	191,818,115	66.41	173,148,215	64.36	10.78	2.05	149,822,068	61.35
Personal loans	75,281,924	26.06	73,380,030	27.28	2.59	(1.22)	76,743,188	31.43
Discounted bills	21,735,518	7.53	22,501,207	8.36	(3.40)	(0.83)	17,640,224	7.22
Total loans to customers	288,835,557	100.00	269,029,452	100.00	7.36	-	244,205,480	100.00
Add: Accrued interest	569,950	/	598,681	/	(4.80)	/	829,555	/
Less: Provision for impairment on loans and advances to customers measured at amortised cost	(7,629,165)	/	(7,109,471)	/	7.31	/	(6,426,337)	/
Loans and advances to customers	281,776,342	/	262,518,662	/	7.34	/	238,608,698	/

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Corporate loans

As at the end of the Reporting Period, the Company's corporate loans amounted to RMB191.818 billion, representing an increase of RMB18.670 billion or 10.78% as compared with that at the end of the previous year; accounted for 66.41% of the total loans to customers, up by 2.05 percentage points as compared with that at the end of the previous year. During the Reporting Period, the Company strived to develop its green loan business according to the credit policy, while increasing its credit support for inclusive, private enterprises, technology industry and people's livelihood support, with increase in loan granted for wholesale and retail industries.

Personal loans

As at the end of the Reporting Period, the Company's individual loans amounted to RMB75.282 billion, representing an increase of RMB1.902 billion or 2.59% as compared with that at the end of the previous year; accounted for 26.06% of the total loans to customers, down by 1.22 percentage points as compared with that at the end of the previous year. During the Reporting Period, steady growth was recorded for personal consumption loans, residential mortgages and credit card business of the Company.

Discounted bills

As at the end of the Reporting Period, the Company's discounted bills amounted to RMB21.736 billion, representing a decrease of RMB766 million or 3.40% as compared with that at the end of last year, and accounting for 7.53% of the total loans to customers, representing a decrease of 0.83 percentage point as compared with that at the end of last year. During the Reporting Period, the Company moderately adjusted its capital allocation, resulting in a slight decrease in discounted bills.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.1.2 Financial investments

As at the end of the Reporting Period, the Company's carrying value of financial investments amounted to RMB210.314 billion, representing an increase of RMB8.173 billion or 4.04% as compared with that at the end of last year. The following table sets forth the components of the Company's financial investment portfolio as at the dates indicated.

Unit: RMB'000

Item	30 June 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Financial investments measured at fair value through profit or loss	45,862,730	21.81	47,259,762	23.38
Financial investments measured at fair value through other comprehensive income	109,217,172	51.93	96,678,701	47.83
Financial investments measured at amortised cost	55,234,085	26.26	58,202,665	28.79
Financial investments	210,313,987	100.00	202,141,128	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at fair value through profit or loss

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through profit or loss amounted to RMB45.863 billion, representing a decrease of RMB1.397 billion or 2.96% as compared with that at the end of last year. The decrease was mainly due to the Company's adjustment to the investment structure and proper reduction in the scale of investments such as public funds to increase the stability of income and mitigate fluctuations. The following table sets forth the components of the Company's financial investments measured at fair value through profit or loss as at the dates indicated.

Unit: RMB'000

Item	30 June 2023	31 December 2022
Debt securities issued by government and central banks	25,844	24,637
Debt securities issued by banks and other financial institutions	2,689,750	2,684,943
Debt securities issued by corporate entities	896,427	1,017,848
Investment funds	33,979,400	34,950,084
Asset management plans	7,824,064	7,787,802
Trust fund plans	447,245	791,832
Other investments	–	2,616
Financial investments measured at fair value through profit or loss	45,862,730	47,259,762

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at fair value through other comprehensive income

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at fair value through other comprehensive income amounted to RMB109.217 billion, representing an increase of RMB12.538 billion or 12.97% as compared with that at the end of last year, mainly because the Company increased the scale of investments in debt securities issued by banks and other financial institutions and debt securities issued by corporate entities with relatively high yields through increasing the proportion of interest-bearing investments against the trend of the debt security market, while paying attention to the liquidity management needs. The following table sets forth the components of the Company's financial investment measured at fair value through other comprehensive income as at the dates indicated.

Unit: RMB'000

Item	30 June 2023	31 December 2022
Debt securities issued by government and central banks	29,666,803	34,298,700
Debt securities issued by policy banks	10,783,991	7,179,615
Debt securities issued by banks and other financial institutions	26,791,999	19,761,408
Debt securities issued by corporate entities	40,203,541	33,292,034
Asset management plans	600,006	712,934
Equity investments	23,250	23,250
Add: Accrued interest	1,147,582	1,410,760
Financial investments measured at fair value through other comprehensive income	109,217,172	96,678,701

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Financial investments measured at amortised cost

As at the end of the Reporting Period, the Company's carrying value of financial investments measured at amortised cost amounted to RMB55.234 billion, representing a decrease of RMB2.969 billion or 5.10% as compared with that at the end of last year. The decrease was mainly due to the fact that certain non-standard assets were not renewed upon maturity as the Company appropriately controlled the scale of investments measured at amortised cost in accordance with its investment strategy and liquidity management needs. The following table sets forth the components of the Company's financial investments measured at amortised cost as at the dates indicated.

Unit: RMB'000

Item	30 June 2023	31 December 2022
Debt securities issued by government and central banks	29,386,152	29,382,700
Debt securities issued by policy banks	10,719,175	10,720,004
Debt securities issued by banks and other financial institutions	8,661,441	8,957,230
Debt securities issued by corporate entities	429,934	801,917
Asset management plans	2,204,910	2,609,200
Trust fund plans	1,618,700	1,738,700
Other investments	5,058,576	6,070,640
Total financial investments measured at amortised cost	58,078,888	60,280,391
Add: Accrued interest	682,791	868,992
Less: Provision for impairment losses	(3,527,594)	(2,946,718)
Financial investments measured at amortised cost	55,234,085	58,202,665

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2 Liabilities

As at the end of the Reporting Period, the Company's total liabilities amounted to RMB529.613 billion, representing an increase of RMB36.593 billion or 7.42% as compared with that at the end of last year. The following table sets forth the components of the Company's total liabilities as at the dates indicated.

Unit: RMB'000

Item	30 June 2023		31 December 2022		Change from the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in Amount (%)	Change in % of total	Amount	% of total
Deposits from customers	377,736,593	71.32	348,043,307	70.59	8.53	0.73	317,965,807	65.03
Deposits from banks and other financial institutions	1,036,697	0.20	6,439,660	1.31	(83.90)	(1.11)	6,341,814	1.30
Placements from banks and other financial institutions	19,110,941	3.61	17,808,095	3.61	7.32	-	16,904,500	3.46
Financial assets sold under repurchase agreements	35,076,358	6.62	25,634,354	5.20	36.83	1.42	25,305,596	5.18
Derivative financial liabilities	470,263	0.09	188,147	0.04	149.94	0.05	144,689	0.03
Borrowings from central banks	16,601,746	3.13	13,256,605	2.69	25.23	0.44	25,494,116	5.21
Income tax payable	525,328	0.10	703,876	0.14	(25.37)	(0.04)	124,032	0.03
Debt securities issued	74,318,662	14.03	74,866,951	15.19	(0.73)	(1.16)	92,218,300	18.86
Lease liabilities	536,625	0.10	515,043	0.10	4.19	-	505,895	0.10
Other liabilities	4,200,143	0.80	5,564,659	1.13	(24.52)	(0.33)	3,917,133	0.80
Total liabilities	529,613,356	100.00	493,020,697	100.00	7.42	-	488,921,882	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2.1 Deposits from customers

As at the end of the Reporting Period, the Company's deposits from customers amounted to RMB377.737 billion, representing an increase of RMB29.693 billion or 8.53% as compared with that at the end of last year, and accounting for 71.32% of the total liabilities, representing an increase of 0.73 percentage point as compared with that at the end of last year; total deposits from customers (excluding accrued interest, the same hereinafter) amounted to RMB370.052 billion, representing an increase of RMB28.705 billion or 8.41% as compared with that at the end of last year, and accounting for 69.87% of the total liabilities, representing an increase of 0.63 percentage point as compared with that at the end of last year. During the Reporting Period, the Company focused on the building and operation of customer base and improved the product system to strengthen market expansion and absorb deposits to achieve growth, which further consolidated the fundamental role of deposits as the source of operating capital. The following table sets forth the components of the Company's deposits from customers by product type and customer type as at the dates indicated.

Unit: RMB'000

Item	30 June 2023		31 December 2022		Change from the end of last year		31 December 2021	
	Amount	% of total	Amount	% of total	Change in Amount (%)	Change in % of total	Amount	% of total
Corporate deposits	201,932,437	54.57	193,629,694	56.73	4.29	(2.16)	202,889,723	64.71
Demand deposits	97,958,147	26.47	91,660,860	26.86	6.87	(0.39)	118,280,119	37.73
Time deposits	103,974,290	28.10	101,968,834	29.87	1.97	(1.77)	84,609,604	26.98
Personal deposits	168,010,332	45.40	147,328,169	43.16	14.04	2.24	110,430,522	35.22
Demand deposits	28,298,182	7.65	29,571,148	8.66	(4.30)	(1.01)	29,923,260	9.54
Time deposits	139,712,150	37.75	117,757,021	34.50	18.64	3.25	80,507,262	25.68
Other deposits	109,426	0.03	389,313	0.11	(71.89)	(0.08)	204,678	0.07
Total customer deposits	370,052,195	100.00	341,347,176	100.00	8.41	-	313,524,923	100.00
Add: Accrued interest	7,684,398	/	6,696,131	/	14.76	/	4,440,884	/
Deposits from customers	377,736,593	/	348,043,307	/	8.53	/	317,965,807	/

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the Company's personal deposits accounted for 45.40% of the total deposits from customers, representing an increase of 2.24 percentage points as compared with that at the end of last year; corporate deposits accounted for 54.57% of the total deposits from customers, representing a decrease of 2.16 percentage points as compared with that at the end of last year.

5.2.2 Deposits from banks and other financial institutions

As at the end of the Reporting Period, the Company's deposits from banks and other financial institutions amounted to RMB1.037 billion, representing a decrease of RMB5.403 billion or 83.90% as compared with that at the end of last year, mainly due to the reinforcing of active management by the Company over the interbank liabilities, appropriately adjusted the liability structure, as well as increasing the size of financial assets sold under repurchase agreements while appropriately decreasing the scale of deposits from banks and other financial institutions.

5.2.3 Financial assets sold under repurchase agreements

As at the end of the Reporting Period, the Company's financial assets sold under repurchase agreements amounted to RMB35.076 billion, representing an increase of RMB9.442 billion or 36.83% as compared with that at the end of last year, mainly due to the reinforcing of active management by the Company over the interbank liabilities, and increasing the scale of repurchase bond business with relatively lower cost rates.

5.2.4 Borrowings from central banks

As at the end of the Reporting Period, the Company's borrowings from central banks amounted to RMB16.602 billion, representing an increase of RMB3.345 billion or 25.23% as compared with that at the end of last year, mainly due to the increase in medium-term lending facilities of the Company from the central bank.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

5.2.5 Debt securities issued

As at the end of the Reporting Period, the Company's debt securities issued amounted to RMB74.319 billion, representing a decrease of RMB548 million or 0.73% as compared with that at the end of last year, mainly due to the maturity of certificates of interbank deposit issued by the Company previously. For details of the bonds, please refer to "Notes to the Unaudited Interim Financial Report – 32 Debt Securities Issued" of this interim report.

5.3 Equity Attributable to Shareholders

As at the end of the Reporting Period, the shareholders' equity of the Company amounted to RMB38.788 billion, representing an increase of RMB2.194 billion or 6.00% as compared with that at the end of last year. Equity attributable to the shareholders of the Bank amounted to RMB37.939 billion, representing an increase of RMB2.122 billion or 5.93% as compared with that at the end of last year, mainly due to the increase in retained earnings. The following table sets forth the components of the Company's shareholders' equity as of the dates indicated.

Unit: RMB'000

Item	30 June 2023	31 December 2022
Share capital	5,820,355	5,820,355
Other equity instruments		
Including: perpetual bonds	6,395,783	6,395,783
Capital reserve	10,687,634	10,687,634
Other comprehensive income	801,703	83,726
Surplus reserve	2,388,248	2,388,248
General reserve	6,618,047	6,618,047
Retained earnings	5,226,966	3,822,519
Total equity attributable to equity shareholders of the Bank	37,938,736	35,816,312
Non-controlling interests	848,815	776,983
Total equity	38,787,551	36,593,295

VI. ANALYSIS OF CASH FLOWS STATEMENT

As at the end of the Reporting Period, net cash flows generated from operating activities of the Company was RMB4.997 billion, representing an increase of RMB11.786 billion as compared with the same period of the previous year, which was mainly due to an increase of RMB12.200 billion in net cash flows as a result of increase in deposits. Among which, cash outflows generated from operating assets increased by RMB14.176 billion and cash inflows generated from operating liabilities increased by RMB26.515 billion.

Net cash flows generated from investing activities was RMB-3.873 billion, representing an increase of RMB6.782 billion as compared with the same period of the previous year, which was mainly due to the decrease in both cash payments of investments of RMB16.073 billion and in cash received from disposal and redemption of investments of RMB9.233 billion, which partially offset the above impact.

Net cash flows generated from financing activities was RMB-2.541 billion, representing a decrease of RMB2.845 billion as compared with the same period of the previous year, which was mainly due to an increase in cash repayment of debt of RMB3.454 billion.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

VII. SEGMENT ANALYSIS

The following segment operating performance is presented by business segment. The Company's main businesses include corporate banking, retail banking and financial market business and others. The following table shows a summary of the operating performance of each business segment of the Company during the periods presented.

Unit: RMB'000

Item	January to June 2023		January to June 2022	
	Segment operating income	Ratio (%)	Segment operating income	Ratio (%)
Corporate banking	2,941,275	46.17	3,075,410	49.51
Retail banking	1,743,170	27.36	1,266,838	20.40
Financial market business	1,364,862	21.42	1,608,887	25.90
Unallocated items and others	321,504	5.05	260,205	4.19
Total	6,370,811	100.00	6,211,340	100.00

Unit: RMB'000

Item	January to June 2023		January to June 2022	
	Segment profit before taxation	Ratio (%)	Segment profit before taxation	Ratio (%)
Corporate banking	1,280,660	45.96	660,331	28.41
Retail banking	746,227	26.78	436,505	18.78
Financial market business	532,797	19.12	1,091,966	46.98
Unallocated items and others	226,619	8.14	135,569	5.83
Total	2,786,303	100.00	2,324,371	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

VIII. ANALYSIS OF ASSETS AND LIABILITIES

8.1 Major Overseas Assets

Not applicable.

8.2 Assets and Liabilities Measured at Fair Value

Unit: RMB'000

Major item	31 December 2022	Changes in fair value included in profit or loss for the current period	Cumulative changes in fair value recognized in equity	Impairment provided during the current period	30 June 2023
Financial investments measured at fair value through profit or loss	47,259,762	261,769	N/A	N/A	45,862,730
Loans and advances measured at fair value through other comprehensive income	22,694,130	N/A	10,500	157,584	23,005,083
Financial investments measured at fair value through other comprehensive income	96,678,701	N/A	721,548	(36,566)	109,217,172
Derivative financial assets	108,376	(3,605)	N/A	N/A	104,771
Derivative financial liabilities	(188,147)	(282,116)	N/A	N/A	(470,263)

8.3 Restricted Asset Rights as at the End of the Reporting Period

Please refer to “Notes to the Unaudited Interim Financial Report – 44(6) Pledged Assets” of this interim report.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

IX. ANALYSIS OF QUALITY OF LOANS

During the Reporting Period, the Company continued to strengthen the control over the quality of credit assets. While the credit assets grew steadily, the quality of credit assets continued to improve steadily. As at the end of the Reporting Period, the total amount of loans of the Company (excluding accrued interest) was RMB288.836 billion; total non-performing loans amounted to RMB3.292 billion; and the non-performing loan ratio was 1.14%. For the purpose of discussion and analysis, unless otherwise specified, the amount of loans presented in the analysis below excludes accrued interest.

9.1 Distribution of Loans by Five Categories

Unit: RMB'000

Item	30 June 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Normal loans	283,370,835	98.11	263,563,488	97.97
Special mention loans	2,172,289	0.75	2,218,483	0.82
Substandard loans	1,250,708	0.43	1,252,410	0.46
Doubtful loans	835,314	0.29	822,032	0.31
Loss loans	1,206,411	0.42	1,173,039	0.44
Total loans to customers	288,835,557	100.00	269,029,452	100.00
Total non-performing loans	3,292,433	1.14	3,247,481	1.21

Under the five-category classification system for loan supervision, the non-performing loans of the Company included the substandard, doubtful and loss loans. As at the end of the Reporting Period, the proportion of non-performing loans decreased by 0.07 percentage point as compared with that at the end of last year to 1.14%, of which the proportion of substandard loans decreased by 0.03 percentage point to 0.43%, the proportion of doubtful loans decreased by 0.02 percentage point to 0.29% and the proportion of loss loans decreased by 0.02 percentage point to 0.42%, as compared with that at the end of last year respectively.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.2 Distribution of Loans by Product Type

Unit: RMB'000

Item	30 June 2023		31 December 2022	
	Amount of loans	% of total	Amount of loans	% of total
Corporate-related loans	213,553,633	73.94	195,649,422	72.72
Working capital loans	131,147,981	45.40	116,039,075	43.13
Fixed asset loans	59,120,691	20.47	56,731,865	21.09
Import and export bills transactions	279,878	0.10	184,352	0.07
Discounted bills	21,735,518	7.53	22,501,207	8.36
Forfeiting	1,269,565	0.44	192,923	0.07
Retail loans	75,281,924	26.06	73,380,030	27.28
Personal residential mortgages	47,103,532	16.31	46,459,431	17.28
Personal consumption loans	17,920,112	6.20	16,931,630	6.29
Personal business loans	10,258,280	3.55	9,988,969	3.71
Total loans to customers	288,835,557	100.00	269,029,452	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.3 Distribution of Loans by Industry

Unit: RMB'000

Item	30 June 2023				31 December 2022			
	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %	Amount of loans	% of total	Amount of non-performing loans	Non-performing loan ratio %
Corporate-related loans	213,553,633	73.94	2,267,583	1.06	195,649,422	72.72	2,592,786	1.33
Construction	40,736,394	14.10	207,161	0.51	36,870,337	13.70	303,343	0.82
Wholesale and retail trade	34,016,401	11.78	352,385	1.04	27,177,633	10.10	419,291	1.54
Renting and business services	27,809,003	9.63	–	–	22,197,699	8.25	–	–
Manufacturing	25,146,630	8.71	1,240,531	4.93	30,836,317	11.46	1,409,410	4.57
Water conservancy, environment and public utility management	23,786,916	8.24	48,870	0.21	24,242,353	9.01	44,000	0.18
Real estate	22,817,808	7.90	55,221	0.24	21,744,001	8.08	22,292	0.1
Financial services	15,635,427	5.41	–	–	13,558,837	5.04	–	–
Transportation, storage and postal services	6,641,627	2.30	–	–	5,031,283	1.87	–	–
Production and supply of electric and heating power, gas and water	4,744,981	1.64	294,780	6.21	4,837,379	1.80	307,170	6.35
Scientific research and technical services	3,705,408	1.28	4,750	0.13	2,788,039	1.04	4,750	0.17
Others	8,513,038	2.95	63,885	0.75	6,365,544	2.37	82,530	1.3
Retail loans	75,281,924	26.06	1,024,850	1.36	73,380,030	27.28	654,695	0.89
Total loans to customers	288,835,557	100.00	3,292,433	1.14	269,029,452	100.00	3,247,481	1.21

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.4 Distribution of Loans by Region

Unit: RMB'000

Region	30 June 2023				31 December 2022			
	Amount of loans	% of total	Amount of non- performing loans	Non- performing loan ratio %	Amount of loans	% of total	Amount of non- performing loans	Non- performing loan ratio %
Shandong Province	288,835,557	100.00	3,292,433	1.14	269,029,452	100.00	3,247,481	1.21
Of which: Qingdao City	158,144,393	54.75	2,208,610	1.40	149,899,130	55.72	1,974,395	1.32

9.5 Distribution of Loans by Type of Collateral

Unit: RMB'000

Item	30 June 2023		31 December 2022	
	Amount of loans	% of total	Amount of loans	% of total
Unsecured loans	57,095,244	19.77	52,463,310	19.50
Guaranteed loans	62,367,835	21.59	56,725,873	21.09
Mortgage loans	111,412,961	38.57	104,787,862	38.95
Pledged loans	57,959,517	20.07	55,052,407	20.46
Total loans to customers	288,835,557	100.00	269,029,452	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.6 Loans to the Top Ten Single Borrowers

Unit: RMB'000

Top ten borrowers	Industry	Amount of loans as at the end of the Reporting Period	Percentage in total loans %
A	Renting and business services	2,500,000	0.87
B	Renting and business services	2,044,000	0.71
C	Renting and business services	2,000,000	0.69
D	Manufacturing	1,748,064	0.61
E	Culture, sports and entertainment	1,733,330	0.60
F	Renting and business services	1,700,000	0.59
G	Renting and business services	1,690,000	0.59
H	Renting and business services	1,499,404	0.52
I	Renting and business services	1,498,680	0.52
J	Transportation, storage and postal services	1,418,000	0.47
Total		17,831,478	6.17

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.7 Distribution of Loans by Overdue Period

Unit: RMB'000

Overdue period	30 June 2023		31 December 2022	
	Amount of loans	% of total	Amount of loans	% of total
Not yet overdue	284,455,946	98.48	264,863,448	98.45
Overdue for 3 months (inclusive) or less	1,463,912	0.51	1,572,648	0.59
Overdue for over 3 months to 1 year (inclusive)	1,481,692	0.51	1,779,981	0.66
Overdue for over 1 year to 3 years (inclusive)	1,059,382	0.37	453,854	0.17
Overdue for over 3 years	374,625	0.13	359,521	0.13
Total loans to customers	288,835,557	100.00	269,029,452	100.00

The Company had adopted a strict classification standard as to overdue loans, according to which loans overdue for more than 60 days were classified as non-performing loans.

9.8 Repossessed Assets and Provision for Impairment

As at the end of the Reporting Period, the Company had no repossessed assets.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.9 Changes in Provision for Impairment of Loans

The Company has performed loan impairment accounting and confirmed loss provision based on expected credit losses. If the credit risk of loan is low as at the end of the Reporting Period or has not increased significantly since initial recognition, the Company measures its loss provision based on expected credit losses for the future 12 months. In other situations, the Company measures their loss provisions based on lifetime expected credit losses.

The Company re-measures expected credit losses at the end of the Reporting Period. In addition, the Company regularly reviews a number of key parameters and assumptions involved in the process of determining impairment provision based on the expected credit loss model, including probability of default, loss rate of default and other parameter estimations, as well as forward-looking adjustment and other adjustment factors. The changes in the Company's provision for impairment of loans are detailed in the following table.

Unit: RMB'000

Item	January to June 2023	2022
Balance at the beginning of the period/year	7,137,141	6,439,606
Provision for the period/year	1,120,494	2,636,284
Write-offs for the period/year	(449,579)	(2,046,387)
Transfer out for the period/year	–	–
Recovery of write-offs for the period/year	21,023	122,818
Other changes	(14,660)	(15,180)
Balance at the end of the period/year	7,814,419	7,137,141

The Company maintained a stable and prudent provision policy. As at the end of the Reporting Period, the Company's provision for impairment of loans (including discounted bills) amounted to RMB7.814 billion, representing an increase of RMB677 million or 9.49% as compared with that at the end of last year. The provision coverage ratio reached 237.34%, representing an increase of 17.57 percentage points as compared with that at the end of last year; the provision rate of loans stood at 2.71%, representing an increase of 0.06 percentage point as compared with that at the end of last year, both provision indicators satisfying regulatory requirements.

9.10 Countermeasures Taken against Non-performing Assets

During the Reporting Period, the Company continued to strengthen its high-quality development, implemented the refined dynamic management of various asset quality indicators, effectively combined real-time dynamic management with the routine management mechanism, strengthened dynamic management and classified and hierarchical management, continuously improved risk management and control efficiency, and strictly controlled new non-performing assets. The Company constantly strengthened its capability to operate non-performing assets, focused on quality and efficiency improvement, optimized its disposal strategy for non-performing assets, and promoted the orderly management of non-performing assets. The Company strengthened the disposal of existing non-performing assets by carrying forward its work comprehensively, making breakthroughs in key areas, broadening disposal channels and methods, and taking various measures simultaneously, which enhanced the income contribution and achieved good results. As at the end of the Reporting Period, the non-performing loan ratio of the Company continued to decline, and the asset quality continued to improve steadily.

9.11 Credit Extension to Group Customers and Risk Management

The Company adhered to the principles of “unified credit granting, appropriate limits, classified management, real-time monitoring, and lead bank system” in extending credit to group customers, developed risk management systems for the credit business to group customers and established a management mechanism and management information system adapted to the risk management characteristics of the credit business to group customers, with a complete family tree of the Group constructed. At the same time, the Company constantly improved the system control scheme for extending credit to group customers and continuously enhanced the control of the entire process of credit extension to group customers, so as to continuously enhance the risk management level of credit extension to group customers.

Firstly, it implemented unified management for credit extension to group customers, standardized the unified identification of group customers and related information exchange management by the Bank and its subsidiaries, and centralized risks control of credit extension to group customers. Secondly, it set up a large-amount credit review committee to be responsible for reviewing and approving bank-wide large-amount credit granting services. Thirdly, it integrated and analyzed various credit risk information related to group customers based on the core enterprises engaged in the group’s principal business. According to the level of risks of group customers and its own risks commitment capacity, it properly determined the credit extension plan to group customers, and prudently determined the general credit limit to group customers and the sub-credit limit to each member unit to prevent the concentration of credit risks. Fourthly, it continued to optimize the mechanism for controlling the concentration of credit extension to group customers. Based on the requirements of risk control, it conducted centralized control over credit limit to group customers. Fifthly, it adopted a leading bank system for credit extension to group customers, with the leading bank responsible for the overall credit extension management of group customers, and reporting the material matters on group customers to the head office as required, so as to realize the unified coordination of risk management and control. Sixthly, it continuously improved the risk warning mechanism to group customers by setting appropriate risk warning lines at the pre-loan approval process according to the industry and operational capability of group customers and taking such as an important contents of the post-loan inspection. It monitored and prevented risks in a forward-looking manner, so as to ensure the overall credit risk to group customers under control.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

9.12 Rescheduled Loans

Unit: RMB'000

Item	30 June 2023		31 December 2022	
	Amount	% of total	Amount	% of total
Rescheduled loans	108,738	0.04	133,287	0.05
Total loans and advances to customers	288,835,557	100.00	269,029,452	100.00

The Company implemented strict management and control on rescheduled loans. As at the end of the Reporting Period, the proportion of rescheduled loans of the Company was 0.04%, which decreased by 0.01 percentage point as compared to that at the beginning of the year.

X. ANALYSIS OF CAPITAL ADEQUACY RATIO AND LEVERAGE RATIO

The Company continuously optimized its business structure, strengthened capital management, continuously aimed to improve capital risk resistance and capital returns, and on this basis, reasonably determined the capital adequacy ratio target, and guided business development comprehensively with performance appraisal, capital allocation and other means, so as to achieve the coordinated development of the overall strategy, business development, and the capital management strategy.

In terms of internal capital management, the Company strengthened the economic capital allocation management function, overall planned for asset development and capital saving, and enhanced the awareness of operating institutions in saving capital. Taking into account each institution's capital consumption and income in the performance assessment plan, the Company gradually optimized the risk adjustment performance assessment plan, and guided branches and management departments to carry out more capital-saving transactions and transactions with high returns on capital, so as to maximize the returns on risk-weighted assets. Meanwhile, the Company established and improved the balance control mechanism between capital and risk-weighted assets, to ensure continuously conforming to the capital adequacy ratio.

10.1 Capital Adequacy Ratio

The Company calculates capital adequacy ratio in accordance with the “Regulation Governing Capital of Commercial Banks (Provisional)” (《商業銀行資本管理辦法(試行)》) and other relevant regulatory provisions. The credit risk-weighted assets are calculated with different risk weights while considering the effects of qualified pledge and guarantee. Market risk-weighted assets are calculated with the standard approach, and the operational risk-weighted assets are calculated with the basic indicator approach. During the Reporting Period, the Company’s capital adequacy indicators complied with the regulatory requirements prescribed by the regulators.

As at the end of the Reporting Period, the Company’s capital adequacy ratio was 13.37%, representing a decrease of 0.19 percentage point as compared with that at the end of last year, mainly due to steady development of various businesses of the Company, and risk-weighted assets have increased with the business growth; the core tier-one capital adequacy ratio stood at 8.79%, representing an increase of 0.04 percentage point as compared with that at the end of last year, mainly due to supplement of core tier-one capital with retained earnings, which improved the level of core tier-one capital adequacy ratio. Relevant information on the Company’s capital adequacy ratio as at the dates indicated is listed in the following table.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

The Company	30 June 2023	31 December 2022
Total core tier-one capital	32,185,239	30,003,939
Of which: Share capital	5,820,355	5,820,355
Eligible portion of capital reserve	10,687,634	10,687,634
Other comprehensive income	801,703	83,726
Surplus reserve	2,388,248	2,388,248
General reserve	6,618,047	6,618,047
Retained earnings	5,226,966	3,822,519
Eligible portion of non-controlling interests	642,286	583,410
Core tier-one capital deductions	(654,644)	(834,333)
Net core tier-one capital	31,530,595	29,169,606
Other tier-one capital	6,481,421	6,473,571
Net tier-one capital	38,012,016	35,643,177
Tier-two capital	9,935,805	9,569,041
Total net capital	47,947,821	45,212,218
Total risk-weighted assets	358,521,966	333,440,925
Of which: Total credit risk-weighted assets	304,926,831	276,517,007
Total market risk-weighted assets	32,769,707	36,098,490
Total operational risk-weighted assets	20,825,428	20,825,428
Core tier-one capital adequacy ratio (%)	8.79	8.75
Tier-one capital adequacy ratio (%)	10.60	10.69
Capital adequacy ratio (%)	13.37	13.56

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the capital adequacy ratio at the parent company level of the Bank was 12.91%, down by 0.21 percentage point from the end of last year; the core tier-one capital adequacy ratio was 8.23%, representing an increase of 0.03 percentage point as compared with that at the end of last year. Relevant information on the Bank's capital adequacy ratio as at the dates indicated is listed in the following table.

Unit: RMB'000

The Bank	30 June 2023	31 December 2022
Total core tier-one capital	30,425,195	28,560,297
Of which: Share capital	5,820,355	5,820,355
Eligible portion of capital reserve	10,687,634	10,687,634
Other comprehensive income	801,703	83,726
Surplus reserve	2,388,248	2,388,248
General reserve	6,316,926	6,316,926
Retained earnings	4,410,329	3,263,408
Core tier-one capital deductions	(2,341,238)	(2,524,326)
Net core tier-one capital	28,083,957	26,035,971
Other tier-one capital	6,395,783	6,395,783
Net tier-one capital	34,479,740	32,431,754
Tier-two capital	9,569,516	9,235,093
Total net capital	44,049,256	41,666,847
Total risk-weighted assets	341,291,690	317,558,522
Of which: Total credit risk-weighted assets	289,130,822	262,068,871
Total market risk-weighted assets	32,769,707	36,098,490
Total operational risk-weighted assets	19,391,161	19,391,161
Core tier-one capital adequacy ratio (%)	8.23	8.20
Tier-one capital adequacy ratio (%)	10.10	10.21
Capital adequacy ratio (%)	12.91	13.12

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

10.2 Leverage Ratio

According to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)” 《(商業銀行槓桿率管理辦法(修訂))》), the leverage ratio of a commercial bank shall not be lower than 4%. As at the end of Reporting Period, the Company’s leverage ratio calculated according to the “Measures for the Administration of the Leverage Ratio of Commercial Banks (Revision)” was 6.07%, unchanged from the end of the previous year and higher than regulatory requirements.

The following table sets out the Company’s accounting items corresponding to the leverage ratio-related regulatory items and the differences between the regulatory items and the accounting items.

Unit: RMB’000

No.	Item	30 June 2023	31 December 2022
1	Total consolidated assets	568,400,907	529,613,992
2	Consolidated adjustments	–	–
3	Customer assets adjustments	–	–
4	Derivative adjustments	2,190,000	2,280,000
5	Securities financing transactions adjustments	–	–
6	Off-balance sheet items adjustments	55,967,167	56,120,991
7	Other adjustments	(654,644)	(834,333)
8	The balance of assets on- and off-balance sheet after adjustments	625,903,430	587,180,650

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out information of the Company's leverage ratio level, net tier-one capital, assets on- and off-balance sheet after adjustments and relevant details.

Unit: RMB'000

No.	Item	30 June 2023	31 December 2022
1	Assets on the balance sheet (excluding derivatives and securities financing transactions)	560,296,451	529,505,616
2	Less: Tier-one capital deductions	(654,644)	(834,333)
3	The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	559,641,807	528,671,283
4	Replacement cost of various types of derivatives (net of qualified margins)	104,771	108,376
5	Potential risk exposure in various types of derivatives	2,190,000	2,280,000
6	The sum of collaterals deducted from the statement of financial position	—	—
7	Less: Assets receivables formed due to qualified margins provided	—	—
8	Less: The balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	—	—
9	Notional principal for sold credit derivatives	—	—
10	Less: The balance of sold credit derivatives assets which can be deducted	—	—
11	The balance of derivatives assets	2,294,771	2,388,376
12	The balance of accounting assets for securities financing transactions	7,999,685	—
13	Less: The balance of securities financing transactions assets which can be deducted	—	—
14	Counterparty credit risk exposure to securities financing transactions	—	—
15	The balance of securities financing transactions assets formed due to securities financing transactions by proxy	—	—
16	The balance of securities financing transactions assets	7,999,685	—
17	The balance of items off balance sheet	55,967,167	56,120,991
18	Less: The balance of items off balance sheet reduced due to credit conversion	—	—
19	The balance of items off balance sheet after adjustments	55,967,167	56,120,991
20	Net tier-one capital	38,012,016	35,643,177
21	The balance of assets on- and off-balance sheet after adjustments	625,903,430	587,180,650
22	Leverage ratio (%)	6.07	6.07

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Relevant information on the Company's leverage ratio as at the dates indicated is listed in the following table.

Unit: RMB'000

Item	30 June 2023	31 March 2023	31 December 2022	30 September 2022
Leverage ratio (%)	6.07	5.99	6.07	6.24
Net tier-one capital	38,012,016	36,520,124	35,643,177	36,557,766
The balance of assets on- and off- balance sheet after adjustments	625,903,430	609,811,550	587,180,650	586,234,446

According to the "Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks" (《關於商業銀行資本構成信息披露的監管要求》), the information concerning the capital composition, explanation on development of relevant items and the main characteristics of the capital instruments of the Company will be further disclosed in the "Investor Relations" on the website of the Bank (<http://www.qdccb.com/>).

XI. INVESTMENT ANALYSIS

11.1 Overview

Unit: RMB'000

Investees	30 June 2023	31 December 2022	Percentage of shareholding in investees (%)	Cash dividend for the current period
China Unionpay Co., Ltd.	13,000	13,000	0.34	–
Shandong City Commercial Bank Alliance Co., Ltd.	10,000	10,000	1.14	–
Clearing Center for City Commercial Banks	250	250	0.81	–
Total	23,250	23,250	N/A	–

Note: The said investments were included under financial investments measured at fair value through other comprehensive income in the statement of financial position.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, for details of other information concerning the Company's investments, please refer to "Section III. Management Discussion and Analysis 5.1.2 Financial Investments" and "14. Analysis of Main Shares Holding Companies and Joint Stock Companies" of this interim report.

11.2 Significant Equity Investments Acquired during the Reporting Period

During the Reporting Period, the Company did not make any significant equity investment.

11.3 Significant Ongoing Non-equity Investments during the Reporting Period

During the Reporting Period, the Company did not have any significant non-equity investment in progress.

11.4 Investments in Securities

Set out below are the breakdowns of the Company's investment in securities as at the end of the Reporting Period:

Unit: RMB'000

Type of Security	Investment amount in securities	% of total investment in securities
Debt securities issued by government and central banks	59,078,799	36.87
Debt securities issued by policy banks	21,503,166	13.42
Debt securities issued by banks and other financial institutions	38,143,190	23.80
Debt securities issued by corporate entities	41,529,902	25.91
Total	160,255,057	100.00

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Set out below are the top ten investments in securities held by the Company which are considered significant in terms of nominal value as at the end of the Reporting Period:

Unit: RMB'000

Name of security	Nominal value	Interest rates (%)	Maturity date	Impairment provision
Bond 1	5,780,000.00	2.52	2028-05	463.99
Bond 2	5,170,000.00	3.39	2050-03	152.94
Bond 3	3,250,000.00	3.02	2033-03	263.50
Bond 4	3,140,000.00	2.69	2027-06	251.74
Bond 5	3,030,000.00	2.87	2028-02	247.56
Bond 6	2,740,000.00	3.18	2026-09	223.10
Bond 7	2,500,000.00	2.73	2028-01	202.42
Bond 8	2,400,000.00	2.88	2029-06	627.36
Bond 9	2,250,000.00	3.55	2040-05	589.66
Bond 10	2,130,000.00	3.12	2026-12	66.31

11.5 Derivative Investments

Unit: RMB'000

Item	30 June 2023			31 December 2022		
	Nominal amount	Fair value of assets	Fair value of liabilities	Nominal amount	Fair value of assets	Fair value of liabilities
Interest rate swap contracts and others	74,025,544	104,771	(470,263)	55,095,380	108,376	(188,147)

Notes:

1. Within the risk appetite established by the Board and the risk framework of its own derivatives market, the Company followed the limit requirements and actively carried out various derivatives transactions. As at the end of the Reporting Period, derivative financial instruments held by the Company included interest rate swaps and others.
2. During the Reporting Period, there were no significant changes in the Company's derivatives accounting policies and specific accounting principles as compared with the previous reporting period.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

11.6 Use of Proceeds Raised

1. *General Use of Proceeds Raised*

During the Reporting Period, there were no new proceeds raised by the Bank.

2. *Commitment of Use of Proceeds Raised*

N/A.

3. *Change of Use of Proceeds Raised*

During the Reporting Period, the Bank did not have any change in the use of proceeds raised.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

XII. MATERIAL DISPOSAL OF ASSETS AND EQUITY INTEREST

During the Reporting Period, there was no material disposal of assets and equity interest of the Company.

XIII. OTHER FINANCIAL INFORMATION

13.1 Analysis of Off-balance Sheet Items

The Company's off-balance sheet items include credit commitments and capital commitments, etc. Credit commitments are the most important component. As at the end of the Reporting Period, the balance of credit commitments amounted to RMB74.637 billion. For details, please refer to "44 Commitments and Contingencies under Notes to the Unaudited Interim Financial Report" of this interim report.

13.2 Overdue and Outstanding Debts

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

13.3 Pledge of Assets

As at the end of the Reporting Period, the Company pledged part of its assets as collateral under repurchase agreements, borrowings from central banks, deposits from customers and securities lending. For details, please refer to "44(6) Pledged Assets under Notes to the Unaudited Interim Financial Report" of this interim report.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

13.4 Major Statement Items and Financial Indicators with a Change Rate of over 30% and Its Main Reasons

Unit: RMB'000

Item	January to June 2023	January to June 2022	Changes (%)	Main reasons
Fee and commission expense	(241,823)	(144,790)	67.02	Increase in the wealth management and credit cards business fees
Net trading gain or loss	(104,644)	422,623	(124.76)	The redemption of offshore preference shares has led to a significant decrease in the impact of exchange rate fluctuations on foreign exchange gain or loss
Other net operating income	77,777	26,799	190.22	Increase in disposal gains of other long-term assets and incentives from the support tool for inclusive small and micro loans
Impairment losses on other assets	–	(6,027)	(100.00)	No relevant transactions occurred during the current period
Income tax expense	(378,767)	(264,037)	43.45	Increase in profit before taxation
Profit attributable to: Non-controlling interests	71,832	41,939	71.28	Increase in earnings of subsidiary interests
Other comprehensive income, net of tax	717,977	(79,012)	1,008.69	Increase in change of fair value of financial assets measured at fair value through other comprehensive income

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

Item	30 June 2023	31 December 2022	Changes (%)	Main reasons
Placements with banks and other financial institutions	12,879,648	8,432,022	52.75	Increase in the placements with non-interbanks and other financial institutions
Financial assets held under resale agreements	7,985,878	–	N/A	Increase in scale of bonds purchased under resale agreements
Deposits from banks and other financial institutions	1,036,697	6,439,660	(83.90)	Reinforced active management over the interbank liabilities, appropriately adjusted the liability structure, as well as increased the size of financial assets sold under repurchase agreements while appropriately decreasing the scale of deposits from banks and other financial institutions
Derivative financial liabilities	470,263	188,147	149.94	Increase in fair value revaluation of liabilities for exchange rate contracts
Financial assets sold under repurchase agreements	35,076,358	25,634,354	36.83	Strengthened the management of interbank liabilities by increasing the scale of repurchase bond business with relatively lower cost rates
Other comprehensive income	801,703	83,726	857.53	Increase in change of fair value of financial investments measured at fair value through other comprehensive income
Retained earnings	5,226,966	3,822,519	36.74	Increase in the retained earnings

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

13.5 Changes in Interest Receivables

At the end of the Reporting Period, the interest receivables of the Company was RMB34 million, a decrease of RMB5 million or 13.74% from the end of the previous year, mainly due to the decrease in interest receivables on loans and advances to customers. The following table sets forth the changes in each item of the Company's interest receivables during the periods indicated.

Unit: RMB'000

Item	31 December 2022	Increase during the period	Recovery during the period	30 June 2023
Loans and advances to customers	39,810	410,578	(416,046)	34,342
Long-term receivables	–	4,598	(4,598)	–
Total	39,810	415,176	(420,644)	34,342

Note: In accordance with the “Format of the Financial Statements of the Financial Enterprise for 2018” released by the Ministry of Finance of the People’s Republic of China, the item “interest receivables” only reflects the interests that has been due and can be collected but not yet received on the balance sheet date. Since the amount is relatively small, it should be included under “other assets”. The Company has made impairment provision for interest receivables, and the bad debt write-off procedures and policies have been implemented.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

13.6 Provision for Bad Debts

At the end of the Reporting Period, the provision for bad debts of the Company was RMB31 million, a decrease of RMB8 million or 20.92% from the end of the previous year. Among them, the provision for bad debts of interest receivables was RMB18 million, a decrease of RMB7 million or 28.07% from the end of the previous year, mainly due to the decrease in the provision for bad debts of interest receivables on loans and advances. The following table sets forth the interest receivables, other receivables and provision for bad debts of the Company during the periods indicated.

Unit: RMB'000

Item	30 June 2023	31 December 2022	Changes
Interest receivables	34,342	39,810	(5,468)
Less: Bad debt provision for interest receivables	(17,531)	(24,373)	6,842
Carrying value of interest receivables	16,811	15,437	1,374
Other receivables	294,343	199,180	95,163
Less: Bad debt provision for other receivables	(12,980)	(14,211)	1,231
Carrying value of other receivables	281,363	184,969	96,394

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

XIV. ANALYSIS OF MAIN SHARES HOLDING COMPANIES AND JOINT STOCK COMPANIES

14.1 Major Subsidiaries and Investees Accounting for Over 10% of the Net Profit of the Company

Unit: RMB in 100 million

Name of company	Type of company	Main business	Registered capital	Total assets	Net assets	Total operating income	Operating profit	Net profit
BQD Wealth Management Company Limited	Wholly-owned subsidiary	Public offering of wealth management products to the general public, investment and management of properties entrusted by investors; private placement of wealth management products to qualified investors, investment and management of properties entrusted by investors; advisory and consulting service on asset and wealth management; and other business approved by the National Administration of Financial Regulation (NAFR)	10.00	19.19	17.36	3.12	2.44	1.81
BQD Financial Leasing Company Limited	Subsidiary	Finance leasing business; transferring in and out assets under a finance lease; fixed income securities investment business; accepting guaranteed deposit of the lessee; absorbing fixed deposits over 3 months (inclusive) from non-bank shareholders; interbank lending and borrowing; obtaining loans from financial institutions; lending loans to offshore borrowers; disposal of and dealing with leased articles; economic consulting, etc.	10.00	173.84	17.32	2.94	1.96	1.47

14.2 Acquisition and Disposal of Subsidiaries during the Reporting Period

During the Reporting Period, there was no acquisition and disposal of subsidiaries of the Bank.

14.3 Particulars of Major Companies Controlled or Invested in by the Company

BQD Wealth Management was established on 16 September 2020, with a registered capital of RMB1.0 billion. It was registered in Qingdao, and was wholly initiated and established by the Bank. BQD Wealth Management is the first wealth management subsidiary of a city commercial bank approved in the Northern China and the sixth within the whole country, and the business scope of which is public offering of wealth management products to the general public, private placement of wealth management products to eligible investors, investment and management of properties entrusted by investors, and provision of wealth management advisory and consulting services. Guided by new asset management regulations and supporting policies, BQD Wealth Management is committed to focusing on the essence of asset management business and serving the real economy, and adheres to the development strategy of driving product design with investment, thereby motivating customer base. Leveraging its own professional investment and research capabilities, major assets diversified allocation, trading timing selection and other capabilities, its products performed well during market turmoil and were well received by both the market and its customers, resulting in continuous and steady growth of its management scale.

BQD Financial Leasing was established on 15 February 2017, with a registered capital of RMB1.0 billion. It was registered in Qingdao, and was initiated and established by the Bank. The Bank holds 51% of the share capital of BQD Financial Leasing. As the only approved financial leasing company in Qingdao, BQD Financial Leasing has always adhered to the original mission of financial development. It has established a business model centered on “financing with goods + capital” with the economic characteristics of Qingdao City and Shandong Province, adhered to the positioning of serving entities, manufacturing, small and medium-sized enterprises, and serving “agriculture, rural areas and farmers”, as well as the concept of “based on the local, serving the local and deeply cultivating the local”. BQD Financial Leasing finds business starting points in strategic emerging industries such as advanced manufacturing, green and low carbon industries, and blue finance, so as to meet individual requirements of tenants in terms of purchasing equipment, promoting sales, revitalizing assets, balancing tax burdens, and improving financial structure and provide new financial leasing services such as financing of capital and properties, asset management, and economic consulting.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

XV. OVERVIEW OF BUSINESS DEVELOPMENT

15.1 Retail Banking

During the Reporting Period, against the backdrop of severe and complicated market environment at home and abroad, the Bank forged ahead towards the overall objective of high-quality development and centered on the four strategic themes of “structure adjustment, customer base strengthening, synergy optimization and capability improvement”, realizing stable growth of the retail scale and further optimizing the deposit structure. It continued to focus on the digital empowerment of customer base construction, and took several measures to constantly deepen the quality and efficiency of operations of retail customer groups, which comprehensively enhanced the high-quality development of the retail business. During the Reporting Period, the retail banking business of the Company realized operating income of RMB1.743 billion, accounting for 27.36% of the Company’s operating income.

1. *Retail customers and customer asset management*

With “Happiness – Companionship” as its core business philosophy, the Bank continued to accelerate retail product development and service innovation, continuously improved the scenario construction, strengthened data empowerment, and gradually increased the quality and efficiency input-output ratio of customer acquisition, customer activation, and customer enhancement through integration of resources for precise allocation, optimization of process management, and closed-loop evaluation. Firstly, we launched the “Concentration and Customer Base Strengthening” offline project to promote the in-depth building of the front-line customer acquisition channel scenario by empowering the outlets with customer storage management tools, accurate data analysis, practical case sharing, and live streaming in morning meetings; secondly, we strengthened the refined operation of the online long-tail customer groups with data empowerment through the “Four-in-One” method; thirdly, we adjusted the internal assessment and incentive mechanism to effectively optimize the structure of the retail customer base.

The Bank achieved the highest record of customer assets, and obviously optimized the customer base structure. As of the end of the Reporting Period, the number of retail customers reached 8,072,500, representing an increase of 362,800 as compared with the end of the previous year, with the year-on-year effective rate of new customers¹ increased by 5.14%. The Bank held RMB315.089 billion assets of retail customers, representing an increase of RMB14.565 billion or 4.85% as compared with that at the end of the previous year. The Bank had 353,600 mid-to-high end customers with financial assets above

¹ The effective rate of new customers refers to the proportion of customers whose monthly average daily AUM balance exceeds RMB1,000 to the new retail customers during the Reporting Period.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

RMB200 thousand, which effectively promoted the increase of financial assets; the asset scale of mid-to-high end customers in the Bank was RMB272.937 billion assets, accounting for 86.62% of all retail assets. In reliance on the coordination between retail and corporate banking and coordination between sectors, the Bank reached record high for valid payroll credit business amid stable and constant development. During the Reporting Period, the Bank recorded 8,729 new customer companies for payroll credit business, representing an increase of 153.90% over the same period of last year. The increase of customer companies for payroll credit business achieved a historic breakthrough. As at the end of the Reporting Period, the Bank had 1,245 integrated agriculture-aided financial service stations opened for business, representing an increase of 218 or 21.23% as compared with that at the end of the last year; the community banking served 37,900 customers and 274,700 agriculture-benefit customers, representing an increase of 32,700 or 13.51% as compared with that at the end of the last year.

The Bank realized rapid growth in deposits and stably reduced the cost. The retail deposits continued to maintain rapid growth in the Bank with an increasing proportion in Qingdao market and the Bank. As at the end of the Reporting Period, the balance of the Bank's retail deposits amounted to RMB168.010 billion, representing an increase of RMB20.682 billion or 14.04% as compared with that at the end of last year; as at the end of the Reporting Period, the Bank's retail deposits accounted for 45.40% of the total deposits, representing an increase of 2.24 percentage points as compared with that at the end of last year, with an increasing proportion of the retail deposits. The Bank proactively carried out the structural adjustment amid development, and reduced the scale of high-cost products such as fixed deposits over 3 years in an orderly manner, which realized stable reduction of costs, and guaranteed a better deposit structure. During the Reporting Period, the average cost ratio of retail deposits was 2.67%, representing a decline of 0.06 percentage point over the same period of last year.

Digital transformation promoted development. During the Reporting Period, in line with the new three-year strategic plan, the Bank restructured and upgraded the "strategic planning model of the digital transformation of the retail business", comprehensively realized the "business data-oriented, data business-oriented", constantly optimized systems such as "Individual Mobile Bank 7.0", "Smart Retail Marketing 4.0" and "Wealth Channel 3.0", and launched online loan products such as "Consumer Loan" and "Business Loan", based on the main concept and direction of "differentiated product design, refined customer operation, collaborative channel scenarios, intelligent operation management".

2. *Retail loans*

The Bank enhanced the innovation in processes and products, gave top priority to the development of inclusive finance and consumer loan business, stably developed the self-operated Internet loans, and increased the proportion of Internet loans granted in the province, which resulted in a stable increase in the personal residential mortgages. As at the end of the Reporting Period, the balance of the Bank's retail loans (including credit card) was RMB75.282 billion, representing an increase of RMB1.902 billion or 2.59% compared with the end of last year, accounting for 26.06% of the total balance of various loans. During the Reporting Period, the Bank recorded retail loan interest income of RMB1.839 billion, and the retail loan average yield was 5.57%.

Developed inclusive finance in an innovative manner. During the Reporting Period, the Bank continued to implement the inclusive business principle of "serving small and micro enterprises (SMEs) based on the local economy", and promoted process and product innovation. It successfully launched the online directly-connected mortgage of personal inclusive loans, and became the first financial institution to realize the full-range, full-process and interface-type mortgage establishment and cancellation of the individual loan business in the province, effectively enhancing the mortgage efficiency and risk control level. The Bank launched products such as the quick loans with house mortgage, loans for breeding and planting, promoted the online channel development, further enriched product functions, and conducted standardized surveys and investigations, in order to enhance the offline loan efficiency. As at the end of the Reporting Period, the balance of the personal inclusive loans was RMB9.693 billion, and the personal inclusive loans of the branches achieved a growth rate higher than the last year, which was the highest growth for the same period of previous years. The Bank made effective attempts in agriculture-related loans, with a total of RMB202 million issued and a credit balance of RMB186 million as at the end of the Reporting Period. The loan structure was continuously optimized.

Stably developed self-operated Internet loans. As at the end of the Reporting Period, the balance of personal consumption loans was RMB17.920 billion, representing an increase of RMB988 million or 5.84% as compared with the end of last year. During the Reporting Period, the Bank stably developed the self-operated Internet loan "Hairong Yidai", continuously optimized products such as "Loans for Citizens", "Rural Revitalization Loans" and "Easy Loans for Stores", improved the business process, and enhanced customer experience. As at the end of the Reporting Period, "Hairong Yidai" issued accumulately 8,658 loans with a total amount of RMB847 million and existing business totaling RMB304 million. As at the end of the Reporting Period, the balance of Internet loans was RMB10.417 billion, of which 92.85% was granted in the province, and the proportion represented an increase of 7.22% as compared with that at the end of last year.

Personal residential mortgages realized stable growth. Under the adverse environment with inadequate market demands and sudden increase in the advance repayment, the personal residential mortgages realized stable growth. As at the end of the Reporting Period, the balance of the Bank's personal residential mortgages was RMB47.104 billion, representing an increase of RMB644 million or 1.39% as compared with that at the end of last year.

3. Credit card business

The Bank's credit card business strengthened the customer-acquiring capacity building through its own channels, constantly explored new channels to acquire external customers, and continuously promoted product and service upgrades following the customer-oriented principle. As at the end of the Reporting Period, the Bank issued 255,600 new credit cards, and the cumulative number of credit cards issued reached 3.9081 million, representing an increase of 7.00% as compared with the end of the last year. The credit card overdraft amounted to RMB12.382 billion, representing an increase of RMB431 million or 3.61% as compared with the end of the last year. During the Reporting Period, the Bank realized the credit card transaction amount of RMB41.496 billion, representing a year-on-year increase of 12.39%. The operating income of the credit card business was RMB573 million, representing a year-on-year increase of 30.63%.

Enhanced the customer-acquiring ability through its own channels, and continuously explored new channels to acquire external customers. Firstly, the Bank strengthened its own customer acquisition capacity building. During the Reporting Period, the Bank issued a total of 206,100 cards through its own channels, accounting for 80.63%. Secondly, the Bank focused on key nodes such as activation after card issuance, and improved key indicators such as the activation rate. During the Reporting Period, the overall activation rate reached 52.51%, representing an increase of 1.24 percentage points as compared with the end of the last year. The direct sales channel activation rate reached 84.80%, representing an increase of 2.44 percentage points with outstanding growth. Thirdly, the Bank continued to promote product innovation and enrich credit card types. It launched the standard unbounded card with traveling rights; and issued cards in cooperation with the third-party institutions to further expand customer-acquiring channels.

Continuously enhanced the product and service upgrading following the customer-oriented principle. The Bank constantly launched diversified marketing activities such as "Weekly Benefits of Bank of Qingdao" covering four segments, i.e. food, drink, movie and travelling, continuously expanded local cooperative merchants, developed scenarios for local life, and created "local life" + "local finance" for customers; launched weekly concessional activities, and cooperated with supermarkets to offer online shopping discounts, effectively increasing customer stickiness and consumption, and consolidating the customer base.

4. *Wealth management and private banking business*

The wealth management and private banking business of the Bank adhered to the “customer-centered, market-oriented” business service concept, actively grasped the market opportunities, constantly built professional service teams, and upgraded the consulting wealth management mode; the Bank accelerated the construction of private banking system, guided the operation of high-end customer groups using the wealth management strategy with professional assets, driving a sustainable increase in the number of customers and asset size, and business revenue. As at the end of the Reporting Period, there were 61,393 retail customers with assets under management of over RMB1 million. The assets managed by the Bank totaled RMB140.782 billion. During the Reporting Period, the Bank realized wealth management service fees and commission income of RMB204 million, with a year-on-year increase of 29.94%, including the income from agency for insurance of RMB156 million, representing a year-on-year increase of 154.28%.

5. *Customer service management*

The Bank continued to deepen the development concept of service management, coordinated the upgrading of the service management system centered on customer experience, and enhanced the service value enhancement focusing on customer experience, resulting in new breakthroughs in several businesses. Firstly, the Bank focused on AI-empowered user experience, built a new forum for online service digital experience, and enhanced the digital operation capability, thus creating real-time and personalized “new-generation” service experience for customers; secondly, it continuously deepened its services for making profit centered on the operation of retail customers, setting a new record of “first operation” performance, and promoting the customer hall service revitalization project in an orderly manner; thirdly, it transformed service management into “user-oriented”, focused on user preferences, established a service experience management system based on the user experience data, and created a new form of service experience with “flexible and polite hospitality”. The Bank’s brand strength was recognized again, and has been selected as one of the “China’s 500 Most Valuable Brands” for the seventh time with a brand value of RMB27.069 billion. It was the only financial enterprise included in the list in Shandong Province.

15.2 Corporate Banking

During the Reporting Period, the Bank focused on the customer base building, enhanced the hierarchical customer operation capability and refined management level, cooperated with different departments in the R&D of competitive products, strengthened product innovation, improved product system, seized high-quality assets and constantly optimized the asset structure. During the Reporting Period, corporate banking realized operating income of RMB2.941 billion, accounting for 46.17% of the Company’s operating income.

1. *Corporate deposits*

During the Reporting Period, the Bank continued to enhance the customer group operation capability and management level, and consolidated its deposit base through customer base building, which contributed to the stable growth in deposits. As at the end of the Reporting Period, the balance of corporate deposits (excluding accrued interest) was RMB201.932 billion, representing an increase of RMB8.303 billion or 4.29% as compared with the end of the last year. Specifically, the corporate demand deposits amounted to RMB97.958 billion, representing an increase of RMB6.297 billion or 6.87% as compared with the end of the last year, which accounted for 48.51% of the balance of corporate deposits, up by 1.17 percentage points; and corporate time deposits amounted to RMB103.974 billion, representing an increase of RMB2.005 billion or 1.97% as compared with the end of the last year. The average cost ratio of corporate deposits was 1.91%. During the Reporting Period, the average daily deposits from corporate customers of the Bank was RMB192.454 billion, representing an increase of RMB1.240 billion or 0.65% as compared with that at the end of last year; of which, the average daily deposits from strategic customers at headquarters level was RMB104.013 billion.

2. *Corporate loans*

Optimizing the asset structure and realizing stable business development. As at the end of the Reporting Period, the balance of corporate loans (including discounted bills and excluding accrued interest) was RMB213.554 billion, representing an increase of RMB17.904 billion or 9.15% compared with that at the end of last year, and accounting for 73.94% of the total loans (excluding accrued interest). The Bank fully implemented the new development concept, accelerated the cultivation of green and low-carbon financial products, and focused on building a blue-finance brand. It increased credit investment in advanced manufacturing industries, effectively met the credit needs of private enterprises and small, medium and micro inclusive enterprises, shifted the focus of asset business to the manufacturing industry and public utility customer groups, thus continuing to promote asset structure optimization and stable business development.

Joining hands with local economy, building mutual trust with local people and cooperating with small and micro enterprises for mutual benefits. The Bank clearly put forward the objective of “improving the operation system of the inclusive finance, and building the professional operation mode of the inclusive finance”, and took specific development measures including “developing a special mechanism, building the business platform, improving the product system and sticking to digital transformation”, realizing stable development of the inclusive financial business. As at the end of the Reporting Period, the balance of inclusive loans was RMB30.988 billion, representing an increase of RMB3.863 billion or 14.24% compared with that at the end of last year, higher than the growth loan rate of the Bank. Inclusive loans were granted to 50.5 thousand enterprises. The non-performing ratio of inclusive loans was 0.87%, and the weighted average interest rate was 4.11%. The Bank completed the assessment of the “dual increase and dual control” of the NAFR. The balance of agriculture-related loans was RMB49.786 billion, representing an increase of RMB1.310 billion or 2.70% as compared with that at the end of last year, among which the balance of inclusive agriculture-related loans was RMB5.541 billion with an increase of RMB1.203 billion as compared with that at the end of last year.

3. Corporate customers

Focusing on the customer base building and enhancing the customer group strategy. The Bank began to rebuild strategic customer groups, drafted a brand-new customer group operation mode, and constantly enhanced the hierarchical operation capability of customers and refined management level. As at the end of the Reporting Period, the total number of corporate customers which had opened accounts with the Bank amounted to 225.8 thousand. During the Reporting Period, the Bank had 23,900 corporate customers who opened new accounts, setting a new record in history. The number of borrowers increased by 1,950 with an increase of 38.61%; among whom, customers with less than RMB5 million increased by 1,377 or 51.25%. Effective customers with annual average daily deposits of more than RMB10,000 amounted to 78,900, representing an increase of 4,800 or 6.48% as compared with that at the end of last year; valuable customers with annual average daily deposits of more than RMB500,000 amounted to 12,400, representing an increase of 787 or 6.78% as compared with that at the end of last year; institutional customers amounted to 3,920, representing an increase of 517 or 15.19% as compared with that at the end of last year; listed or to-be-listed customers amounted to 609, representing an increase of 28 or 4.82% as compared with that at the end of last year; and hygiene and health customers amounted to 3,510, representing an increase of 280 or 8.67% as compared with that at the end of last year.

Obviously deepening the expansion of transaction banking customers, and constantly improving its international business capability. As at the end of the Reporting Period, there were 2,823 international business customers, representing an increase of 611 or 27.62% as compared with that at the end of last year. The international settlement volume of the Bank amounted to US\$6.817 billion, representing a year-on-year increase of 24.72%. The market share of the international payment transaction in Qingdao was lifted from No.12 to No.7; the operating income exceeded RMB60 million with a year-on-year increase of 61.95%. The Bank had 3,404 upstream and downstream customers of the supply chain with an increase of 1,421 or 71.66% as compared with that at the end of last year; the balance of online supply chain business was RMB5.924 billion with an increase of RMB3.468 billion or 141.21% as compared with that at the end of last year. The Bank recorded 6,637 cash management customers, representing an increase of 2,068 or 45.26% as compared with that at the end of last year.

4. Corporate products

Building a collaborative mechanism and promoting the business development. The Bank built the trans-department collaborative mechanism, and jointly carried out several special campaigns such as “Spring Plowing Campaign” and “Spring Rain Campaign”, which helped the Bank seize the high-quality assets and develop competitive products. Among them, 24 innovative products focusing on listed or to-be-listed companies, international business and supply chain finance were launched. During the Reporting Period, 5,486 special products totaling RMB22.904 billion were approved, and the actual amount was RMB7.523 billion. The Bank developed the “Seven-color Light” financial product system, built “Seven-color” product system framework including the settlement tool, financing manager and wealth manager, and formed product brands of the Company.

Promoting the product innovation in response to the national strategy. The Bank promoted the product innovation, consolidated the spectrum of green finance products, and enhanced the comprehensive service capability for green finance in active response to the national strategy of carbon peaking and carbon neutrality. The Bank issued the first loan for supporting carbon emission disclosure. As at the end of the Reporting Period, the balance of the Bank's Green Credit loans was RMB23.528 billion with an increase of RMB2.604 billion or 12.45% as compared to that at the end of last year, higher than the loan growth rate of the Bank.

15.3 Financial Market Business

During the Reporting Period, the Bank's financial market business continued to make structural adjustments, expand its revenue scale and achieve cost reduction and efficiency enhancement. The Bank's custodian business successfully passed the on-site inspection by CSRC and the business license was renewed for formal operation; various businesses of the financial market developed steadily, forming a professional business line with national competitiveness and complete qualifications and licenses based on proprietary investment and interbank business as the core and business innovation and risk control as the safeguard. The scale of the Bank's wealth management business continued to grow with stable profitability. During the Reporting Period, the Company's financial market business achieved operating income of RMB1.365 billion, accounting for 21.42% of the Company's operating income.

1. *Proprietary investment*

During the Reporting Period, the economic recovery was confronted with the challenge of higher expectation than reality and intensified vibration of the bond market. In terms of the financial market business, the Bank, focusing on the Group's annual business goals and the new three-year strategic plan, continued to optimize the investment structure, adhered to the principle of light-capitalization development, increased total assets while controlling the capital consumption ratio, strengthened the overall return on assets, reduced the asset duration, optimized the market risk indexes, strengthened the swing trading of standardized assets and improved comprehensive profitability, achieving the cost reduction and efficiency enhancement.

The Bank continued to adjust the proprietary investment structure, maintaining the stable growth of the financial investment. As at the end of the Reporting Period, the scale of proprietary investment was RMB210.046 billion, representing an increase of RMB9.871 billion or 4.93% as compared with the end of last year, of which bond investment was RMB158.290 billion, representing an increase of RMB12.800 billion or 8.80% as compared with the end of last year; investments in public fund products was RMB33.979 billion, representing a decline of RMB971 million or 2.78% as compared with the end of last year; non-underlying investment assets was RMB12.695 billion, representing a decline of RMB946 million or 6.93% as compared with the end of last year; and other debt financing products was RMB5.059 billion, representing a decline of RMB1.012 billion or 16.67% as compared with the end of last year.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The Bank has a complete set of interbank market qualification licenses, laying a solid foundation for financial innovation and business development. The Bank is one of the first founding members of China's market interest rate pricing self-regulatory mechanism, the first approved commercial bank in the non-Tenge regional trading territories, and an institution directly connected with Euroclear through the China Foreign Exchange Trade System (CFETS) platform. The Bank is the first comprehensive city commercial bank spot bond market maker in Shandong Province, and has the qualifications for "Northbound Bond Connect" and "Southbound Bond Connect" under Bond Connect and the ordinary derivatives trading business. The Bank has obtained the primary dealer qualification for the open market business for six consecutive years and is a member of the local government bond underwriting syndicate in Shandong Province and Qingdao City. The Bank was re-elected as the Core Dealer in the Local Currency Market, and awarded one of "Top 100 Self-operated Settlement Banks" by China Central Depository & Clearing Co., Ltd, the Excellent Trader of the Currency Market, Excellent NCD Issuer and the X-Repo Annual Innovation Award, and was honored with the 2022 EIBC Award for "Excellent Underwriter" of Domestic RMB Financial Bonds.

2. *Interbank business and asset custody*

During the Reporting Period, the balance of its certificates of interbank deposit issued was RMB64.214 billion, accounting for 59.89% of interbank liabilities and 12.12% of total liabilities. The balance of RMB interbank deposits was RMB1.449 billion, accounting for 1.35% of interbank liabilities and 0.28% of total liabilities. The balance of interbank time deposits was RMB758 million, accounting for 34.77%, and the balance of interbank demand deposits was RMB1.421 billion, accounting for 65.23%.

Successfully carrying out the asset custody business. During the Reporting Period, the Bank passed the on-site inspection by CSRC, renewed the business license of securities and futures, and expanded business to fund custody. It completed the custody of the first asset-backed securities, promoted the custody of public securities investment funds, special fund account, traders' asset management plan and bank wealth management in an orderly manner. The total scale of the signed but not implemented custody project exceeded RMB9 billion.

3. *Asset management*

During the Reporting Period, the Company's wealth management business achieved steady development with stably enhanced profitability of wealth management products. The maturity yield of the wealth management products was better than the excellent level of other banks with the leading performance of "fixed income+" products and equity products in the industry; the Bank obviously expanded the cooperation agency channels, and increased the existing wealth management funds from off-bank channels by 41.88% as compared with that at the end of last year, accounting for more than 40% of the total product scale.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the Reporting Period, the Bank had 691 wealth management products with a balance of RMB222.600 billion, up by 10.85% as compared with that at the end of last year. During the Reporting Period, the Company issued 234 wealth management products for a total of RMB334.596 billion. During the Reporting Period, the fee and commission income from wealth management products was RMB504 million, with a year-on-year increase of RMB45 million or 9.79%.

As at the end of the Reporting Period, the balance of the Company's investment assets from wealth management products was RMB234.770 billion. The assets mainly were directly and indirectly invested in fixed income, non-standardized debt, public fund products, and capital market assets. It included RMB207.688 billion of fixed income assets, accounting for 88.46%; RMB11.900 billion of non-standardized debt assets, accounting for 5.07%; RMB10.764 billion of public fund products, accounting for 4.59% and RMB4.418 billion of capital market assets, accounting for 1.88%.

According to the "Ranking Report on Wealth Management Capability of Banks (2023 Q2)" released by PY Standard, BQD Wealth Management, the Bank's wholly-owned subsidiary, ranked sixth in comprehensive wealth management capability among urban commercial wealth management institutions. Moreover, BQD Wealth Management was honored the Award of Outstanding Bond Investment Institution (Bank Wealth Management) in 2022 by SZSE, Five-star Award and Fixed-income Wealth Management Award by China Asset Management Assembly, and Golden Honor Award for Outstanding ROI Wealth Management Companies, Golden Honor Award for Outstanding Innovative Wealth Management Companies and Golden Honor Award for Outstanding Equity Wealth Management Products by PY Standard by virtue of its excellent comprehensive strength and good customer reputation.

4. Investment banking

The scope and of scale of investment banking business has been significantly improved, so does the Bank's brand influence. During the Reporting Period, the Bank's investment banking business covered two major product lines, i.e., bond underwriting and credit risk mitigation warrant (CRMW). The issuance amount of the debt financing instruments was RMB21.976 billion, and RMB14.04 billion was underwritten by the Bank; the issuance amount of non-standard products was RMB6.735 billion with a year-on-year increase of RMB80 million; the issuance amount of CRMW was RMB1.045 billion.

During the Reporting Period, the bond underwriting and CRMW achieved breakthroughs in the private manufacturing industry. Several issuance projects of the Bank obtained the lowest prices against comparable projects in Shandong province, which satisfied the low-cost financing needs of good large businesses with less capital, increased the customer loyalty and enhanced customer relationship. The Sci-tech Innovation Bill for Empowerment of Blue Economy won the first prize in the Appraisal of 2022 Financial Innovation Award of Qingdao City, which fully reflected the financial innovation strength of the Bank's investment banking business.

15.4 Distribution Channels

1. *Physical distribution channels*

The Bank's business outlets are based in Qingdao, expanding throughout Shandong Province. As at the end of the Reporting Period, the Bank had 181 business outlets, including 16 branches, in 15 cities of Shandong Province, including Qingdao, Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Linyi, Jining, Tai'an, Heze, and Rizhao. In Qingdao, the Bank had 1 head office, 1 branch and 103 sub-branches. The Bank's controlling subsidiary BQD Financial Leasing and wholly-owned subsidiary BQD Wealth Management are headquartered in Qingdao.

As at the end of the Reporting Period, the Bank had 104 in-bank self-service banks and 408 self-service machines, including 13 automated teller machines (ATM), 271 self-service cash deposit and teller machines (CTM) and 124 self-service terminals providing services including withdrawal, deposit, transfer, account inquiry, and payment. During the Reporting Period, the Bank completed 2.8189 million self-service banking transactions for a total amount of RMB9.479 billion.

2. *Electronic banking channels*

The Bank took electronic banking service as the breakthrough of innovative development. Centered on the construction concept of "Happiness • Companionship", the Bank constantly optimized its online service channels by continuously reconstructing products and services, in order to comprehensively enhance its channel service capability, break the "borders" across services and promote the thriving of Fintech.

(1) *Mobile banking*

During the Reporting Period, the Bank constantly improved the building of the front, middle and back office system of mobile banking in combination with the changes in market demands, following the customer-oriented principle and core concept of "Happiness • Companionship". It initiated the "online wealth management" system building of the mobile banking, integrated the former product shelf mode into the logic line of the Standard & Poor Asset Quadrant Allocation, and provided full-process non-stop companion service before, during and after investment; upgraded the seven customer experience points of ten categories including wealth management agency, fund sales agency, credit card and cloud charging, simplified and rebuilt four types of operation procedures, consolidated nine risk compliance points and supported issuance of wealth management products especially for new citizens; the differentiated scenario services (five service scenarios for five customer groups) of the mobile banking of the Bank obtained the silver prize of the "Digital Marketing" in the 6th Digital Finance Innovation Competition hosted by China Electronic Bank Net. As at the end of the Reporting Period, the Bank recorded 4.9035 million mobile bank users, representing an increase of 0.3248 million or 7.09% as compared with the end of last year. The accumulated trading volume amounted to 228.679 billion, representing a year-on-year increase of 14.90% as compared with that in the same period of last year.

(2) *Internet banking*

As at the end of the Reporting Period, the number of personal online banking customers totaled 744,100, representing an increase of 0.16% as compared with that at the end of last year. The online banking accumulated a total of 12.7855 million transactions, representing a decrease of 13.63% as compared with that in the same period of last year. Total transaction amounted to RMB92.132 billion, representing a decrease of 0.83% as compared with that in the same period of last year. As at the end of the Reporting Period, the number of online retail banking customers totaled 225.7 thousand, representing an increase of 22.13% as compared to the end of last year. During the Reporting Period, the Bank accumulated a total of 5.8177 million transactions, representing a year-on-year increase of 7.74%. The transaction amount totaled RMB1,034.850 billion, representing an increase of 3.39% as compared with that in the same period of last year.

15.5 Information technology

During the Reporting Period, embracing the new three-year strategic plan, and focusing on the high-quality development goals, the Bank continued to increase investment in technological resources, deepened the mechanism of Fintech innovation, coordinated and promoted the implementation of the digital strategy, and accelerated the construction of key projects, so as to inject strong momentum into strategic transformation.

The Bank strengthened digital top-level design, accelerated digital innovation and application, strengthened the construction of digital capacity and comprehensively promoted digital transformation. During the Reporting Period, through the formation of a top-down and highly collaborative digital transformation governance structure and mechanism, independent planning, overall planning and layout, the Bank formulated and completed the digital transformation plan to clarify the direction and implementation route of digital transformation.

Guiding by the principles of “online, mobile, and intelligent”, centering on the technology development strategies in both transient state and steady state, the Bank focused on the four major areas of “marketing and service”, “operation and management”, “credit and risk control”, and “supervision and compliance”, took fast-achieving and easy-to-implement projects as a breakthrough to systematically promote digital transformation and achieve concrete results. During the Reporting Period, the Bank launched 28 new projects and 43 projects were successfully commissioned.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Technology empowers retail business. Adhering to the “Mobile First” strategy, the Bank continued to optimise systems such as “Personal Mobile Banking 7.0”, “Retail Intelligent Marketing 4.0” and “Wealth Channel 3.0”, and rapidly launched online loan products such as “Consumer Loan” and “Business Loan” to build a comprehensive customer service ecosystem through the digital transformation of products, operations and channels.

Technology empowers corporate business. The Bank completed the “New Corporate Mobile Banking” project and put it into operation, continued to optimise systems such as “Online Business Hall for Corporates”, “Intelligent Marketing for Corporates” and “Transaction Banking”, and made efforts to build a three-dimensional offline and online service network to provide a full range of intelligent financial services to its industrial chain customer base centering on core large enterprises and covering upstream and downstream small and medium-sized enterprises. During the Reporting Period, 24 competitive products were carefully polished, realising the transformation of core products from scratch, from offline to online, from complex to simple, and from non-standard to standardised. The successful launch of key products such as “Bills Manager”, “Online Letter of Guarantee” and “Qingyin Huitong” has created a full life-cycle management of bills.

Technology empowers management improvement. The Bank continued to strengthen the construction of digital infrastructure and deepen data governance, enhanced data standardisation and data quality control, as well as excavated and unlocked data value. During the Reporting Period, the Bank improved the bank-wide big data platform by putting into operation projects such as “Group Intelligent Warning” and “Eagle Eye 360 Risk Monitoring Platform 2.0”, and optimising and upgrading projects such as “Agricultural Service Management Platform” and “Value-added Tax Management System”, so as to comprehensively enhance its intelligent operation, smart risk control and management, and data analysis and decision-making capabilities.

The core capabilities of science and technology steadily improve. The Bank continued to enhance its independent research and development capabilities, and actively promoted the application of new technologies and the independent control of key technologies, achieving independent development in various fields such as mobile finance, intelligent marketing, smart supervision, robotic process automation (RPA) and data analysis. The Bank fully consolidated the information technology risk management system, continuously improved the normalized risk monitoring and early warning mechanism, deepened zero-fault management, and ensured the reliable, stable, continuous and efficient operation of the information system. The Bank accelerated the localisation of key infrastructure, fully launched the construction of a new generation of distributed core systems, and promoted the transformation of traditional architecture to distributed architecture, so as to support the implementation of the Bank’s new three-year strategic plan and digital transformation strategy.

XVI. STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Structured entities controlled by the Company are mainly certain asset-backed securities initiated by the Company and certain asset management plans invested by the Company. The Company controls these entities because the Company has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of returns. The Company does not provide financial support to the controlled structured entities.

XVII. RISK MANAGEMENT

17.1 Credit Risk Management

Credit risk refers to the risk arising from the failure by the obligating party or a party concerned to meet its obligations in accordance with agreed upon terms. The Company's credit risks are mainly derived from loan portfolios, investment portfolios, guarantees and commitments, etc.. The management of credit risk is centralised and led by the Credit Risk Management Committee of the head office. Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its credit portfolios, including those subject to central approval.

During the Reporting Period, the Company adhered to a prudent and sound risk appetite, and was committed to the establishment of a credit risk management system with comprehensive functions, controlled and balanced risks, a streamlined structure and high efficiency as well as well-delegated authority and duties. By taking the following measures, the Company achieved continuous optimization of various asset quality indicators and continuous improvement of its credit risk management capability, thus ensuring the Bank's high-quality development. The Company has adopted the following key measures to strengthen its credit risk management:

1. Continued to optimise comprehensive risk management system. The Company align risk appetites across the Bank, formulated the Risk Management Strategies and Risk Appetite Plan for 2023 (《2023年度風險管理策略與風險偏好方案》), formed the risk appetite system, strengthened the transmission and implementation of risk appetite; and improved the functions of the risk management department, strengthened the risk management guidance and supervision of branches and subsidiaries, thus striving for a unified risk culture in the group. The Company optimized the comprehensive credit risk management system covering the Bank and consolidated institutions, strengthened the unified credit management and consolidation management, continuously optimized the group's management and control plan and measures for the credit concentration, and ensured that the group's overall credit concentration risk was safe and controllable.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

2. Continued to optimise credit asset quality. The Company actively promoted the steady implementation of three new regulatory regulations such as the new capital regulations, classification regulations and impairment regulations, formulated working guidelines, organized series of training and raised the awareness of risk and cost across the Bank; implemented the refined dynamic management of various asset quality indicators, strengthened pre-assessment and analysis of the trends of risk migrations and changes, and enhanced pre-processing capabilities for risk signals; strengthened the management of maturing loans and overdue loans, strengthened the disposal of non-performing assets. The loans that were overdue more than 60 days continued to be managed as non-performing loans ratio in order to maintain a downward trend and achieved the control target.
3. Continued to strengthen risk management and control in key areas. The Company constantly consolidated the foundation of “pre-loan investigation, loan review and post-loan inspection”, strictly implemented the “post-credit granting inspection” mechanism, and implemented differentiated post-loan management measures to improve the post-loan management accuracy and effectiveness. The Company established a long-term mechanism for risk investigation, and strengthened risk monitoring in key areas and key customers to track and correct any problems identified in time. Under the Bank’s new three-year strategic plan, the Company focused on the transformation of the manufacturing industry, optimized the synergy and reinforced dynamics, proactively promoted the adjustment of the review and approval structure for the industry and comprehensively built a development system for the manufacturing industry.
4. Continued to strengthen post-credit granting inspection. According to the group management and control, major business, major lines and major organizations, the Company made hierarchical management, strengthened risk assessment and stress tests, strictly implemented the mechanism for suspension and resumption of trading products (cluster business); carried out the on-site post-credit granting inspection, conducted on-site inspection on key industries, key customers and key businesses to fully grasp the risk situation; strengthened control over the use of funds for key customers. In particular, the two policy instruments loans, rediscounting, re-lending and inclusive loans that have been issued, and strictly prevent the flow of credit funds to prohibited areas.
5. Continued to improve the digital credit management. The Company completed the first phase of the “group’s intelligent credit risk warning platform” online trial operation, provided credit risk assessment and warning for credit customers in the pre-loan (pre-granting) investigation, review and approval, and post-loan (post-granting) management stages. The Company promoted the development of expected credit loss management systems, related party transactions management systems, and collateral platform systems, and improved the joint management capacity of various risk systems to lay a foundation for the construction of an digital risk control system.

During the Reporting Period, by taking the said measures, the Company further improved the quality of its assets and effectively controlled credit risks.

17.2 Liquidity Risk Management

Liquidity risk is the risk that the Company is unable to obtain sufficient funds on a timely basis at a reasonable cost in order to sustain its asset growth or pay debts due or other payment obligations. The Company's liquidity risk management adheres to the principles of comprehensiveness, prudence and forward-looking, which better adapts to the existing development stage of the Company. Currently, the Company's liquidity risk management policies and systems meet regulatory requirements and the Company's own management needs.

The objective of the Company's liquidity risk management is to ensure that the Company has sufficient cash flows to meet payment obligations and fund business operations on a timely basis. Based on its development strategy, the Company continuously improved its level of liquidity risk management and measures, strengthened its capability of identifying, monitoring, measuring and refining the management and control of liquidity risks, and maintained a reasonable balance between liquidity and profitability.

The Company has established a liquidity risk management governance structure according to the principle of the segregation of the formulation, implementation and supervision of its liquidity risk management policies, specifying the roles, responsibilities and reporting lines of the Board, the Board of Supervisors, senior management, special committees and the relevant departments of the Bank in liquidity risk management in order to enhance the effectiveness thereof.

The Company measures, monitors, and identifies liquidity risks from the perspectives of short-term provision and term structure of assets and liabilities, closely monitors every indicator of the quota according to fixed frequency and conducts regular stress tests to evaluate its ability to meet liquidity requirements under extreme conditions. In addition, the Company has enacted a liquidity emergency plan and would conduct tests and evaluations thereon on a regular basis.

The Company holds a sufficient amount of liquid assets to ensure the satisfaction of its liquidity needs and at the same time has sufficient capital to meet the unexpected payment needs that may arise from daily operation. Furthermore, the Company's internal control system for liquidity risk management is sound and compliant. The Company regularly conducts internal special audits on liquidity risks and prepares and submits an independent audit report to the Board.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The Company closely monitors changes in liquidity patterns and market expectations, and deploys in advance and dynamically adjusts its liquidity management strategy based on changes in its asset and liability business and the liquidity gap to ensure that its liquidity risk is within a reasonable and controllable range. During the Reporting Period, the Company focused on strengthening its liquidity risk management in the following areas:

1. Continuously promoted the steady growth of deposits with the stability of liabilities further enhanced;
2. Took various measures simultaneously to strengthen the mobilization of assets, continuously optimized the asset structure, and achieved the smooth operation of asset and liability;
3. Based on the traditional business of deposits and loans and the forward-looking calculation of liquidity indicators, flexibly carried out active treasury management to ensure that various liquidity indicators were controlled within the preset threshold level, and at the same time, expanded diversified financing channels and actively conducted open market transactions to play its role as a primary dealer;
4. Moderately increased investment in qualified high-quality bonds and maintained sufficient liquidity reserves;
5. Conducted daytime position trading management, strengthened market analysis and study, made capital arrangements in advance, and improved the capital utilization efficiency on the basis of ensuring the safety of liquidity across the Bank;
6. Fully considered various macro and micro factors that may affect the Company's liquidity, and conducted stress tests on a quarterly or ad hoc basis in light of changes in the external operating environment, regulatory requirements, the Company's business characteristics and complexity;

As at the end of the Reporting Period, the Company's liquidity coverage ratio and net stable funding ratio are presented below:

Unit: RMB'000

Item of liquidity coverage ratio	30 June 2023	31 December 2022
Qualified and high-quality current assets	84,926,093	90,470,924
Net cash outflows in next 30 days	66,522,420	73,656,093
Liquidity coverage ratio (%)	127.67	122.83

Note: Pursuant to the "Measures for Liquidity Risk Management of Commercial Banks", the liquidity coverage ratio of commercial banks shall not be lower than 100%.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

Unit: RMB'000

Item of net stable funding ratio	30 June 2023		31 March 2023	
	The Company	The Bank	The Company	The Bank
Available stable funding	347,687,603	342,649,243	325,450,287	320,475,896
Required stable funding	299,759,086	278,245,375	292,192,537	271,590,559
Net stable funding ratio (%)	115.99	123.15	111.38	118.00

Note: Pursuant to the “Measures for Liquidity Risk Management of Commercial Banks”, the net stable funding ratio of commercial banks shall not be lower than 100%.

For more information on the Company’s liquidity risk management, please refer to “42(3) Liquidity Risk under Notes to the Unaudited Interim Financial Report” of this interim report.

17.3 Market Risk Management

Market risk is a risk that any change in the value of financial instruments due to any change in interest rates, exchange rates and other market factors may result in potential losses to future earnings or future cash flows. Market risks affecting the Company’s services are dominated by interest rate risks and exchange rate risks, including the trading books and banking books. The Company has established a complete and reliable market risk management system that is compatible with the nature, scale and complexity of the business. The Company’s sound and compliant market risk management internal control system defines the responsibilities of, and reporting requirements on, the Board, senior management and various departments under the market risk governance structure, clarifies the market risk management policy and identification, measurement, monitoring and control procedures, and makes clear market risk reporting, information disclosure, emergency response and market risk capital measurement procedures and requirements. The Company has a well-established management system for market risk indicators limits and conducts special internal market risk audits regularly, reports market risk management to senior management and the Board, and prepares independent reports.

17.3.1 Analysis of interest rate risks

The Company distinguishes banking books and trading books according to the regulations of the regulators and traditional banking management practices and adopts market risk identification, measurement, monitoring and control measures based on the different nature and characteristics of banking books and trading books.

Interest rate risk of the Company's trading books are mainly measured and monitored with methods such as sensitivity analysis, stress tests and scenario simulation. During the Reporting Period, the Company continued to strengthen market risk monitoring and reporting, optimize the market risk limit system and improve the market risk policy system to ensure that interest rate risks in trading books were controllable.

Compared with trading books, the Bank's other services are recorded in banking books. The Company quantitatively evaluates the impact of interest rate changes on the Company's net interest income and economic value for different currencies and different sources of risks with methods such as repricing gap analysis, duration analysis, net interest income analysis, economic value analysis and stress tests, and prepares reports based on the analysis results to propose management suggestions and the service adjustment strategy. During the Reporting Period, the Company optimized and adjusted the annual market risk limit management system according to its own market risk appetite and annual business objectives, and conducted dynamic monitoring according to requirements. In addition, the Company paid close attention to external policy trends and changes in the interest rate environment, proactively adjusted its business pricing strategy and its allocation strategy of asset-liability structure, and further refined the interest rate risk management of the corporate banking book to ensure that rate risks of the banking book were controllable to realize growth in net interest income.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

17.3.2 Analysis of interest rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net interest income and equity. The following table sets forth the sensitivity of the Company's net interest income and equity to possible interest rate changes with other variables remaining constant. The impact on net interest income refers to the impact of certain interest rate changes on the net interest income generated by financial assets and liabilities held at the end of the period that are expected to undergo interest rate repricing within one year. The impact on equity includes the impact of certain interest rate changes on equity attributable to the revaluation of fixed interest rate financial assets at fair value through other comprehensive income held at the end of the period.

Unit: RMB'000

Item	30 June 2023 (Decrease)/ Increase	31 December 2022 (Decrease)/ Increase
Change in annualized net interest income		
Interest rate increase by 100 bps	(887,347)	(831,337)
Interest rate decrease by 100 bps	887,347	831,337

Unit: RMB'000

Item	30 June 2023 (Decrease)/ Increase	31 December 2022 (Decrease)/ Increase
Change in annualized equity		
Interest rate increase by 100 bps	(3,075,232)	(2,782,794)
Interest rate decrease by 100 bps	3,307,062	3,051,735

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

The above sensitivity analysis is based on the fact of assets and liabilities having a static interest rate risk structure. The analysis reflects the impact of repricing of the Company's assets and liabilities on the Company's annualized calculation of net interest income and equity, based on the following assumptions:

1. Regardless of subsequent changes after the reporting date, the analysis is based on the static gap at the end of the Reporting Period;
2. In measuring the effect of changes in interest rates on the net interest income, all assets and liabilities that reprice or mature within three months and after three months but within one year are assumed to reprice or mature in the beginning of the respective periods;
3. Interest rates on deposits with central banks and on demand deposits deposited and absorbed remain unchanged;
4. There is a parallel shift in the yield curve and in interest rates;
5. There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity;
6. Other variables (including exchange rates) remain unchanged;
7. No consideration of impact on customers' behavior, market price and off-balance sheet business resulting from interest rate changes.

The analysis does not take into account the effect of risk management measures taken by management. The actual changes in the Company's net interest income and equity resulting from changes in interest rates may differ from the results of the sensitivity analysis based on the above assumptions.

17.3.3 Analysis of exchange rate risk

The Company's exchange rate risks mainly arise from mismatched currencies in non-RMB assets and liabilities held in the Company's banking books. The Company controls the exchange rate risks of bank accounts to be acceptable to the Company by strictly controlling risk exposures. The Company's exchange rate risk measurement and analysis methods mainly include foreign exchange exposure analysis, scenario simulation analysis and stress tests. During the Reporting Period, the Company paid close attention to exchange rate trends, proactively analyzed the impact of exchange rate changes based on the domestic and foreign macroeconomic situation, and proposed an asset-liability optimization plan. Given the prudent foreign exchange risk appetite, as at the end of the Reporting Period, there was no significant change in the scale of the Company's foreign exchange risk exposure, and the exchange rate risk level was controllable.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

17.3.4 Analysis of exchange rate sensitivity

The Company uses sensitivity analysis to measure the potential impact of changes in interest rates on the Company's net profit and equity. The following table sets forth the results of the analysis of exchange rate sensitivity based on the current assets and liabilities on 30 June 2023 and 31 December 2022.

Unit: RMB'000

Item	30 June 2023 Increase/ (Decrease)	31 December 2022 (Decrease)/ Increase
Change in annualized net profit and equity		
Foreign exchange rate increase by 100 bps	154	(10)
Foreign exchange rate decrease by 100 bps	(154)	10

The above sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

1. the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against RMB (central parity rate) at the closing on the reporting date;
2. the fluctuation of exchange rates by 100 basis points at the end of the Reporting Period is based on the assumption of exchange rates movement over the next 12 months since the end of the Reporting Period;
3. the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
4. since the Company's assets and liabilities in other foreign currencies (excluding in USD) are not significant in proportion to the total assets and total liabilities, the possible impact of other foreign currencies on the Company's net profit and equity is calculated at the amount converted into USD in the above sensitivity analysis;
5. the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity;

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

6. other variables (including interest rates) remain unchanged;
7. no consideration of impact on customers' behavior and market price resulting from exchange rate changes.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Company's gain or loss and equity resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

17.4 Operational Risk Management

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees, information technology systems, and external events. The Company's operational risk mainly arises from four types of risk factors, including personnel risk, process risk, information system risk and external event risk. The Board considers the operational risk as a major risk faced by the Company and has effectively assumed the ultimate responsibility for monitoring of the effectiveness of operational risk management. The senior management has control of the overall condition of the Company's operational risk management and strictly implemented the operational risk management strategies and policies approved by the Board.

The Company focuses on preventing systematic operational risks and material losses from operational risks. The Board explicitly sets an acceptable operational risk level and supervises the senior management's monitoring of and evaluation on the adequacy and effectiveness of the internal control system; the senior management works out systematic systems, processes and methods and adopts corresponding risk control measures according to the acceptable risk level determined by the Board, so as to prevent and control operational risks in a comprehensive manner.

During the Reporting Period, the Company actively implemented the internal and external requirements for operational risk management by improving operational risk management system, effectively identifying, assessing, monitoring and controlling, and mitigating operational risks, and vigorously promoting the enhancement of the operational risk management, with operational risks being well controlled. During the Reporting Period, the Company focused on strengthening its operational risk management in the following aspects:

1. Consistently strengthening case prevention and control. The Company carried out multiple investigations such as case risk investigation, illegal fund-raising risk investigation and key area risk investigation in a multi-dimensional and multi-channel manner. Combined with the warning education and risk tips of violation cases, the Company improved staff's business operation level and compliance awareness, and strictly prohibiting the risk of non-compliance of personnel.

SECTION III MANAGEMENT DISCUSSION AND ANALYSIS

2. Strengthening operational risk control in key areas. The risk identification and rectification on key businesses and key areas within the Bank is conducted based on internal and external supervision and inspection, for the purpose of plugging the loopholes in operation and management. The Company fully utilized digital management tools to prevent and control operational risks by integrating scientific and technological means and big data technology into its business operation process.
3. Strengthening monitoring and assessment of operational risks. The Bank monitored operational risks in an all-round way with the comprehensive use of system monitoring, risk investigation, internal inspection and line supervision, and captured potential risks in a timely manner so as to block all operational risks comprehensively.
4. Refining services continuity management. The Bank continued to strengthen service continuity construction by revising the services continuity-related regimes and enhancing the construction of the emergency response plans, organized service continuity drills, and improved the ability of relevant personnel to respond to emergencies and work collaboratively.
5. Further preventing potential outsourcing risks. The Company improved the outsourcing risk management system, continuously carried out due diligence of outsourcers, and strengthened the control of outsourcers, controlled the daily operation of outsourcing services strictly, and prevented the occurrence of outsourcing risks.

XVIII. DEVELOPMENT PLAN IN THE SECOND HALF OF THE YEAR

18.1 Operating Situation Analysis for the Second Half of the Year

In the current year, our country's economy has shown signs of recovery, despite the increasingly complex and challenging external environment. Although the domestic economic development also faces pressures, yet the fundamental long-term positive outlook of our economy remains steadfast. It continues to exhibit resilience, great potential, and vibrant dynamics, which provide the conditions for high-quality development. With the accumulation of favorable factors that drive growth, we anticipate that the economy will continue to recover in the second half of the year. The fiscal policy will continue to exert efforts to enhance efficiency and leverage fiscal measures to stimulate economic activities and boost overall economic performance. The banking industry will continue to operate under stringent regulatory supervision while directing financial support towards stimulating domestic demand. Monetary policy will focus on both overall quantity management and structural adjustments, reinforcing support for the real economy.

18.2 Development Guiding Ideology for the Second Half of the Year

In the second half of the year, the Bank will continue to adhere to the operation guiding ideology of “strengthening advantages and overcoming weakness, serving real economy, managing risk, regulating management” by focusing on 4 strategic themes, namely “structure adjustment, customer base strengthening, synergy optimization and capability improvement”. With concerted efforts of all employees, the Bank will proactively overcome difficulties to continue the solid development momentum in the first half of the year, so as to ensure the full completion of the annual operating plan.

18.3 Major Work Measures in the Second Half of the Year

- (1) Corporate business: accelerating the pace to allocate products and increasing deposits, strengthening customer base and optimizing liabilities;
- (2) Retail business: accelerating the pace to adjust the business structure, improving the scale and profit at the same pace;
- (3) Inclusive business: diversifying products and expanding the customer base, promoting cooperation and strengthening risk control;
- (4) Financial market: facilitating investments and focusing on custody, improving the business of managing clients’ assets and focusing on the financial industry;
- (5) Subsidiaries: strengthening the base of financial leasing and concentrating on its allocation, putting efforts to educate investors on wealth management and providing more access to wealth management products;
- (6) Technology sector: accelerating the pace of digital transformation, constantly enhancing the value of data;
- (7) Risk management: strengthening the all-around risk management, improving the capacity of risk control;
- (8) Internal control of operation: strengthening the internal control management of operation to ensure the stable and ever-lasting business;
- (9) Comprehensive management: improving the quality and effectiveness of comprehensive management, helping to boost the development of the whole bank.

SECTION IV CORPORATE GOVERNANCE

The Bank has always regarded the improvement of corporate governance as the foundation in the new period to achieve high quality development. By integrating the Party's leadership and corporate governance deeply and improving the modern corporate system with Chinese characteristics consistently, the Bank strives to modernize its corporate governance system and governance capacity. During the Reporting Period, the Bank strictly complied with the relevant laws and regulations. It actively took advantage of the core role of the Party Committee in politics and leadership in corporate governance and continued to promote the corporate governance system covering the general meeting, the Board and the Board of Supervisors and the management to improve the enforcement to systems. By doing so, the Bank has improved its scientificity and effectiveness of corporate governance and achieved compliance operation and continuous stable development.

I. CONVENING OF SHAREHOLDERS' GENERAL MEETING, BOARD MEETING AND SUPERVISORY MEETING DURING THE REPORTING PERIOD

1.1 Shareholders' general meeting

Session of meeting	Type of meeting	Participation		Date of disclosure	Resolutions of meeting
		percentage of investors	Date of convening		
2023 first extraordinary general meeting	Extraordinary general meeting	64.812843%	10 February 2023	10 February 2023	The meeting considered and approved 6 resolutions, such as the resolution regarding the election of Mr. WU Xianming as an executive Director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution regarding the election of Mr. Cheung Man Chor, Elton as an independent director of the eighth session of the Board of Directors of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Articles of Association of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure for the Shareholders' General Meetings of Bank of Qingdao Co., Ltd., the resolution on the amendments to the Rules of Procedure of the Board of Directors of Bank of Qingdao Co., Ltd. and the resolution on the amendments to the Rules of Procedure of the Board of Supervisors of Bank of Qingdao Co., Ltd.

SECTION IV CORPORATE GOVERNANCE

Session of meeting	Type of meeting	Participation percentage of investors	Date of convening	Date of disclosure	Resolutions of meeting
2022 annual general meeting	Annual general meeting	68.799789%	31 May 2023	31 May 2023	The meeting considered and approved 8 resolutions, such as the work report of the Board of Directors of Bank of Qingdao Co., Ltd. for 2022, the work report of the Board of Supervisors of Bank of Qingdao Co., Ltd. for 2022, the final financial accounts of Bank of Qingdao Co., Ltd. for 2022, the profit distribution plan of Bank of Qingdao Co., Ltd. for 2022, the resolution on the engagement of external auditors of Bank of Qingdao Co., Ltd. for 2023 and their remuneration, the special report on related party transactions of Bank of Qingdao Co., Ltd. for 2022, the resolution on the estimated amount of the ordinary related party transactions of Bank of Qingdao Co., Ltd. for 2023 and the resolution on the general mandate for the issue of shares by Bank of Qingdao Co., Ltd.

1.2 Request for convening of extraordinary general meeting by preference shareholders with recovered voting rights

During the Reporting Period, there was no request for convening of extraordinary general meeting by preference shareholders with recovered voting rights in the Bank.

1.3 Board meetings and meetings of the special committees

During the Reporting Period, the Board of Directors convened 11 meetings, including 3 on-site meetings and 8 correspondence voting meetings, at which a total of 55 proposals were considered and 39 reports were heard. The special committees under the Board held 30 meetings, including 4 meetings of the Strategy Committee, 6 meetings of the Risk Management and Consumer Rights Protection Committee, 5 meetings of the Audit Committee, 2 meetings of the Remuneration Committee, 3 meetings of the Nomination Committee, 8 meetings of the Related Party Transactions Control Committee and 2 meetings of the Network Security and Information Technology Committee, at which a total of 54 proposals were considered and 35 reports were heard.

1.4 Supervisory meetings and meetings of the special committees

During the Reporting Period, the Board of Supervisors held 7 meetings, including 1 on-site meeting and 6 correspondence voting meetings, at which a total of 18 proposals were considered and 37 reports were heard. The special committees under the Board of Supervisors held 6 meetings, including 4 meetings of the Supervision Committee and 2 meetings of the Nomination and Evaluation Committee, at which a total of 15 proposals were considered and 34 reports were heard.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors of the Bank are nominated by the Board of Directors and elected in accordance with the qualifications and election procedures for Directors as set out in the Articles of Association; the shareholder Supervisors and external Supervisors are nominated by the Board of Supervisors and the employee Supervisors are nominated by the labor union and elected in accordance with the election procedures as set out in the Articles of Association. The changes in the Directors, Supervisors and senior management of the Bank are set out in the table below:

Name	Position held	Type of change	Date of change	Reason of change
WU Xianming	Executive Director, President	Newly elected	20 March 2023	–
WANG Lin	Former executive Director, former President	Resigned	18 January 2023	Due to approaching retirement age according to organizational arrangements
Cheung Man Chor, Elton	Independent Director	Newly elected	17 April 2023	–
Tingjie Zhang	Former independent Director	Resigned	17 April 2023	Due to the fact that the family has settled abroad
ZHANG Qiaowen	Secretary to the Board	Newly elected	19 May 2023	–
ZHANG Meng	Vice president	Newly elected	19 July 2023	–
ZHANG Chihong	Vice president	Newly elected	19 July 2023	–
WANG Yu	Former vice president	Resigned	13 April 2023	Due to work assignment according to organizational arrangements

Note: The effective date of the newly elected members listed above refers to the date when their qualifications were approved by the banking regulatory authority.

Saved as above mentioned, there were no other changes in the Directors, Supervisors and senior management of the Bank as at the date of publication of this report.

As at the date of publication of this report, the Board of the Bank comprises Mr. JING Zailun, Mr. WU Xianming and Mr. LIU Peng as executive Directors; Mr. ZHOU Yunjie, Mr. Rosario Strano, Ms. TAN Lixia, Mr. Marco Mussita and Mr. DENG Youcheng as non-executive Directors; Mr. Simon Cheung, Ms. FANG Qiaoling, Mr. XING Lecheng, Mr. ZHANG Xu and Mr. Cheung Man Chor, Elton as independent non-executive Directors.

SECTION IV CORPORATE GOVERNANCE

III. CHANGES IN INFORMATION ON DIRECTORS AND SUPERVISORS DURING THE REPORTING PERIOD

1. Mr. ZHOU Yunjie, a non-executive Director, has ceased to be the director of Qingdao Eoroom Home Technology Co., Ltd. (青島有屋家居科技股份有限公司) since March 2023.
2. Mr. DENG Youcheng, a non-executive Director, has ceased to be the general manager of Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司) since June 2023.
3. Ms. FANG Qiaoling, an independent Director, has ceased to be the independent director of Triangle Tyre Co., Ltd. (三角輪胎股份有限公司) since June 2023.
4. Mr. HE Liangjun, a shareholder Supervisor, has served as the general manager of Hainan Goodi International Trade Co., Ltd. (海南谷迪國際貿易有限公司) since April 2023, and has ceased to be the executive director of the company.
5. Mr. WANG Dawei, an employee Supervisor, has served as the chief officer of regulatory affairs and the general manager of the legal and compliance department of the Bank since May 2023, and has ceased to be the chief officer of credit risk and the general manager of the risk management department of the Bank.
6. Mr. MENG Xianzheng, an employee Supervisor, has served as the chief officer of administrative affairs and the general manager of the administrative department of the Bank since April 2023, and has ceased to be the general manager of the legal and compliance department and the general manager of the asset security department of the Bank since May 2023.
7. Mr. HAO Xianjing, an external Supervisor, has served as the independent director of Zaozhuang Bank Co., Ltd. (棗莊銀行股份有限公司) since March 2023.
8. Mr. JIANG Xinglu, an external Supervisor, has ceased to be an independent director of Qingdao Eastsoft Communication Technology Co., Ltd. (青島東軟載波科技股份有限公司) since February 2023.

As at the date of publication of this report, saved as mentioned above, there were no other changes in the information on Directors and Supervisors of the Bank.

IV. PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL DURING THE REPORTING PERIOD

The Bank will not distribute cash dividends for ordinary shares, issue bonus shares nor convert capital reserves into share capital for the interim period.

V. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Bank during the Reporting Period.

VI. RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Bank is responsible for ensuring the establishment and implementation of an adequate and effective internal control system and the Bank's prudential operation within the framework set by laws and policies. The Board of Directors is also responsible for explicitly determining the acceptable risk level, ensuring the senior management to adopt necessary risk control measures, and supervising the senior management on their monitoring and assessment of the adequacy and effectiveness of the risk management and internal control systems.

The Board of Directors of the Bank has established the Audit Committee to be responsible for the supervision of the effective implementation of the Bank's internal control and the self-assessment of risk management and internal control, the coordination of audit on internal control and other relevant matters.

The Board of Supervisors of the Bank is responsible for supervising the Board of Directors and senior management in improving the risk management and internal control systems; supervising the performance of risk management and internal control duties by the Board of Directors, senior management and their members.

The senior management of the Bank is responsible for implementing the decisions of the Board of Directors, formulating systematic systems, procedures and methods based on the acceptable risk level as determined by the Board of Directors and adopting the corresponding risk control measures, establishing and improving the internal organizational structure, ensuring the effective implementation of various risk management and internal control functions as well as conducting supervision and assessment of the adequacy and effectiveness of the risk management and internal control systems.

SECTION IV CORPORATE GOVERNANCE

Based on laws and regulations including the Basic Standards for Enterprise Internal Control and its complimentary guidelines and the Guidelines on Internal Control of Commercial Banks, along with relevant requirements of the Hong Kong Stock Exchange, the Bank has formulated the objectives and principles of internal control and established its internal control system. The Bank takes control over the entire process of various operation and management activities, and continuously enhances the completeness, reasonableness and effectiveness of internal control system through practice.

The Bank attaches great importance to the construction of an internal control system and has established an all-round internal control system with comprehensive process control, covering all business activities, risk management activities and support and guarantee activities. In accordance with external laws and regulations, supervisory policies, and internal operation and management needs, the Bank formulated and amended the relevant internal control management system in a timely manner, optimized the business management process, implemented risk control measures, and continued to build the streamlined and efficient management system featuring good customer experience, smooth working process and 100% risk coverage rate, so as to further improve the internal control system and promote the steady operation and sustainable development of the Bank.

The Bank formulated Information Disclosure Management System of Bank of Qingdao Co., Ltd., which specified the definition of inside information, confidentiality measures, handling and issuance procedures and internal control.

During the Reporting Period, no institution or staff of the Bank participated in or was suspected of being involved in any money laundering or terrorism financing activity.

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

I. MAJOR ENVIRONMENTAL ISSUES

The Bank and its subsidiaries are not key pollutant discharging enterprises as announced by the environmental protection authorities. During the Reporting Period, the Bank and its subsidiaries were not subject to any penalties due to violation of environmental protection laws and regulations. In the monetary and financial service industry, no pollutants specified in the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (《重點排污單位名錄管理規定(試行)》) are produced by the Bank's principal business. The Bank and its subsidiaries will conscientiously implement the Environmental Protection Law of the PRC and other environmental protection laws and regulations in its future production and operational activities.

II. SOCIAL RESPONSIBILITY

During the Reporting Period, the Bank adhered to the fundamental principle of providing financial services to the real economy, the orientation of green financial development and the goal of building a value-leading bank, actively fulfilled the economic, environmental and social responsibilities as a local bank corporation, in order to facilitate the high-quality development of regional economy and meet the diversified financial needs of the people with its financial strength.

The Bank is committed to the mission of serving the local real economy to follow its essence of business. Since this year, the Bank has paid close attention to the decision-making and deployment of Shandong Province and Qingdao City, promoted the construction of key regions, major areas, and material projects; took the initiative to adjust the direction of credit granting, reinforced the support in granting credit to manufacturing industry, green finance, science and technology finance and inclusive finance, with the aim of increasing facility granted to the real economy and incremental extending the credit support. The Bank introduced a series of 17 measures to optimize the business environment, restructured the system of inclusive finance products, and enriched business products to strengthen the motivation and momentum of the real economy. Focusing on inclusive finance, the Bank continued to carry out the "President's Visit to SMEs", "Spring Ploughing Initiative" and "Spring Rain Action" to actively understand the urgent needs and expectations of customers, and to continuously improve the quality and efficiency of our financial support in the private sector and SMEs. The Bank has implemented financial policies to benefit the public by reducing fees and offering benefits, and has set up 111 free service programs to maximize the benefits to enterprises.

SECTION V ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

In terms of the ecological environment, the Bank adhered to the orientation of the green finance development. The Bank has been stick to the important direction of promoting the real economy development through green finance, and continued to improve the long-term mechanism of green finance across the Bank in an effective manner. During the Reporting Period, the Bank issued the Implementation Plan on Further Deepening the Transition from Old to New Growth Drivers and Promoting Green, Low-carbon, and High-quality Development in Shandong (《關於推進山東深化新舊動能轉換推動綠色低碳高質量發展的實施方案》), Marketing Guidelines for Carbon Emission Reduction Support Tools of Bank of Qingdao (《青島銀行碳減排支持工具項目營銷指引》) and other policies and programs to support the development of green finance. During the Reporting Period, the Bank proactively carried out green innovation by launching the first supportive loan on carbon emission disclosure in China, the first loan on carbon emission reduction support tool for a local corporate bank in Shandong Province, and took the lead in completing four types of innovative products, namely, environmental equity secured loans, carbon asset-based pledge loans, energy income class mortgage loans, and sustainability linked loans, leading the innovation on green finance. As at the end of the Reporting Period, the Bank's balance of Green Credit amounted to RMB23.528 billion, representing an increase of RMB2.604 billion or 12.45% over the beginning of the year.

Insisting on building a bank featured with blue finance, the Bank has launched the “Sailing Action” for blue finance so far this year, with 47 additional blue loan projects and a total amount of RMB1.066 billion to support the development of blue finance. During the Reporting Period, the Bank successfully conducted the blue syndicated loan withdrawal of US\$150 million with the International Finance Corporation (IFC), a member of the World Bank Group, the Asian Development Bank and other institutions, such loan was specifically used to the services on ocean-friendly projects and important clean water protection projects.

From the prospective of social expectations, the Bank adhered to the goal of building a value-leading bank. The Bank has actively assumed its social responsibilities, upgraded the elderly service model of “BQD Service”, delivering warmth in the silver hair service. The “BQD Service Workshop” was named and commended by the China Financial Workers’ Union as the “Innovative Talent Workshop for Labor Models and Craftsmen of the National Financial System (全國金融系統勞模和工匠人才創新工作室)”. The “Happy Neighbourhood” reached out to the communities, “Party Building + Volunteering” allowed the public to experience “distinctive” financial services. At the end of the reporting period, the “Happy Neighborhood” and the sub-branch of the community organized a total of 404 “Party Building + Volunteering” activities in the community, with participation of more than 34,000 people. The Bank continued to develop service experience management, deeply engaged in its service scenario and enhance its services through digital utilization. During the Reporting Period, the Bank completed the launch of the new version of corporate mobile banking apps (新版企業手機銀行) with an iteration of Mobile Bank 7.0 (手機銀行7.0), and put the “Group Intelligent Early Warning (集團智能化預警)” into production. The Bank also invested in digital transformation projects including “the Eagle Eye 360 Intelligent Risk Monitoring Platform 2.0 (鷹眼360風險監控平台2.0)” to enhance the intelligence and quality of its services. Meanwhile, the Bank is enthusiastic about public welfare, named the eighth “Weichen Public Welfare Star (微塵公益之星)” advanced and typical figure selection activities to promote the development and expansion of the “Weichen (微塵)” public welfare brand, and honored with the “Qingdao Red Cross Fraternity Gold Award (青島紅十字博愛金獎)”.

III. CONSUMER RIGHTS PROTECTION

The Bank has actively practiced the people-centered development philosophy, attached great importance to the protection of consumer rights and strictly fulfilled the major responsibility of protecting the legitimate rights of consumers. Through incorporating the consumer rights protection into its corporate governance, corporate culture construction and operation and development strategies, the Bank has established and improved its consumer rights protection systems and mechanisms and carried out the requirements of consumer rights protection throughout all parts of the business process, so as to deal with consumers in a fair, just and honest manner in the entire process of business operation.

During the Reporting Period, the Bank sustained its efforts to improve the consumer protection system and operating mechanism by fulfilling the function of consumer protection review, strengthening the management of complaint sources, improving emergency response to emergencies, optimizing the service experience for the elderly customer base, and taking multiple measures to build a strong defence for the protection of personal information, so that “Qingcheng”, the brand of consumer protection, continued to lead the way in the deepening and practical implementation of financial publicity and education work. During the Reporting Period, the Bank proactively responded to the call of the regulatory authorities and held the “3•15 Consumer Rights Protection Education and Publicity Week”(3•15 消費者權益保護教育宣傳週), “Financial Knowledge Popularisation Journey for Thousands of Miles”(普及金融知識萬里行), “The Banker”(小小銀行家), “Financial Knowledge Lecture”(金融知識大講堂), and “Financial Knowledge Promotion in Rural Areas”(金融知識進鄉村) and other activities to publicize various financial knowledge to consumers, such as the prevention of illegal fundraising and telecommunications frauds, the guidance of rational investment and borrowings and consumption, etc., which effectively helped consumers build up their awareness of risk prevention and improve their risk identification ability.

SECTION VI SIGNIFICANT EVENTS

I. UNDERTAKINGS FULFILLED DURING THE REPORTING PERIOD AND NOT FULFILLED AS AT THE END OF THE REPORTING PERIOD BY THE DE FACTO CONTROLLERS, SHAREHOLDERS, RELATED PARTIES, ACQUIRERS, THE BANK AND OTHER PARTIES INVOLVED IN UNDERTAKING

There were no de facto controllers and acquirers of the Bank. The following undertakings have been fulfilled during the Reporting Period:

Reason of undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Date of undertaking	Term of undertaking	Particulars on the performance
Undertaking made on initial public offering or refinancing	Qingdao Huatong State-owned Capital Investment and Operation Group Co., Ltd. (青島華通國有資本投資運營集團有限公司)	Shares lock-up undertaking by laws	Pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), Qingdao Huatong State-owned Capital Investment and Operation Group Co., Ltd. (青島華通國有資本投資運營集團有限公司) undertook not to transfer the share equity held by it within five years from the date of obtaining the share equity of the Bank (29 June 2018).	29 June 2018	60 months	It was fulfilled during the Reporting Period

Saved as mentioned, there were no other undertakings fulfilled during the Reporting Period and not fulfilled as at the end of the Reporting Period by the Bank, shareholders, related parties of the Bank or other parties involved in the undertaking.

II. APPROPRIATION OF THE LISTED COMPANY'S FUNDS BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES FOR NON-OPERATING PURPOSES

During the Reporting Period, there was no appropriation of funds of the Bank by the controlling shareholders and other related parties for non-operating purposes. The Bank's largest shareholder and its related parties were also not involved in the above situation.

III. NON-COMPLIANCE WITH EXTERNAL GUARANTEES

During the Reporting Period, there was no violation of external guarantees by the Bank.

SECTION VI SIGNIFICANT EVENTS

IV. ENGAGEMENT OR DISMISSAL OF ACCOUNTING FIRMS

The financial reports in this interim report are unaudited. During the Reporting Period, the Bank did not change the accounting firm.

V. MATTERS RELATED TO BANKRUPTCY AND REORGANIZATION

There was no matter related to bankruptcy and reorganization of the Bank during the Reporting Period.

VI. LITIGATION

Overview	Amount involved	Any provision made	Current status	Results of trial and effects thereof	Enforcement of judgments	Disclosure date	Disclosure index
The Bank filed a lawsuit in the High Court of the Hong Kong Special Administrative Region on 1 September 2022 regarding a dispute over the agreement with AMTD GLOBAL MARKETS LIMITED.	All entrusted assets under the USD350 million portfolio.	No. The Bank will conduct accounting treatment in accordance with the progress of the litigation and the provisions of the relevant accounting standards.	Officially accepted by the court, but yet to be heard.	N/A. The litigation will not affect the normal operation of the Bank and it is expected that there will be no substantial impact on the profit of the Bank.	N/A	2 September 2022	The Announcement on Litigation published by the Bank on the CNINFO website (Announcement No. 2022-052)

Note: AMTD GLOBAL MARKETS LIMITED has changed its name to orientiert XYZ Securities Limited.

The Bank was not involved in any major litigation or arbitration during the Reporting Period. As at the end of the Reporting Period, the Bank as the complainant was involved in several litigations in the course of its daily operation due to, among other things, the settlement of loans; the Bank as the defendant was involved in 6 pending litigation cases amounting to RMB5.9048 million. The Bank anticipates that these litigations will not have a material adverse impact on its financial or operating results, and no provision arose from the litigation.

SECTION VI SIGNIFICANT EVENTS

VII. PUNISHMENT AND RECTIFICATION

During the Reporting Period, the Bank was not suspected of any crime and subject to investigation according to the law. Its Directors, Supervisors and senior management were not suspected of any crime and imposed compulsory measures according to the law. The Bank, its Directors, Supervisors and senior management did not receive any criminal punishment, or were not suspected of breach of law or regulation and subject to investigation by the CSRC or administrative penalties by the CSRC, or imposed significant administrative penalties by other competent authorities. Directors, Supervisors and senior management of the Bank were not detained by the discipline inspection and supervision authority that prevented him/her from discharging duties due to suspected serious breach of discipline or law or duty-related crimes, or imposed coercive measures by other competent authorities that prevented him/her from discharging duties due to suspected breaches of laws or regulations.

VIII. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

The Bank has no controlling shareholders or de facto controllers. During the Reporting Period, none of the largest shareholders of the Bank or its de facto controller failed to perform obligations determined by any effective court judgment or settle any significant debts that have fallen due.

IX. RELATED PARTY TRANSACTIONS

9.1 Related party transactions during the ordinary course of business

The Bank conducted related party transactions by strictly following the relevant regulations of the regulatory authorities and rules for management of related party transactions formulated by the Bank.

According to the requirements of the NAFR, the Bank reviews and approves related party transactions based on commercial principles and on terms no more favorable than similar transactions with non-related parties. The terms of such transactions are fair and reasonable and in the interests of all shareholders and the Bank as a whole, and there is no negative impact on the operating results and financial position of the Bank. Among which, all credit-related related party transactions were conducted in accordance with relevant laws and regulations, credit granting conditions and the review procedures, and the amount of all the loans was recovered normally.

SECTION VI SIGNIFICANT EVENTS

According to the requirements of the NAFR, during the Reporting Period, there were 8 proposals on material related party transactions approved by the Board, which were transactions with 7 related enterprises of Haier Group and with Qingdao Conson Group. As at the end of the Reporting Period, the Bank's balance of credit-related significant related party transactions was RMB3.311 billion, the details of which are as follows:

Unit: RMB in 100 million

Name of related party	Type of business	Balance of credit-related significant related party transactions	Net credit after deducting margin	Percentage of the net capital as at the end of the Reporting Period
BQD Financial Leasing Company Limited	Interbank borrowing	17.00	17.00	3.86
Qingdao Haiyun Chuangzhi Business Development Co., Ltd. (青島海雲創智商業發展有限公司)	Residential development loan	10.09	10.09	2.29
Haier Financial Factoring (Chongqing) Co., Ltd. (海爾金融保理(重慶)有限公司)	Short-term working capital loan	1.90	1.90	0.43
Qingdao Haili Living Technology Co., Ltd. (青島海驪住居科技股份有限公司)	Supply chain financing	1.53	1.53	0.35
Qingdao Haishanghai Life Service Group Co., Ltd. (青島海尚海生活服務集團有限公司)	Medium-term working capital loan	1.00	1.00	0.23
Haier Group Finance Co., Ltd.	Commercial bill financing	0.74	0.74	0.17
Qingdao Haichen Real Estate Development Co., Ltd. (青島海宸房地產開發有限公司)	Commercial housing development loan	0.35	0.35	0.08
Qingdao No.1 Courtyard Hotel Co., Ltd. (青島壹號院酒店有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Haishanghai Commercial Operation Co., Ltd. (青島海尚海商業運營有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Mindray Ecological Environment Technology Co., Ltd. (青島邁帝瑞生態環境科技有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Haiyu Qingquan Hot Spring Hotel Co., Ltd. (青島海御清泉溫泉酒店有限公司)	Short-term working capital loan	0.10	0.10	0.02
Qingdao Tizhiwang IoT Technology Co., Ltd. (青島梯之網物聯科技有限公司)	Short-term working capital loan	0.10	0.10	0.02

SECTION VI SIGNIFICANT EVENTS

Note: According to the relevant requirements of the NAFR, the proportion of the balance of credit-related significant related party transactions as set out in the above table to the net capital as at the end of the Reporting Period is calculated on the basis of the net capital of the parent company of the Bank.

According to the provisions of the CSRC and SZSE, the Bank has made a forecast of and adjusted the ordinary related party transactions in 2023 and published the Announcement on Estimated Ordinary Related Party Transactions in 2023 (Announcement No.: 2023-018) and the Announcement on Adjusting the Estimated Quota of Ordinary Related Party Transactions in 2023 (Announcement No.: 2023-025) on CNINFO website dated 31 March 2023 and 28 April 2023, respectively. The related party transactions in the Reporting Period have not exceeded the forecast. The details are as follows:

- (1) Haier Group Corporation (海爾集團公司) and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB1,739 million (including the balance of credit-related transactions between BQD Financial Leasing and the related parties of Haier Group of RMB129 million), the balance of deposit transactions at the end of the Reporting Period was RMB369 million, and there were no non-credit related party transactions during the Reporting Period;
- (2) Intesa Sanpaolo S.p.A. and its related parties: There is no balance of credit-related transactions at the end of the Reporting Period, the balance of deposit transactions at the end of the Reporting Period was RMB79 million, and the actual amount of non-credit transactions during the Reporting Period was RMB5 million;
- (3) Qingdao Conson Development (Group) Co., Ltd. and its related parties: The balance of credit-related transactions at the end of the Reporting Period was RMB775 million (including the balance of credit-related transactions between BQD Wealth Management and the related parties of Qingdao Conson Group of RMB575 million), the balance of deposit transactions at the end of the Reporting Period was RMB22 million, and the actual amount of non-credit transactions during the Reporting Period was RMB14 million;
- (4) BQD Financial Leasing: The balance of credit-related transactions at the end of the Reporting Period was RMB1,700 million, the balance of deposit transactions at the end of the Reporting Period was RMB589 million, and the actual amount of non-credit transactions during the Reporting Period was RMB0.01 million;

SECTION VI SIGNIFICANT EVENTS

- (5) BQD Wealth Management: The balance of deposit transactions at the end of the Reporting Period was RMB580 million and the actual amount of other non-credit transactions was RMB938 million;
- (6) Tsingtao Brewery Co., Ltd.: There is no balance of credit-related transactions at the end of the Reporting Period and the balance of deposit transactions at the end of the Reporting Period was RMB3.000 billion;
- (7) Qingdao Rural Commercial Bank Co., Ltd.: The balance of credit-related transactions at the end of the Reporting Period was RMB83 million, there is no balance of deposit transactions at the end of the Reporting Period and there is no actual amount of other non-credit transactions;
- (8) China International Capital Corporation Limited: There is no balance of credit-related transactions at the end of the Reporting Period and the actual amount of other non-credit transactions other than deposits was RMB1 million;
- (9) Triangle Tyre Co., Ltd.: The balance of deposit transactions at the end of the Reporting Period was RMB984 million;
- (10) RemeGen Co., Ltd.: The balance of deposit transactions at the end of the Reporting Period was RMB80 million;
- (11) Related natural persons: The balance of credit-related transactions at the end of the Reporting Period was RMB298 million, and the risk exposure was RMB298 million. The balance of deposit transactions at the end of the Reporting Period was RMB555 million.

During the Reporting Period, the Bank engaged in related party transactions with two related parties that the cumulative amount exceeded 5% of the Bank's most recently audited net assets. These transactions included interbank loans, deposits, agency access system transactions provided to BQD Financial Leasing, and deposit transactions provided to Tsingtao Brewery Co., Ltd. (hereinafter referred to as "Tsingtao Brewery"). These transactions were routine related party transactions expected to occur in 2023. BQD Financial Leasing is a subsidiary of the Bank, while Tsingtao Brewery has JIANG Xinglu, an external supervisor of the Bank, as its independent director.

SECTION VI SIGNIFICANT EVENTS

The Bank provided interbank loans to BQD Financial Leasing on commercial principles and under conditions not more favorable than those offered to non-related parties for similar transactions. As at the end of the Reporting Period, the balance of interbank loans provided by the Bank to BQD Financial Leasing was RMB1.700 billion, accounting for 12.10% of the Bank's interbank lending business. These loans are due for repayment with interest at maturity, and the weighted average interest rate is 3.53%.

The Bank provided deposit transactions to BQD Financial Leasing on commercial principles and under conditions not more favorable than those offered to non-related parties for similar transactions. As at the end of the Reporting Period, the balance of deposits held by BQD Financial Leasing with the Bank was RMB589 million, accounting for 0.16% of the Bank's deposit business. These deposits are demand deposits with quarterly interest payments, and the weighted average deposit interest rate is 1.22%.

The Bank provided agency access system transactions to BQD Financial Leasing on commercial principles and under conditions not more favorable than those offered to non-related parties for similar transactions. During the Reporting Period, the Bank charged fees of RMB10,000 for these services, with an annual agency fee of RMB10,000 payable in a lump sum.

The Bank provided deposit transactions to Tsingtao Brewery on commercial principles and under conditions not more favorable than those offered to non-related parties for similar transactions. As at the end of the Reporting Period, the balance of deposits held by Tsingtao Brewery with the Bank was RMB3 billion, accounting for 0.81% of the Bank's deposit business. These deposits included demand deposits with quarterly interest payments, time deposits with interest paid at maturity, and structured deposits, with a weighted average interest rate of 3.43%.

9.2 Related party transactions in connection with acquisition or sale of assets or equity interest

There were no related party transactions of the Bank in connection with the acquisition or sale of assets or equity interest during the Reporting Period.

9.3 Related party transactions in connection with joint external investment

There were no related party transactions of the Bank in connection with joint external investment during the Reporting Period.

9.4 Related creditors' rights and debts transactions

There were no non-operating related creditors' rights and debts transactions of the Bank during the Reporting Period.

9.5 Transactions with related financial companies

During the Reporting Period, there were no deposits, loans, credit grants or other financial business between the Bank and the financial companies that were related to the Bank. At the end of the Reporting Period, the balance of deposit transactions of Haier Group Finance Co., Ltd. at the Bank was RMB0.5165 million. The facilities of RMB250 million granted by the Bank to Haier Group Finance Co., Ltd. was for holders of bank acceptance bills issued by Haier Group Finance Co., Ltd. to pledge and discount bank acceptance bills with the Bank. The Bank has no direct business with Haier Group Finance Co., Ltd in these transactions.

9.6 Transactions with related parties and financial companies controlled by the Bank

The Bank does not control any financial companies.

9.7 Other significant related party transactions

There were no other significant related party transactions of the Bank during the Reporting Period.

SECTION VI SIGNIFICANT EVENTS

X. MATERIAL CONTRACTS AND IMPLEMENTATION THEREOF

10.1 Custody, contracting and leasing

There was no matter related to custody, contracting, and leasing of assets of other companies by the Bank, or matter related to custody, contracting, and leasing of assets of the Bank by other companies which occurred during the Reporting Period or in previous periods and carried over into the Reporting Period that resulted in gains or losses to the Bank in excess of 10% of its total profit for the year.

10.2 Significant guarantees

The guarantee business is in the ordinary course of the Bank. There was no significant guarantee matter out of the Bank's normal scope of business that needs to be disclosed during the Reporting Period.

10.3 Entrusted wealth management

The Bank did not have any entrusted wealth management out of its normal scope of business during the Reporting Period.

10.4 Other material contracts

There were no other material contracts of the Bank during the Reporting Period.

XI. OTHER MATTERS OF SIGNIFICANCE**11.1 Acquisition, merger and disposal of assets during the Reporting Period**

During the Reporting Period, the Bank did not engage in any material acquisition, merger and disposal of assets.

11.2 Significant commitment and entrusted asset management

During the Reporting Period, save for commitment and entrusted asset management business within the scope of its normal business, the Bank did not have any other significant commitments and entrusted asset management that need to be disclosed. Please refer to the notes to the financial statement of this interim report for the specifics of guarantee and commitments.

11.3 Publishing of interim report

This interim report prepared in both Chinese and English by the Bank in accordance with the International Accounting Standards and Hong Kong Listing Rules is available at the HKEXnews website of the Hong Kong Stock Exchange and the website of the Bank. In case of any discrepancy in interpretation between the two versions, the Chinese version shall prevail. This interim report has been reviewed by the Audit Committee of the Board of Directors.

The half-yearly report in Chinese prepared by the Bank in accordance with the Accounting Standards for Business Enterprises and the semi-annual report compilation rules is available at the website of SZSE and the website of the Bank.

11.4 Representation on compliance with the Hong Kong Listing Rules

The Bank has adopted the required standard set by the Model Code as the code of conduct for securities transactions by its Directors and Supervisors. Having made enquiries to all Directors and Supervisors, the Bank confirmed that they had complied with the above Model Code for the Bank's H-Share transactions during the Reporting Period.

During the Reporting Period, the Bank strictly complied with the provisions set out in the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules, and adopted the recommended best practices as set out therein as appropriate.

SECTION VI SIGNIFICANT EVENTS

XII. MAJOR ISSUES OF THE BANK'S SUBSIDIARIES

During the Reporting Period, the Bank's subsidiaries had no major issues that need to be disclosed.

XIII. REGISTRATION FORM FOR RECEPTION OF ACTIVITIES SUCH AS SURVEYS, COMMUNICATIONS AND INTERVIEWS DURING THE REPORTING PERIOD

Date of reception	Site of reception	Way of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
14 April 2023	Head office of the Bank	On-site survey and online interaction	Institutions	Dai Zhifeng from Zhongtai Securities, Jiang Zhaopeng from China Southern Fund, Liang Fengjie and Zhou Yuan from Zheshang Securities, Fan Haishuo and Li Yue from CITIC CLSA, Ouyang Fangjia from Goldman Sachs Securities, Guo Qiwei and Fu Siyu from Tianfeng Securities, Liao Zhiming from China Merchants Securities, Lin Yuanyuan and Ding Huangshi from BOCI Securities, Yuan Zheqi from Ping An Securities, Chen Shaoxing and Cao Xintong from Industrial Securities, Zhang Yu and Jiang Zhongyu from Guotai Junan Securities, Anna from Huatai Securities, Wu Jiahui from GF Securities, Dong Wenxin from Everbright Securities, Zhang Xiaohui from Western Securities, Hou Dekai from Research Department of CICC, Jiang Songyuan from Guosheng Securities, Ma Zhihao from Northeast Securities, and all kinds of investors who participated in this performance conference through live webcast.	Exchanges on the 2022 performance and operating conditions of the Bank were conducted, and the Bank provided relevant presentations	Please refer to the Investor Relations Activity Record Form and its attachments published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 18 April 2023

SECTION VI SIGNIFICANT EVENTS

Date of reception	Site of reception	Way of reception	Type of recipient	Recipient	Major discussion points and information provided	Index of the basic particulars of the survey
29 May 2023	Head office of the Bank	On-site survey	Institutions	Li Shuang and Chen Huiqin from Essence Securities	Exchanges on the interest spread and interest margin, wealth management, etc. were conducted with the Bank, but the Bank did not provide relevant information.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 31 May 2023
31 May 2023	Head office of the Bank	On-site survey	Institutions	Liu Zhiping and Li Qingyang from Huaxi Securities	Exchanges on the credit allocation, group development, and fee income, etc. were conducted with the Bank, but the Bank did not provide relevant information.	Please refer to the Investor Relations Activity Record Form published by the Bank on CNINFO website (http://www.cninfo.com.cn/) dated 2 June 2023

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHAREHOLDINGS

1.1 Changes in Shareholdings

Unit: share

Item	31 December 2022		Increase/decrease (+/-) during the Reporting Period					30 June 2023	
	Number of shares	Percentage %	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Number of shares	Percentage %
I. Shares with selling restrictions	513,459,937	8.82	-	-	-	-94,766,165	-94,766,165	418,693,772	7.19
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	94,967,581	1.63	-	-	-	-94,967,581	-94,967,581	-	-
3. Shares held by other domestic investors	418,492,356	7.19	-	-	-	201,416	201,416	418,693,772	7.19
Of which: Shares held by domestic non-state-owned legal entities	415,319,196	7.14	-	-	-	-	-	415,319,196	7.14
Shares held by domestic natural individuals	3,173,160	0.05	-	-	-	201,416	201,416	3,374,576	0.06
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
Of which: Shares held by foreign legal entities	-	-	-	-	-	-	-	-	-
Shares held by foreign natural individuals	-	-	-	-	-	-	-	-	-
II. Shares without selling restrictions	5,306,894,787	91.18	-	-	-	94,766,165	94,766,165	5,401,660,952	92.81
1. RMB ordinary shares	3,014,949,313	51.80	-	-	-	94,766,165	94,766,165	3,109,715,478	53.43
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	2,291,945,474	39.38	-	-	-	-	-	2,291,945,474	39.38
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	5,820,354,724	100	-	-	-	-	-	5,820,354,724	100

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Notes:

1. During the Reporting Period, the changes in the Bank's shares were mainly due to the release of selling restrictions for shares issued prior to the issuance of A Shares and the lock-up and unlocking of shares held by the Bank's Directors, Supervisors and senior management personnel in accordance with the laws and regulations. The above changes in the shares do not involve any regulatory approval or share transfer.
2. The Bank did not conduct share repurchase during the Reporting Period.
3. During the Reporting Period, there was no change in the total number of shares of the Bank and the changes in shares shown above had no impact on the financial indicators.

1.2 Changes of Shares with Selling Restrictions

On 29 June 2023, a total of 94,967,581 shares in issue prior to the initial public offering of A Shares were released. For details, please refer to the Indicative Announcement for the Listing and Circulation of Shares Issued Prior to the Initial Public Offering of A Shares which was published by the Bank on CNINFO website dated 27 June 2023 (Announcement No.: 2023-031).

Name of shareholders	Number of restricted shares at the beginning of the period	Number of restricted shares released during the period	Number of restricted shares increased during the period	Number of restricted shares at the end of the period	Reason for the lock-up	Date of releasing the restricted shares
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (青島華通國有資本投資運營集團有限公司)	94,967,581	94,967,581	-	-	In compliance with banking regulatory requirements, as described in the note below	29 June 2023
Total	94,967,581	94,967,581	-	-	-	-

Note: The shares above were acquired by the Bank's shareholder Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (formerly known as Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd., hereinafter referred to as "Huatong Group") through share transfer on 29 June 2018 prior to the listing of the Bank's A Shares. Since Huatong Group had appointed shareholder Supervisors to the Bank when the shares were transferred, Huatong Group was a major shareholder of the Bank pursuant to the Interim Measures for the Equity Management of Commercial Banks, whom had made its written undertaking that such shares should not be transferred within five years from the date of acquiring its shareholdings.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

II. SECURITIES ISSUANCE AND THE LISTING

During the Reporting Period, the Bank did not issue any new ordinary and preference shares, and there were no public offerings of corporate bonds to be listed on stock exchanges.

III. NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS IN THE BANK

Unit: share

Total number of ordinary shareholders at the end of the Reporting Period	67,034	Total number of preference shareholders whose voting rights were resumed at the end of the Reporting Period	-
--	--------	---	---

Shareholdings of ordinary shareholders who hold more than 5% of the shares or shareholdings of the top ten ordinary shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of ordinary shares held as at the end of Reporting Period	Increase or decrease during the Reporting Period	Number of ordinary shares with selling restrictions held	Number of ordinary shares without selling restrictions held	Status of shares	Number of shares
Hong Kong Securities Clearing Company Nominees Limited (香港中央結算(代理人)有限公司)	Overseas legal entity	21.87%	1,272,956,224	1,000	-	1,272,956,224	Unknown	Unknown
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	Overseas legal entity	17.50%	1,018,562,076	-	-	1,018,562,076	-	-
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	State-owned legal entity	11.25%	654,623,243	-	-	654,623,243	-	-
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	Domestic non-state-owned legal entity	9.15%	532,601,341	-	409,693,339	122,908,002	-	-
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	Domestic non-state-owned legal entity	4.88%	284,299,613	-	-	284,299,613	-	-
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	Domestic non-state-owned legal entity	3.25%	188,886,626	-	-	188,886,626	-	-
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	Domestic non-state-owned legal entity	2.99%	174,083,000	-	-	174,083,000	-	-
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (青島華通國有資本投資運營集團有限公司)	State-owned legal entity	2.12%	123,453,855	16,000	-	123,453,855	-	-
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	Domestic non-state-owned legal entity	2.09%	121,600,000	-	-	121,600,000	Pledged Marked	121,600,000 121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	Domestic non-state-owned legal entity	2.03%	118,217,013	-	-	118,217,013	-	-
Strategic investors or general legal entities becoming one of the top ten ordinary shareholders of the Bank as a result of placing of new shares		N/A						

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Description of the related relationships or acting in concert among the above shareholders	Qingdao Haier Industrial Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group. Among the abovementioned shareholders, the Bank is not aware of any other related relationships among other shareholders or whether they are parties acting in concert.
Description of the voting rights entrusted by the above shareholders, the voting rights the above shareholders are entrusted with, the voting the above shareholders abstained from	Among the abovementioned shareholders, Qingdao Haier Industrial Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares.
Special description of the existence of a specific repurchase account among the top ten shareholders	N/A

Shareholdings of the top ten shareholders without selling restrictions

Name of shareholders	Reporting Period	Types of shares	Number of ordinary shares held without selling restrictions as at the end of the	Number
Hong Kong Securities Clearing Company Nominees Limited (香港中央結算(代理人)有限公司)	1,272,956,224	Overseas listed foreign shares		1,272,956,224
Intesa Sanpaolo S.p.A. (意大利聯合聖保羅銀行)	1,018,562,076	Overseas listed foreign shares		1,018,562,076
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	654,623,243	RMB ordinary shares		654,623,243
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	284,299,613	RMB ordinary shares		284,299,613
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	188,886,626	RMB ordinary shares		188,886,626
Qingdao Hairen Investment Co., Ltd. (青島海仁投資有限責任公司)	174,083,000	RMB ordinary shares		174,083,000
Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. (青島華通國有資本投資運營集團有限公司)	123,453,855	RMB ordinary shares		123,453,855
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	122,908,002	RMB ordinary shares		122,908,002
Shandong Sanliyuan Economics and Trade Co., Ltd. (山東三利源經貿有限公司)	121,600,000	RMB ordinary shares		121,600,000
Qingdao Jifa Group Co., Ltd. (青島即發集團股份有限公司)	118,217,013	RMB ordinary shares		118,217,013

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Explanation on the related relationships or acting in concert among the top ten ordinary shareholders without selling restrictions and that between the top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders	<p>Qingdao Haier Industrial Development Co., Ltd., Qingdao Haier Air-Conditioner Electronics Co., Ltd. and Haier Smart Home Co., Ltd. are all under Haier Group, and Qingdao Haier Industrial Development Co., Ltd. and Qingdao Haier Air-Conditioner Electronics Co., Ltd. have entrusted Haier Smart Home Co., Ltd. to exercise the voting rights of the shareholders corresponding to their shares. The Bank is not aware of any related relationships or acting in concert among the remaining top ten ordinary shareholders without selling restrictions and that between the remaining top ten ordinary shareholders without selling restrictions and the top ten ordinary shareholders.</p>
Explanation on the margin trading and securities lending by top ten ordinary shareholders	<ol style="list-style-type: none">1. The Bank is not aware of margin trading and securities lending business and refinancing business by holder of shares in which Hong Kong Securities Clearing Company Nominees Limited acts as an agent;2. During the Reporting Period, Qingdao Huatong State-owned Capital Operation (Group) Co., Ltd. engaged in refinancing business, while refraining from involvement in margin trading and securities lending business. The changes in its shareholdings during the Reporting Period was due to its participation in refinancing business;3. Except for the above, as at the end of the Reporting Period, the remaining shareholders among the top ten ordinary shareholders did not participate in margin trading and securities lending business and refinancing business.
Notes	<ol style="list-style-type: none">1. Among the total number of ordinary shareholders as at the end of the Reporting Period, there are 66,886 A Share shareholders and 148 H Share registered shareholders;2. The shares held by Hong Kong Securities Clearing Company Nominees Limited are the total number of shares in the Bank's H shareholders accounts traded on the trading platform of Hong Kong Securities Clearing Company Nominees Limited by it as an agent;3. As at the end of the Reporting Period, Intesa Sanpaolo S.p.A., as a H Share registered shareholder of the Bank, held 1,015,380,976 H Shares, and the remaining 3,181,100 H Shares were agented to and under the name of Hong Kong Securities Clearing Company Nominees Limited. In this table, the agent shares have been deducted from the number of shares held by Hong Kong Securities Clearing Company Nominees Limited;4. The top 10 ordinary shareholders and the top 10 ordinary shareholders without selling restrictions of the Bank did not conduct transactions on agreed repurchases during the Reporting Period.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

IV. CHANGES IN SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Status of office	Shareholding	Increase of	Decrease of	Shareholding at the end of the Period (shares)	Restricted shares granted at the beginning of the Period (shares)	Restricted shares granted during the Period (shares)	Restricted shares granted at the end of the Period (shares)
			at the beginning of the Period (shares)	shareholding for the Period (shares)	shareholding for the Period (shares)				
YANG Fengjiang	Chief Supervisor	Incumbent	650,000	-	-	650,000	-	-	-
MENG Xianzheng	Employee Supervisor	Incumbent	481,391	-	-	481,391	-	-	-
CHEN Shuang	Vice President	Incumbent	455,000	-	-	455,000	-	-	-
TAN Lixia	Non-executive Director	Incumbent	487	-	487	-	-	-	-
Total	-	-	1,586,878	-	487	1,586,391	-	-	-

So far as the Directors, Supervisors and chief executives of the Bank are aware, as at the end of the Reporting Period, the Directors, Supervisors and chief executives who had interests and short positions in the issued share capital, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests and short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Name of Director/ Supervisor/ chief executive	Type of shares	Capacity	Number of shares held	Percentage		Long position/ Short position
				of the total number of ordinary shares ^{Note}	Percentage of the total number of A Shares ^{Note}	
YANG Fengjiang	A Shares	Beneficial owner	650,000	0.01%	0.02%	Long position
MENG Xianzheng	A Shares	Beneficial owner	481,391	0.01%	0.01%	Long position

Note: The aforementioned percentages are calculated according to the total number of shares of 5,820,354,724 shares and the total number of A Shares of 3,528,409,250 shares of the Bank at the end of the Reporting Period.

Saved as mentioned above, so far as the Directors, Supervisors and chief executives of the Bank are aware, as of the date of publication of this report, there was no other person who had any interests or short positions in the shares, debentures or equity derivatives of the Bank which are required to be recorded in the register referred to in section 352 of the SFO, or interests and short positions which are required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

V. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

As at the end of the Reporting Period, the Bank did not have any controlling shareholder or de facto controller.

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

During the Reporting Period, the Company had not purchased, sold and redeemed any listed securities of the Bank.

VII. SUBSTANTIAL SHAREHOLDERS OF THE BANK

7.1 Shareholders holding more than 5% of the shares at ultimate controlling level

1. *Haier Group Corporation*

Haier Group Corporation was established on 24 March 1980 with its legal representative of ZHOU Yunjie and a registered capital of RMB311.18 million. It is mainly engaged in technology development, technology consultancy, technology transfer, technology services, including industrial internet, etc.; data processing; engaged in digital technology, intelligent technology, software technology; research and development, sales and after-sales services of robots and automation equipment products; logistics information services; the research and development and sales of intelligent household equipment and solution system software technology; the production of household appliances, electronic products, communication equipment, electronic computers and accessories, general machinery, kitchen appliances and robots for industrial purpose; domestic commercial (excluding national restricted, licensed and controlled commodities) whole sale and retail; export and import business; economic technology consultancy; and research, development and transfer of technological achievements; lease of self-owned properties.

Haier Group is a world's leading provider of better life solutions. It is committed to working with the world's first-class ecological partners to continue building high-end brands, scenario-based brands and ecological brands, building an IoT ecosystem covering clothing, food, housing, transportation, health care, medical and education, etc., and customizing personalized smart life for global users.

As at the end of the Reporting Period, Haier Group Corporation held a total of 1,055,878,943 A Shares of the Bank via eight companies within the group, which accounted for 18.14% of the total ordinary share capital. The above shares were not pledged or frozen. These eight companies were persons acting in concert. The ultimate beneficiary of Haier Group Corporation is itself. Haier Group Corporation has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, the balance of the Bank's credit-related significant related party transactions² with Haier Group was RMB1,610 million. No deposit-related or other non-credit-related significant related party transactions occurred as at the end of the Reporting Period.

²Note: the related party transaction data mentioned in this part is calculated according to the caliber stipulated by the NAFFR.

2. Intesa Sanpaolo S.p.A.

Intesa Sanpaolo S.p.A. was established on 5 January 2007 (through merger of Banca Intesa S.p.A. (意大利聯合銀行) and Sanpaolo IMI S.p.A. (意大利聖保羅意米銀行)) with its legal representative of Gian Maria GROS-PIETRO and a registered capital of EUR10,369 million. Intesa Sanpaolo S.p.A. is a multi-national bank headquartered in Turin, Italy. It is one of the most prominent players of the Eurozone's banking industry as well as the industry-leader of Italy's retail banking, corporate banking business and wealth management businesses. Intesa Sanpaolo S.p.A. has a total of approximately 3,500 branches in Italy, providing approximately 13.60 million customers with high-quality service. Intesa Sanpaolo S.p.A. has established a strategic international layout, including approximately 950 branches serving 7.10 million customers, commercial banking in 12 countries and an international and professional service network for corporate customers in 25 countries.

As at the end of the Reporting Period, Intesa Sanpaolo S.p.A. held 1,018,562,076 H Shares of the Bank, which accounted for 17.50% of the total ordinary share capital. The above shares were not pledged or frozen. Intesa Sanpaolo S.p.A. has no controlling shareholders, no de facto controllers, no persons acting in concert, and its ultimate beneficiary is itself. Intesa Sanpaolo S.p.A. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there was no significant related party transaction between the Bank and Intesa Sanpaolo S.p.A.

3. Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)

Qingdao Conson Development (Group) Co., Ltd. was established on 17 July 2008 with its legal representative of WANG Jianhui and a registered capital of RMB3 billion. It is mainly engaged in the investment, construction and operation of major urban and rural infrastructure projects, and major public welfare projects of the government; business services such as real estate, tourism and land development, as well as non-banking financial services.

Qingdao Conson Development (Group) Co., Ltd. is a wholly-state-owned company contributed by the State-owned Assets Supervision and Administration Commission of Qingdao Municipal Government on behalf of the Qingdao Municipal People's Government. Since its establishment, the group has followed the urban development strategy, undertaken the mission of urban development, played a backbone and leading role and formed a "3+X" industrial structure with ocean, finance and urban development as its core businesses, and culture and sports, exhibition hotels, property services, food operations, information technology and other operational services as its functional support, and has eight core tier-1 subsidiaries and one listed company. The group has a domestic main credit rating of AAA and an international credit rating of BBB+ (Fitch) and has been assessed as an A-class enterprise by the Qingdao State-owned Assets Supervision and Administration Commission for many consecutive years.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

As at the end of the Reporting Period, Qingdao Conson Development (Group) Co., Ltd. held a total of 872,471,173 shares of the Bank via three subsidiaries, including 654,623,893 A Shares and 217,847,280 H Shares, which together accounted for 14.99% of the total ordinary share capital. The above shares were not pledged or frozen. The controlling shareholder and the de facto controller of Qingdao Conson Development (Group) Co., Ltd. is the State-owned Assets Supervision and Administration Committee of the Qingdao Municipal People's Government. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao Conson Development (Group) Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. As at the end of the Reporting Period, there is no balance of significant related transactions between the Bank and Qingdao Conson Group.

7.2 Other substantial shareholders under the regulatory caliber

Qingdao East Steel Tower Stock Co., Ltd. was established on 1 August 1996 with its legal representative of HAN Fangru and a registered capital of RMB1.244 billion. It is a company listed on the SZSE (stock code: 002545). It underwent restructuring in 2016 and was transformed into a listed company with dual main businesses in steel structure and potash fertilizer industry.

As at the end of the Reporting Period, Qingdao East Steel Tower Stock Co., Ltd. held 174,083,000 A Shares of the Bank via its subsidiary, Qingdao Hairen Investment Co., Ltd., accounting for 2.99% of the total ordinary share capital. The above shares were not pledged or frozen. Qingdao East Steel Tower Co., Ltd. accredited a supervisor to the Bank. Pursuant to the provisions of the NAFR, it is a substantial shareholder of the Bank. The controlling shareholder and de facto controller of Qingdao East Steel Tower Stock Co., Ltd. is HAN Huiru. It has no persons acting in concert, and its ultimate beneficiary is itself. Qingdao East Steel Tower Stock Co., Ltd. has declared to the Bank related parties in accordance with regulatory requirements. During the Reporting Period, there were no significant related party transactions between the Bank and Qingdao East Steel Tower Stock Co., Ltd.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

VIII. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at the end of the Reporting Period, the Bank was informed by the following persons of their interests and short positions in the issued shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO as follows:

Name of shareholders	Notes	Type of		Number of shares held	Approximate percentage of the total share capital ⁽⁹⁾	Approximate percentage of the total number of A Shares ⁽⁹⁾	Approximate percentage of the total number of H Shares ⁽⁹⁾	Long/short position
		shares	Capacity					
Haier Group Corporation (海爾集團公司)	1	A Shares	Interest of controlled corporation	1,055,878,943	18.14	29.93	-	Long
Haier Kaaosi Co., Ltd. (海爾卡奧斯股份有限公司)	2	A Shares	Interest of controlled corporation	532,601,341	9.15	15.09	-	Long
Qingdao Haier Industrial Development Co., Ltd. (青島海爾產業發展有限公司)	2	A Shares	Beneficial owner	532,601,341	9.15	15.09	-	Long
Haier Smart Home Co., Ltd. (海爾智家股份有限公司)	-	A Shares	Beneficial owner	188,886,626	3.25	5.35	-	Long
			Interest of controlled corporation	318,085,033	5.46	9.01	-	Long
Qingdao Haier Air-Conditioner Electronics Co., Ltd. (青島海爾空調電子有限公司)	-	A Shares	Beneficial owner	284,299,613	4.88	8.06	-	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	3	A Shares	Interest of controlled corporation	654,623,893	11.25	18.55	-	Long
Qingdao Conson Industrial Co., Ltd. (青島國信實業有限公司)	3	A Shares	Beneficial owner	654,623,243	11.25	18.55	-	Long
Intesa Sanpaolo S.p.A.	-	H Shares	Beneficial owner	1,018,562,076	17.50	-	44.44	Long
AMTD Group Company Limited	4	H Shares	Interest of controlled corporation	225,033,531	3.87	-	9.82	Long

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Name of shareholders	Notes	Type of		Number of shares held	Approximate percentage of the total share capital ⁽⁹⁾	Approximate percentage of the total number of A Shares ⁽⁹⁾	Approximate percentage of the total number of H Shares ⁽⁹⁾	Long/short position
		shares	Capacity					
AMTD Strategic Investment Limited	4	H Shares	Beneficial owner	196,882,000	3.38	-	8.59	Long
AMTD Investment Solutions Group Limited	4	H Shares	Beneficial owner	28,151,531	0.48	-	1.23	Long
Jinan Binhe New District Constructive Investment Group Co., Ltd. (濟南濱河新區建設投資集團有限公司)	-	H Shares	Beneficial owner	200,000,000	3.44	-	8.73	Long
Qingdao Conson Development (Group) Co., Ltd. (青島國信發展(集團)有限責任公司)	5	H Shares	Interest of controlled corporation	217,847,280	3.74	-	9.50	Long
Qingdao Conson Financial Holdings Co., Ltd. (青島國信金融控股有限公司)	5	H Shares	Interest of controlled corporation	217,847,280	3.74	-	9.50	Long
Haitian (HK) Holdings Limited (海天(香港)控股有限公司)	5	H Shares	Beneficial owner	217,847,280	3.74	-	9.50	Long
Guosen Securities Company Limited (國信證券股份有限公司) on behalf of Guosen Securities QDII Huisheng No.6 Single Asset Management Scheme	-	H Shares	Investment manager	231,618,500	3.98	-	10.11	Long
Ji'nan Pioneer Investment Group Co., Ltd. (濟南先行投資集團有限責任公司)	-	H Shares	Beneficial owner	231,618,500	3.98	-	10.11	Long

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

Notes:

- (1) 1,055,878,943 shares of the Bank are held by Haier Group Corporation via its directly or indirectly controlled companies.
- (2) 532,601,341 shares of the Bank are directly held by Qingdao Haier Industrial Development Co., Ltd., which is 100% owned by Haier Kaaosi Co., Ltd. Therefore, Haier Kaaosi Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Haier Industrial Development Co., Ltd.
- (3) Qingdao Conson Industrial Co., Ltd. is 100% owned by Qingdao Conson Development (Group) Co., Ltd. Therefore, Qingdao Conson Development (Group) Co., Ltd. is deemed to be interested in all the shares of the Bank held by Qingdao Conson Industrial Co., Ltd.
- (4) AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited hold 196,882,000 shares and 28,151,531 shares of the Bank respectively. AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited are controlled by AMTD Group Company Limited. Therefore, AMTD Group Company Limited is deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices in relation to the relevant event on 26 June 2020 submitted by L.R. Capital Financial Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited holds 61.57% interest in AMTD Group Company Limited, and L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited indirectly holds interest in AMTD Group Company Limited through a controlled corporation. Therefore, L.R. Capital Financial Holdings Limited, L.R. Capital MNP Limited and L.R. Capital Management Company (Cayman) Limited are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited.

According to the disclosure of interests notices in relation to the relevant event on 18 September 2017 submitted by CM International Capital Limited, CM International Capital Limited (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司), CM International Capital Limited holds 34.10% interest in L.R. Capital Financial Holdings Limited, CM International Capital Limited is 100% owned by CM International Capital Limited (中民國際資本有限公司), and CM International Capital Limited (中民國際資本有限公司) is 100% owned by China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司). Therefore, CM International Capital Limited, CM International Capital Limited (中民國際資本有限公司) and China Minsheng Investment Co., Ltd. (中國民生投資股份有限公司) are deemed to be interested in all the shares of the Bank held by AMTD Strategic Investment Limited and AMTD Investment Solutions Group Limited (i.e. 401,800,000 H Shares (long position) in the capacity of controlled corporation) at that time.

SECTION VII CHANGES IN SHAREHOLDINGS AND INFORMATION ON SHAREHOLDERS

- (5) Haitian (HK) Holdings Limited holds 217,847,280 H Shares of the Bank. To the best of the Bank's knowledge, Haitian (HK) Holdings Limited is wholly-owned by Qingdao Conson Financial Holdings Co., Ltd. which is 90.27% owned by Qingdao Conson Development (Group) Co., Ltd.
- (6) Save as disclosed in the above table, according to the disclosure of interests notice in relation to the relevant event on 26 June 2020 submitted by Ariana Capital Investment Limited, Ariana Capital Investment Limited was interested in 176,766,469 H Shares of the Bank directly held by it. As of the Latest Practicable Date for the issue of this report, no other disclosure of interests notices have been submitted by them.
- (7) Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Bank upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Bank are not required to inform the Bank and the Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between shareholders' latest shareholdings in the Bank and the shareholdings submitted to the Hong Kong Stock Exchange.
- (8) Save as disclosed in the above table, according to the disclosure of interests notice in relation to the relevant event on 12 September 2017 submitted by Goncius I Limited, Goncius I Limited was interested in 488,911,765 H Shares of the Bank as beneficial owner, accounting for approximately 8.40% of the total number of shares of the Bank and approximately 21.33% of the total number of H Shares in issue of the Bank respectively;
- (9) As at 30 June 2023, the number of the Bank's total issued ordinary shares, A Shares and H Shares are 5,820,354,724 shares, 3,528,409,250 shares and 2,291,945,474 shares, respectively.

As at the end of the Reporting Period, save as disclosed above, in so far as the Directors, Supervisors and chief executives of the Bank are aware, there is no person who had an interest and short position in the shares, underlying shares or equity derivatives of the Bank which are required to be recorded in the register to be kept under section 336 of the SFO.

SECTION VIII PREFERENCE SHARES

As at the end of the Reporting Period, the Bank had no outstanding preference shares.

SECTION IX EMPLOYEES AND INSTITUTIONS

I. EMPLOYEES AND HUMAN RESOURCES MANAGEMENT

1.1 Details of Employees

Number of employees on the payroll of the parent company (persons)	4,634
Number of employees on the payroll of the major subsidiaries (persons)	157
Total number of employees on the payroll (persons)	4,791

Composition by profession

Composition by profession category	Number of composition by profession (persons)
Management personnel	372
Business personnel	3,579
General administrative personnel	840
Total	4,791

Education background

Education background category	Number (persons)
Master's degree or above	1,054
Bachelor's degree	3,202
College graduates or below	535
Total	4,791

1.2 Policy on Employee Remuneration

Currently, the Bank has established a market-oriented remuneration system that is based on a position-specific salary regime, under which employee remuneration is linked to the responsibilities, requirements and importance of the position and the results of performance appraisal. The Bank strictly implements the relevant requirements for the supervision of remuneration payment, and has established a mechanism related to performance-based remuneration deferred payment and recourse and deduction and implements deferred payment for middle and senior management staff. The formulation and implementation of the annual remuneration scheme of the Bank are determined in strict accordance with the annual salary budget approved by the Board of Directors.

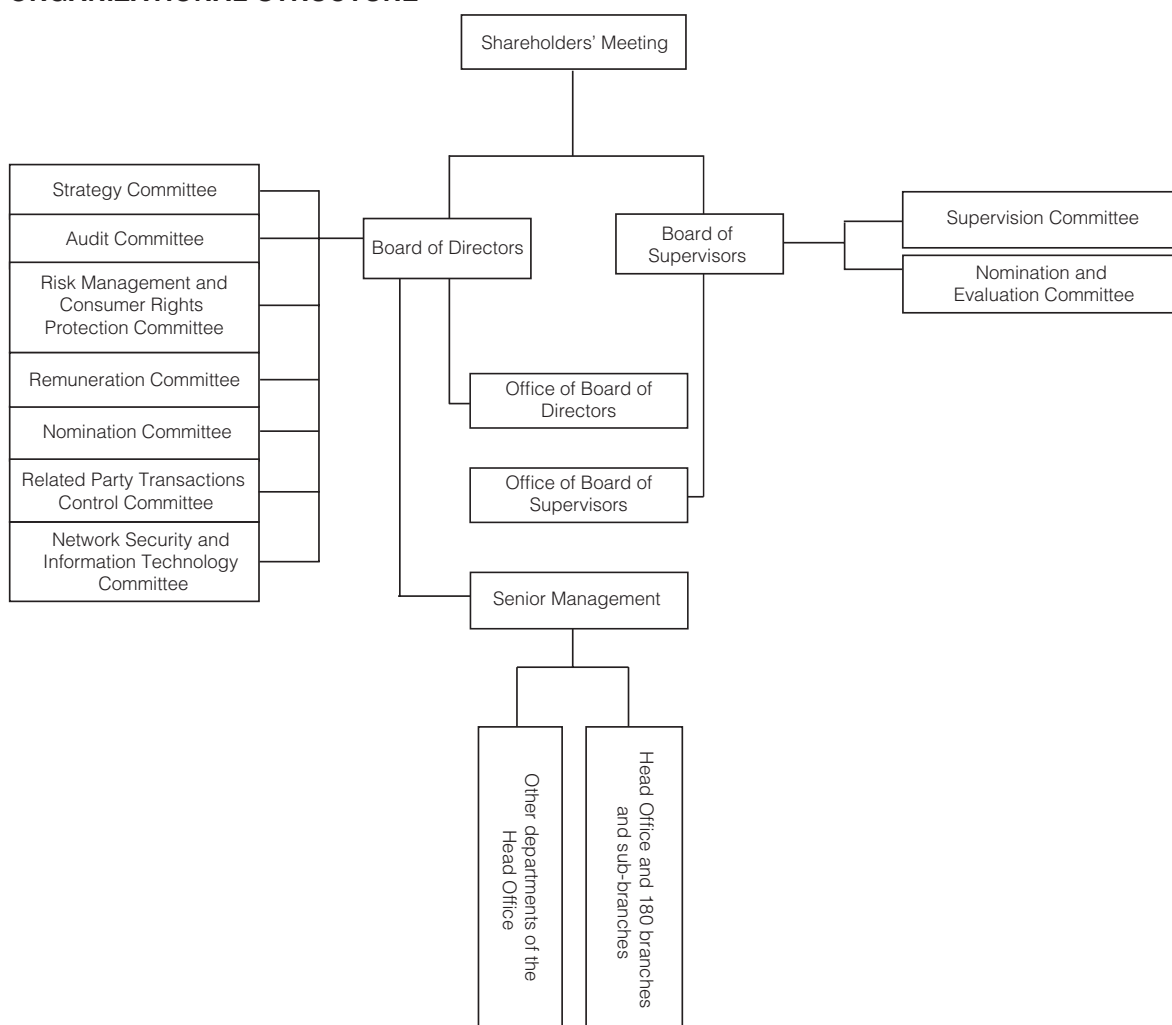
The Bank has formulated scientific evaluation measures, and utilizes such measures as a guideline to optimize resources allocation, actively mobilize employees' initiatives, so as to enhance the Bank's overall efficiency. Employees' performance-based remuneration of the Bank is decided based on the performance evaluation results of the whole Bank, the institutions or departments they work in and their own.

SECTION IX EMPLOYEES AND INSTITUTIONS

1.3 Training for Employees

According to the three-year strategic plan and with an aim of building a multi-level and comprehensive staff capacity development and management system, the Bank incorporated various aspects, including the Party building, “anti-corruption” promotion, business development priorities, talent cultivation and employee development, into the training-related work. In addition, the Bank has set up a special online learning section named “Anti-corruption of BQD (青銀清風)” by continuously carrying out business-oriented specific training, organizing “Solid Foundation Course (強基課程)” as well as recording and publishing online training courses. With a focus on the implementation of the Four Training Plan comprising “Commence (起航)”, “Development (續航)”, “Guidance (引航)” and “Pursuit (遠航)”, the Bank also organized specific training applicable to middle and senior management, management trainees, social recruiting employees, employees transferring to other positions, new employees and internal trainers.

II. ORGANIZATIONAL STRUCTURE



SECTION IX EMPLOYEES AND INSTITUTIONS

III. BRANCHES AND SUB-BRANCHES

No.	Name of branch/sub-branch	Business address	Institutions under its administration	No. of staff (persons)	Total assets (RMB100 million)
1	In Qingdao	–	1 head office, 1 branch and 103 sub-branches	1,702	3,998.79
2	Jinan Branch	Building 6, Yinfeng Fortune Plaza, No. 1 Longaoxi Road, Lixia District, Jinan	10 sub-branches under it	307	278.69
3	Dongying Branch	No. 72 Fuqian Avenue, Dongying District, Dongying	6 sub-branches under it	154	85.79
4	Weihai Branch	No. 112, No. 3-4 Shichang Avenue, Weihai	8 sub-branches under it	198	239.99
5	Zibo Branch	No. 266 Liantong Road, Zhangdian District, Zibo	4 sub-branches under it	140	140.04
6	Dezhou Branch	No. 717 Dexing Middle Avenue, Decheng District, Dezhou	4 sub-branches under it	109	66.15
7	Zaozhuang Branch	Dexin Plaza, No. 2166 Hexie Road, Xuecheng District, Zaozhuang	6 sub-branches under it	111	76.33
8	Yantai Branch	Hongyuan Business Building, No. 29 Jinshajiang Road, Development Zone, Yantai	6 sub-branches under it	155	134.78
9	Binzhou Branch	No. 471 Huanghe 8th Road, Bincheng District, Binzhou	3 sub-branches under it	73	79.46
10	Weifang Branch	Room 124, Building 7, No. 6636 Fushou East Street, Kuiwen District, Weifang	5 sub-branches under it	129	141.53
11	Laiwu Branch	No. 57, Wanfu North Road, Laiwu District, Jinan	1 sub-branch under it	58	23.71
12	Linyi Branch	Building 9, Hongxing International Plaza, Intersection of Jinan Road and Xiaohe Road, Beicheng New District, Linyi	3 sub-branch under it	102	81.62
13	Jining Branch	Welfare Lottery Building, No. 24 Hongxing Middle Road, Jining	2 sub-branch under it	74	111.75
14	Taian Branch	No. 237 Dongyue Street, Taian	2 sub-branch under it	67	30.21
15	Heze Branch	North side of East Gate of Jindu Huating, middle section of Renmin Road, Heze	1 sub-branch under it	43	24.35
16	Rizhao Branch	No. 79 Tai'an Road, Qinlou Street, Donggang District, Rizhao	–	49	21.78

Review report to the board of directors of Bank of Qingdao Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 132 to 230 which comprises the consolidated statement of financial position of Bank of Qingdao Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2023 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 August 2023

SECTION XI UNAUDITED INTERIM FINANCIAL REPORT

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2023 (unaudited)	2022 (unaudited)
Interest income		10,251,650	9,758,810
Interest expense		(5,742,239)	(5,784,060)
Net interest income	3	4,509,411	3,974,750
Fee and commission income		1,181,856	980,635
Fee and commission expense		(241,823)	(144,790)
Net fee and commission income	4	940,033	835,845
Net trading (losses)/gains	5	(104,644)	422,623
Net gains arising from investments	6	948,234	951,323
Other operating income	7	77,777	26,799
Operating income		6,370,811	6,211,340
Operating expenses	8	(1,774,676)	(1,822,459)
Credit losses	9	(1,809,832)	(2,058,483)
Impairment losses on other assets		—	(6,027)
Profit before taxation		2,786,303	2,324,371
Income tax expense	10	(378,767)	(264,037)
Net profit for the period		2,407,536	2,060,334
Net profit attributable to:			
Equity shareholders of the Bank		2,335,704	2,018,395
Non-controlling interests		71,832	41,939
Basic and diluted earnings per share (in RMB)	11	0.40	0.36

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	<i>Note</i>	Six months ended 30 June	
		2023 (unaudited)	2022 (unaudited)
Net profit for the period		2,407,536	2,060,334
Other comprehensive income:			
Item that will not be reclassified to profit or loss			
– Remeasurement of defined benefit liability	37(4)	(1,642)	–
Items that may be reclassified subsequently to profit or loss			
– Changes in fair value of financial assets measured at fair value through other comprehensive income	37(4)	628,855	(71,408)
– Credit losses of financial assets measured at fair value through other comprehensive income	37(4)	90,764	(7,604)
Other comprehensive income, net of tax		717,977	(79,012)
Total comprehensive income for the period		3,125,513	1,981,322
Total comprehensive income attributable to:			
Equity shareholders of the Bank		3,053,681	1,939,383
Non-controlling interests		71,832	41,939

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2023 (unaudited)	31 December 2022 (audited)
Assets			
Cash and deposits with central banks	12	25,266,281	27,825,306
Deposits with banks and other financial institutions	13	2,129,920	2,301,037
Placements with banks and other financial institutions	14	12,879,648	8,432,022
Derivative financial assets	15	104,771	108,376
Financial assets held under resale agreements	16	7,985,878	–
Loans and advances to customers	17	281,776,342	262,518,662
Financial investments:			
– Financial investments measured at fair value through profit or loss	18	45,862,730	47,259,762
– Financial investments measured at fair value through other comprehensive income	19	109,217,172	96,678,701
– Financial investments measured at amortised cost	20	55,234,085	58,202,665
Long-term receivables	22	16,571,885	15,280,949
Property and equipment	23	3,498,738	3,466,386
Right-of-use assets	24	835,413	826,958
Deferred tax assets	25	3,477,659	3,446,343
Other assets	26	3,560,385	3,266,825
Total assets		568,400,907	529,613,992
Liabilities			
Borrowings from central banks	27	16,601,746	13,256,605
Deposits from banks and other financial institutions	28	1,036,697	6,439,660
Placements from banks and other financial institutions	29	19,110,941	17,808,095
Derivative financial liabilities	15	470,263	188,147
Financial assets sold under repurchase agreements	30	35,076,358	25,634,354
Deposits from customers	31	377,736,593	348,043,307
Income tax payable		525,328	703,876
Debt securities issued	32	74,318,662	74,866,951
Lease liabilities	33	536,625	515,043
Other liabilities	34	4,200,143	5,564,659
Total liabilities		529,613,356	493,020,697

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

as at 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	30 June 2023 (unaudited)	31 December 2022 (audited)
Equity			
Share capital	35	5,820,355	5,820,355
Other equity instruments			
Including: perpetual bonds	36	6,395,783	6,395,783
Capital reserve	37(1)	10,687,634	10,687,634
Surplus reserve	37(2)	2,388,248	2,388,248
General reserve	37(3)	6,618,047	6,618,047
Other comprehensive income	37(4)	801,703	83,726
Retained earnings	38	5,226,966	3,822,519
<hr/>			
Total equity attributable to equity shareholders of the Bank		37,938,736	35,816,312
Non-controlling interests		848,815	776,983
<hr/>			
Total equity		38,787,551	36,593,295
<hr/>			
Total liabilities and equity		568,400,907	529,613,992

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

Jing Zailun
Legal Representative
(Chairman)

Wu Xianming
President

Chen Shuang
Vice President in charge
of finance function

Li Zhenguo
General Manager of the
Planning & Finance Department

(Company Stamp)

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

For the six months ended 30 June 2023

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2023		5,820,355	6,395,783	10,687,634	2,388,248	6,618,047	83,726	3,822,519	35,816,312	776,983	36,593,295
Total comprehensive income		-	-	-	-	-	717,977	2,335,704	3,053,681	71,832	3,125,513
Appropriation of profit:											
- Dividends	38	-	-	-	-	-	-	(931,257)	(931,257)	-	(931,257)
Balance at 30 June 2023 (unaudited)		5,820,355	6,395,783	10,687,634	2,388,248	6,618,047	801,703	5,226,966	37,938,736	848,815	38,787,551

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

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

For the six months ended 30 June 2022

	Attributable to equity shareholders of the Bank										
	Note	Share capital	Other equity instrument	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2022		4,509,690	7,853,964	8,337,869	2,103,883	5,576,461	746,499	3,507,129	32,635,495	692,233	33,327,728
Total comprehensive income		-	-	-	-	-	(79,012)	2,018,395	1,939,383	41,939	1,981,322
Shareholders' contributions of capital:											
- Contribution by ordinary shareholders	35	1,310,665	-	2,843,641	-	-	-	-	4,154,306	-	4,154,306
Appropriation of profit:											
- Dividends	38	-	-	-	-	-	-	(931,257)	(931,257)	-	(931,257)
Balance at 30 June 2022 (unaudited)		5,820,355	7,853,964	11,181,510	2,103,883	5,576,461	667,487	4,594,267	37,797,927	734,172	38,532,099

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the six months ended 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

For the year ended 31 December 2022

	Attributable to equity shareholders of the Bank											
	Note	Share capital	Other equity instruments		Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Sub-total	Non-controlling interests	Total equity
			Preference shares	Perpetual bonds								
Balance at 1 January 2022		4,509,690	7,853,964	-	8,337,869	2,103,883	5,576,461	746,499	3,507,129	32,635,495	692,233	33,327,728
Total comprehensive income		-	-	-	-	-	-	(662,773)	3,082,775	2,420,002	84,750	2,504,752
Capital injection and deduction by shareholders:												
- Capital injection by ordinary shareholders	35	1,310,665	-	-	2,844,140	-	-	-	-	4,154,805	-	4,154,805
- Capital injection by other equity instrument holders	36	-	-	6,395,783	-	-	-	-	-	6,395,783	-	6,395,783
- Capital deduction by other equity instrument holders		-	(7,853,964)	-	(494,375)	-	-	-	-	(8,348,339)	-	(8,348,339)
Appropriation of profit:												
- Appropriation to surplus reserve	37(2)	-	-	-	-	284,365	-	-	(284,365)	-	-	-
- Appropriation to general reserve	37(3)	-	-	-	-	-	1,041,586	-	(1,041,586)	-	-	-
- Dividends	38	-	-	-	-	-	-	-	(1,441,434)	(1,441,434)	-	(1,441,434)
Balance at 31 December 2022 (audited)		5,820,355	-	6,395,783	10,687,634	2,388,248	6,618,047	83,726	3,822,519	35,816,312	776,983	36,593,295

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

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

	Six months ended 30 June	
	2023 (unaudited)	2022 (unaudited)
Cash flows from operating activities		
Profit before taxation	2,786,303	2,324,371
<i>Adjustments for:</i>		
Credit losses	1,809,832	2,058,483
Impairment losses on other assets	–	6,027
Depreciation and amortisation	276,823	268,794
Unrealised foreign exchange losses/(gains)	113,841	(414,747)
Net (gains)/losses on disposal of property and equipment, intangible assets and other assets	(28,773)	948
Gains from changes in fair value	(258,366)	(65,372)
Net gains arising from investments	(686,464)	(878,000)
Interest expense on debt securities issued	987,817	1,499,946
Interest income from financial investments	(2,672,836)	(2,550,980)
Others	(3,923)	5,766
	2,324,254	2,255,236
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with central banks	(552,259)	855,723
Net decrease/(increase) in deposits with banks and other financial institutions	100,000	(100,000)
Net increase in placements with banks and other financial institutions	(2,750,000)	(6,350,000)
Net increase in loans and advances to customers	(20,230,995)	(21,634,550)
Net (increase)/decrease in financial assets held under resale agreements	(7,999,685)	12,303,355
Net increase in long-term receivables	(1,364,349)	(3,559,753)
Net increase in other operating assets	(503,690)	(640,026)
	(33,300,978)	(19,125,251)

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the six months ended 30 June 2023

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2023 (unaudited)	2022 (unaudited)
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in borrowings from central banks	3,285,531	(1,017,797)
Net (decrease)/increase in deposits from banks and other financial institutions	(5,390,461)	2,162,142
Net increase in placements from banks and other financial institutions	1,326,613	1,375,490
Net increase/(decrease) in financial assets sold under repurchase agreements	9,442,624	(11,196,494)
Net increase in deposits from customers	28,705,019	16,505,513
Net (decrease)/increase in other operating liabilities	(576,680)	2,448,425
	36,792,646	10,277,279
Income tax paid	(818,847)	(196,314)
Net cash flows generated from/(used in) operating activities	4,997,075	(6,789,050)
Cash flows from investing activities		
Cash received from disposal and redemption of investments	32,230,856	41,464,164
Cash received from investment gains and interest	3,860,736	3,946,159
Cash received from disposal of property and equipment, intangible assets and other assets	3,741	491
Payments for acquisition of investments	(39,800,327)	(55,873,676)
Payments for acquisition of property and equipment, intangible assets and other assets	(168,251)	(192,221)
Net cash flows used in investing activities	(3,873,245)	(10,655,083)
Cash flows from financing activities		
Cash received from investors	–	4,177,035
Cash received from debt securities issued	49,722,294	45,327,568
Repayment of debt securities issued	(49,788,641)	(46,334,377)
Payments for Interest on debt securities issued	(1,469,759)	(1,834,523)
Payments for dividends	(930,362)	(930,301)
Payment for lease liabilities	(74,207)	(76,929)
Payment for other financing activities	–	(23,736)
Net cash flows (used in)/generated from financing activities	(2,540,675)	304,737

The notes on pages 142 to 230 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

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

	Note	Six months ended 30 June	
		2023 (unaudited)	2022 (unaudited)
Effect of foreign exchange rate changes on cash and cash equivalents		21,665	1,320
Net decrease in cash and cash equivalents		(1,395,180)	(17,138,076)
Cash and cash equivalents as at 1 January		11,508,997	42,853,368
Cash and cash equivalents as at 30 June	39	10,113,817	25,715,292
Net cash flows generated from operating activities include:			
Interest received		8,127,785	7,534,638
Interest paid		(3,775,662)	(3,163,156)

The notes on pages 142 to 230 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

Bank of Qingdao Co., Ltd. (the “Bank”), formerly known as Qingdao City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 15 November 1996 with the approval of the People’s Bank of China (the “PBOC”) according to the notices YinFu [1996] No. 220 “Approval upon the Preparing of Qingdao City Cooperative Bank” and YinFu [1996] No.353 “Approval upon the Opening of Qingdao City Cooperative Bank”.

The Bank changed its name from Qingdao City Cooperative Bank Co., Ltd. to Qingdao City Commercial Bank Co., Ltd. in 1998 according to Lu Yin Fu [1998] No. 76 issued by Shandong Branch of the PBOC. The Bank changed its name from Qingdao City Commercial Bank Co., Ltd. to Bank of Qingdao Co., Ltd. in 2008 according to Yin Jian Fu [2007] No.485 issued by the former China Banking Regulatory Commission (the “CBRC”, the predecessor of the National Administration of Financial Regulation).

The Bank obtained its financial institution licence No. B0170H237020001 from the Qingdao Office of the former China Banking and Insurance Regulatory Commission (the “CBIRC”, the predecessor of the National Administration of Financial Regulation). The Bank obtained its business license with a unified social credit code 91370200264609602K from the Qingdao Municipal Bureau of Administrative Services, and the registered office is located at Building No. 3, No. 6 Qinling Road, Laoshan District, Qingdao City, Shandong Province, the People’s Republic of China (the “PRC”). In December 2015, the Bank’s H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 3866). In January 2019, the Bank’s A-shares were listed on Shenzhen Stock Exchange (Stock code: 002948). In January and February 2022, the Bank completed the A Share Rights Issue and H Share Rights Issue respectively. The share capital of the Bank increased to RMB5.820 billion after the completion of the above rights issue. The share capital of the Bank is RMB5.820 billion as at 30 June 2023.

The Bank has 16 branches, respectively in Jinan, Dongying, Weihai, Zibo, Dezhou, Zaozhuang, Yantai, Binzhou, Weifang, Qingdao Westcoast, Laiwu, Linyi, Jinan, Taian, Heze and Rizhao as at 30 June 2023. The principal activities of the Bank and its subsidiaries (collectively the “Group”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business, financial leasing, wealth management and other services as approved by the regulatory authority. The background information of the subsidiaries is shown in Note 21. The Bank mainly operates in Shandong Province.

For the purpose of this report, Chinese Mainland excludes the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan region.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue by the Bank’s Board of Directors on 30 August 2023.

The interim financial report and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s previous annual financial report for the year ended 31 December 2022.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board (“IAASB”).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(2) Accounting judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2022.

(3) Changes in material accounting policies

The IASB has issued certain amendments to IFRSs that are first effective for the current accounting period. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the accounting period ended 30 June 2023.

3 NET INTEREST INCOME

	Six months ended 30 June	
	2023	2022
Interest income arising from		
Deposits with central banks	151,990	153,617
Deposits with banks and other financial institutions	20,843	16,229
Placements with banks and other financial institutions	203,454	105,228
Loans and advances to customers		
– Corporate loans and advances	4,541,188	4,068,444
– Personal loans and advances	1,839,402	2,021,792
– Discounted bills	241,450	201,492
Financial assets held under resale agreements	68,460	173,802
Financial investments	2,672,836	2,550,980
Long-term receivables	512,027	467,226
Sub-total	10,251,650	9,758,810
Interest expense arising from		
Borrowings from central banks	(185,301)	(308,951)
Deposits from banks and other financial institutions	(70,991)	(58,815)
Placements from banks and other financial institutions	(267,125)	(307,299)
Deposits from customers	(3,916,864)	(3,353,888)
Financial assets sold under repurchase agreements	(304,677)	(239,961)
Debt securities issued	(987,817)	(1,499,946)
Others	(9,464)	(15,200)
Sub-total	(5,742,239)	(5,784,060)
Net interest income	4,509,411	3,974,750

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2023	2022
Fee and commission income		
Wealth management service fees	503,669	458,739
Agency service fees	345,653	276,796
Custody and bank card service fees	193,156	156,412
Settlement fees	64,456	55,924
Financial leasing service fees	–	17,628
Others	74,922	15,136
Sub-total	1,181,856	980,635
Fee and commission expense	(241,823)	(144,790)
Net fee and commission income	940,033	835,845

5 NET TRADING (LOSSES)/GAINS

	Note	Six months ended 30 June	
		2023	2022
Net (losses)/gains of foreign exchange and foreign exchange rate derivative financial instruments	(i)	(95,786)	418,656
Net (losses)/gains from debt securities	(ii)	(3,480)	13,005
Net losses from non-foreign exchange derivative financial instruments		(5,378)	(9,038)
Total		(104,644)	422,623

Note:

- (i) Net (losses)/gains of foreign exchange and foreign exchange rate derivative financial instruments include gains or losses from the purchase and sale of foreign currency spot, foreign exchange derivative financial instruments, and translation of foreign currency monetary assets and liabilities into RMB, etc.
- (ii) Net (losses)/gains from debt securities mainly include gains or losses arising from the purchase and sale of, and changes in the fair value of debt securities held for trading.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2023	2022
Net gains on financial investments measured at FVTPL	672,374	668,773
Net gains on disposal of financial assets measured at FVOCI	275,749	282,536
Others	111	14
Total	948,234	951,323

7 OTHER OPERATING INCOME

	Six months ended 30 June	
	2023	2022
Government grants	47,113	19,294
Net gains/(losses) on disposal of property and equipment, intangible assets and other assets	28,773	(948)
Rental income	467	467
Others	1,424	7,986
Total	77,777	26,799

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

8 OPERATING EXPENSES

	Six months ended 30 June	
	2023	2022
Staff costs		
– Salaries, bonuses and allowances	553,616	592,447
– Social insurance and housing allowances	93,580	82,681
– Staff welfare expenses	65,268	62,163
– Staff education expenses	14,712	15,240
– Labor union expenses	11,104	11,934
– Post-employment benefits		
– Defined contribution plans	134,189	120,293
– Early retirement and supplementary retirement plans	7,040	30
Sub-total	879,509	884,788
Property and equipment expenses		
– Depreciation and amortisation	276,823	268,794
– Electronic equipment operating expenses	40,339	46,181
– Maintenance expenses	41,652	43,367
Sub-total	358,814	358,342
Tax and surcharges	81,190	75,089
Other general and administrative expenses	455,163	504,240
Total	1,774,676	1,822,459

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

9 CREDIT LOSSES

	Six months ended 30 June	
	2023	2022
Deposits with banks and other financial institutions	(1,738)	(307)
Placements with banks and other financial institutions	5,361	11,886
Financial assets held under resale agreements	14,122	(21,110)
Loans and advances to customers	1,120,494	1,544,922
Financial investments measured at amortised cost	548,228	378,103
Financial investments measured at FVOCI		
– Debt instruments	(36,566)	(14,971)
Long-term receivables	63,850	98,264
Credit commitments	105,950	23,266
Others	(9,869)	38,430
Total	1,809,832	2,058,483

10 INCOME TAX EXPENSE

(1) *Income tax for the reporting period*

	Note	Six months ended 30 June	
		2023	2022
Current tax		640,300	126,959
Deferred tax	25(2)	(261,533)	137,078
Total		378,767	264,037

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

10 INCOME TAX EXPENSE (continued)

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

	Six months ended 30 June	
	2023	2022
Profit before taxation	2,786,303	2,324,371
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	696,576	581,093
Tax effect of non-deductible expenses for tax purpose		
– Annuity	5,820	4,241
– Entertainment expenses	1,127	1,360
– Others	16,168	5,239
Sub-total	23,115	10,840
Tax effect of non-taxable income for tax purpose (Note (i))	(340,924)	(327,896)
Income tax	378,767	264,037

Note:

- (i) Non-taxable income consists of interest income from the PRC government bonds and local government bonds, and dividend income from funds, which are exempt from income tax under the PRC tax regulations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

11 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share was computed by dividing the net profit for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. Diluted earnings per share was computed by dividing the adjusted net profit attributable to the ordinary shareholders of the Bank for the period by the adjusted weighted average number of ordinary shares in issue, assuming that all dilutive potential shares have been converted. There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

	Note	Six months ended 30 June	
		2023	2022
Weighted average number of ordinary shares (in thousands)	11(1)	5,820,355	5,563,768
Net profit attributable to equity shareholders of the Bank		2,335,704	2,018,395
Less: net profit attributable to other equity instruments shareholders of the Bank		—	—
Net profit attributable to ordinary shareholders of the Bank		2,335,704	2,018,395
Basic and diluted earnings per share (in RMB)		0.40	0.36

Note:

The Bank issued 60,150,000 shares in respect of the USD Offshore Preference Shares on 19 September 2017. Non-cumulative dividend payment method was adopted for the above Offshore Preference Shares. The Bank redeemed all the Offshore Preference Shares on 19 September 2022.

The Bank issued RMB4 billion and RMB2.4 billion of Domestic Perpetual Bonds on 14 July 2022 and 16 August 2022, respectively. Non-cumulative dividend payment method was adopted for Domestic Perpetual Bonds. The Bank classified these Domestic Perpetual Bonds as equity instruments, and the specific terms of these Domestic Perpetual Bonds are disclosed in Note 36.

In calculating the earnings per share for six months ended 30 June 2023, the Bank did not consider the effects of interest that may be paid to holders of the Domestic Perpetual Bonds in July 2023 and August 2023 on the net profit attributable to shareholders of the ordinary shares of the Bank. In calculating the earnings per share for six months ended 30 June 2022, the Bank did not consider the effects of dividends that may be distributed to shareholders of the Offshore Preference Shares in September 2022 on the net profit attributable to shareholders of the ordinary shares of the Bank.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

11 BASIC AND DILUTED EARNINGS PER SHARE (continued)

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

	Six months ended 30 June	
	2023	2022
Number of ordinary shares in issue as at 1 January	5,820,355	4,509,690
Effect of the rights issues	–	1,054,078
Weighted average number of ordinary shares	5,820,355	5,563,768

12 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	30 June 2023	31 December 2022
Cash on hand		379,784	349,481
Deposits with central banks			
– Statutory deposit reserves	12(1)	18,185,576	17,661,919
– Surplus deposit reserves	12(2)	6,628,211	9,769,018
– Other deposits with central banks	12(3)	63,996	35,394
Sub-total		24,877,783	27,466,331
Accrued interest		8,714	9,494
Total		25,266,281	27,825,306

(1) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at 30 June 2023, the statutory deposit reserve ratios for RMB deposits applicable to the Bank were 5.0% (31 December 2022: 5.25%). As at 30 June 2023, the statutory deposit reserve ratios for foreign currency deposits applicable to the Bank were 6.0% (31 December 2022: 6.0%). The Bank's subsidiaries place statutory deposit reserves with the PBOC in accordance with relevant regulations.

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

(2) The surplus deposit reserves are placed with the PBOC mainly for the purpose of clearing.

(3) Other deposits with central banks primarily represent fiscal deposits and foreign exchange risk reserve placed with the PBOC that are not available for use in the Group's daily operations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
In Chinese Mainland		
– Banks	1,665,570	1,679,178
– Other financial institutions	125,907	34,957
Outside Chinese Mainland		
– Banks	330,797	576,363
Accrued interest	8,499	13,130
Sub-total	2,130,773	2,303,628
Less: Provision for impairment losses	(853)	(2,591)
Total	2,129,920	2,301,037

14 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
In Chinese Mainland		
– Banks	433,548	–
– Other financial institutions	12,350,000	8,250,000
Accrued interest	128,816	209,377
Sub-total	12,912,364	8,459,377
Less: Provision for impairment losses	(32,716)	(27,355)
Total	12,879,648	8,432,022

15 DERIVATIVE FINANCIAL INSTRUMENTS

The Group primarily enters into foreign exchange rate and interest rate derivative contracts for trading, asset and liability management, and customer-driven transactions.

The contractual/nominal amounts and fair values of the derivative financial instruments entered into by the Group are set out in the following tables. The contractual/nominal amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognised in the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair value of derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their contractual terms. The aggregated fair values of derivative financial assets and liabilities can fluctuate significantly during different periods.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	30 June 2023			31 December 2022		
	Nominal amount	Fair value of		Nominal amount	Fair value of	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts	67,931,501	100,756	(103,106)	49,204,972	102,911	(101,859)
Exchange rate contracts	6,094,043	4,015	(367,157)	5,890,408	5,465	(86,288)
Total	74,025,544	104,771	(470,263)	55,095,380	108,376	(188,147)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analysed by type and location of counterparty

	30 June 2023	31 December 2022
In Chinese Mainland		
– Banks	6,100,000	–
– Other financial institutions	1,899,685	–
Accrued interest	315	–
Sub-total	8,000,000	–
Less: Provision for impairment losses	(14,122)	–
Total	7,985,878	–

(2) Analysed by type of security held

	30 June 2023	31 December 2022
Debt securities	7,999,685	–
Accrued interest	315	–
Sub-total	8,000,000	–
Less: Provision for impairment losses	(14,122)	–
Total	7,985,878	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS

(1) *Analysed by nature*

	30 June 2023	31 December 2022
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	190,548,550	172,955,292
Sub-total	190,548,550	172,955,292
Personal loans and advances		
– Personal residential mortgages	47,103,532	46,459,431
– Personal consumption loans	17,920,112	16,931,630
– Personal business loans	10,258,280	9,988,969
Sub-total	75,281,924	73,380,030
Accrued interest	569,950	598,681
Sub-total	266,400,424	246,934,003
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost		
– 12-month expected credit loss (“ECL”)	(4,570,836)	(3,901,150)
– Lifetime ECL		
– not credit-impaired loans	(413,463)	(510,711)
– credit-impaired loans	(2,644,866)	(2,697,610)
Sub-total	(7,629,165)	(7,109,471)
Measured at FVOCI:		
Corporate loans and advances		
– Discounted bills	21,735,518	22,501,207
– Corporate loans (Forfeiting)	1,269,565	192,923
Sub-total	23,005,083	22,694,130
Carrying amount of loans and advances to customers	281,776,342	262,518,662

(2) *Analysed by type of collateral (excluding accrued interest)*

	30 June 2023	31 December 2022
Unsecured loans	57,095,244	52,463,310
Guaranteed loans	62,367,835	56,725,873
Loans secured by mortgages	111,412,961	104,787,862
Pledged loans	57,959,517	55,052,407
Gross loans and advances to customers	288,835,557	269,029,452

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(3) Overdue loans analysed by overdue period (excluding accrued interest)

	30 June 2023				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	371,110	496,042	186,112	3,930	1,057,194
Guaranteed loans	629,676	635,389	729,482	330,501	2,325,048
Loans secured by mortgages	463,126	350,261	66,347	40,194	919,928
Pledged loans	–	–	77,441	–	77,441
Total	1,463,912	1,481,692	1,059,382	374,625	4,379,611
As a percentage of gross loans and advances to customers	0.51%	0.51%	0.37%	0.13%	1.52%

	31 December 2022				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	380,033	473,148	19,913	2,430	875,524
Guaranteed loans	747,334	923,685	279,806	315,317	2,266,142
Loans secured by mortgages	443,768	305,377	154,135	41,774	945,054
Pledged loans	1,513	77,771	–	–	79,284
Total	1,572,648	1,779,981	453,854	359,521	4,166,004
As a percentage of gross loans and advances to customers	0.59%	0.66%	0.17%	0.13%	1.55%

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(4) Loans and advances and provision for impairment losses analysis

The provision for impairment losses of loans and advances to customers are as follows:

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

	30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL- credit- impaired (Note (i))	
Gross loans and advances to customers measured at amortised cost (including accrued interest)	260,937,659	2,168,425	3,294,340	266,400,424
Less: Provision for impairment losses	(4,570,836)	(413,463)	(2,644,866)	(7,629,165)
Net carrying amount of loans and advances to customers measured at amortised cost	256,366,823	1,754,962	649,474	258,771,259
	31 December 2022			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL- credit- impaired (Note (i))	Total
Gross loans and advances to customers measured at amortised cost (including accrued interest)	241,459,799	2,210,427	3,263,777	246,934,003
Less: Provision for impairment losses	(3,901,150)	(510,711)	(2,697,610)	(7,109,471)
Net carrying amount of loans and advances to customers measured at amortised cost	237,558,649	1,699,716	566,167	239,824,532

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Provision for impairment losses on loans and advances to customers measured at FVOCI:

	30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	
Gross/Carrying amount of loans and advances to customers at FVOCI	22,987,226	17,857	–	23,005,083
Provision for impairment losses included in other comprehensive income	(185,226)	(28)	–	(185,254)
	31 December 2022			
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired (Note (i))	Total
Gross/Carrying amount of loans and advances to customers at FVOCI	22,676,508	17,622	–	22,694,130
Provision for impairment losses included in other comprehensive income	(27,639)	(31)	–	(27,670)

Note:

(i) The definition of the credit-impaired financial assets is set out in Note 42(1) Credit risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(5) Movements of provision for impairment losses

Movements of the provision for impairment losses on loans and advances to customers are as follows:

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

	Six months ended 30 June 2023			
	12-month ECL	Lifetime ECL—not credit-impaired	Lifetime ECL—credit-impaired	Total
As at 1 January 2023	3,901,150	510,711	2,697,610	7,109,471
Transfer to:				
– 12-month ECL	42,238	(32,134)	(10,104)	–
– Lifetime ECL				
– not credit-impaired loans	(8,828)	12,488	(3,660)	–
– credit-impaired loans	(3,203)	(111,503)	114,706	–
Charge for the period	639,479	33,901	289,530	962,910
Write-offs and transfer out	–	–	(449,579)	(449,579)
Recoveries of loans and advances written off	–	–	21,023	21,023
Other changes	–	–	(14,660)	(14,660)
As at 30 June 2023	4,570,836	413,463	2,644,866	7,629,165
		2022		
	12-month ECL	Lifetime ECL—not credit-impaired	Lifetime ECL—credit-impaired	Total
As at 1 January 2022	3,159,298	603,867	2,663,172	6,426,337
Transfer to:				
– 12-month ECL	362	(357)	(5)	–
– Lifetime ECL				
– not credit-impaired loans	(263,591)	264,239	(648)	–
– credit-impaired loans	(360,066)	(308,837)	668,903	–
Charge/(Reversal) for the year	1,365,147	(48,201)	1,304,937	2,621,883
Write-offs and transfer out	–	–	(2,046,387)	(2,046,387)
Recoveries of loans and advances written off	–	–	122,818	122,818
Other changes	–	–	(15,180)	(15,180)
As at 31 December 2022	3,901,150	510,711	2,697,610	7,109,471

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Movements of the provision for impairment losses on loans and advances to customers measured at FVOCI are as follows:

	Six months ended 30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	27,639	31	–	27,670
Charge/(Reversal) for the period	157,587	(3)	–	157,584
As at 30 June 2023	185,226	28	–	185,254

	2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2022	13,269	–	–	13,269
Charge for the year	14,370	31	–	14,401
As at 31 December 2022	27,639	31	–	27,670

For information about the asset-backed securitisation transactions conducted by the Group in its normal course of business, refer to Note 46(2).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

18 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Note</i>	30 June 2023	31 December 2022
Financial investments held for trading		–	–
Financial investments designated at FVTPL		–	–
Other financial investments measured at FVTPL			
Debt securities, analysed by type of issuers			
– Governments and central banks		25,844	24,637
– Banks and other financial institutions		2,689,750	2,684,943
– Corporate entities		896,427	1,017,848
Sub-total		3,612,021	3,727,428
Investment funds		33,979,400	34,950,084
Asset management plans		7,824,064	7,787,802
Trust fund plans		447,245	791,832
Other investments		–	2,616
Total		45,862,730	47,259,762
Listed	<i>18(1)</i>	737,434	1,318,187
Of which: listed outside Hong Kong		234,719	460,708
Unlisted		45,125,296	45,941,575
Total		45,862,730	47,259,762

(1) Only bonds traded on stock exchanges are included in listed bonds.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>Note</i>	30 June 2023	31 December 2022
Debt securities, analysed by type of issuers			
– Government and central banks		29,666,803	34,298,700
– Policy banks		10,783,991	7,179,615
– Banks and other financial institutions		26,791,999	19,761,408
– Corporate entities		40,203,541	33,292,034
Sub-total		107,446,334	94,531,757
Asset management plans		600,006	712,934
Equity investments	<i>19(1)</i>	23,250	23,250
Accrued interest		1,147,582	1,410,760
Total		109,217,172	96,678,701
Listed	<i>19(2)</i>	29,096,043	26,770,249
Of which: listed outside Hong Kong		26,393,537	24,391,557
Unlisted		80,121,129	69,908,452
Total		109,217,172	96,678,701

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

- (1) The Group holds a number of unlisted equity investments not held for trading. The Group designates them as financial investments measured at FVOCI, and the details are as follows:

Investees	Six months ended 30 June 2023					
	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Percentage of shareholding in investees (%)	Cash dividend for the period
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	–
Shandong City Commercial Bank Alliance Co., Ltd.	10,000	–	–	10,000	1.14	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		–

Investees	2022					
	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year	Percentage of shareholding in investees (%)	Cash dividend for the year
China UnionPay Co., Ltd.	13,000	–	–	13,000	0.34	8,000
Shandong City Commercial Bank Alliance Co., Ltd.	10,000	–	–	10,000	1.14	–
Clearing Center for City Commercial Banks	250	–	–	250	0.81	–
Total	23,250	–	–	23,250		8,000

For the six months ended 30 June 2023 and the year ended 31 December 2022, the Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earning.

- (2) Only bonds traded on stock exchanges are included in listed bonds.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 FINANCIAL INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

(3) Movements of the provision for impairment losses on debt instruments of financial investments measured at FVOCI are as follows:

	Six months ended 30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	51,725	152,028	-	203,753
Transfer to:				
- 12-month ECL	72,680	(72,680)	-	-
Charge/(Reversal) for the period	34,755	(71,321)	-	(36,566)
As at 30 June 2023	159,160	8,027	-	167,187

	2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2022	60,404	121,265	300,555	482,224
Transfer to:				
- 12-month ECL	95,571	(95,571)	-	-
- Lifetime ECL				
- not credit-impaired	(4,100)	27,247	(23,147)	-
(Reversal)/Charge for the year	(100,150)	99,087	(277,408)	(278,471)
As at 31 December 2022	51,725	152,028	-	203,753

Provision for impairment losses on debt instruments of financial investments measured at FVOCI is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial investments presented in the statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

	<i>Note</i>	30 June 2023	31 December 2022
Debt securities, analysed by type of issuers:			
– Government and central banks		29,386,152	29,382,700
– Policy banks		10,719,175	10,720,004
– Banks and other financial institutions		8,661,441	8,957,230
– Corporate entities		429,934	801,917
Sub-total		49,196,702	49,861,851
Asset management plans			
Trust fund plans		2,204,910	2,609,200
Other investments		1,618,700	1,738,700
Accrued interest		682,791	868,992
Less: Provision for impairment losses	<i>20(1)</i>	(3,527,594)	(2,946,718)
Total		55,234,085	58,202,665
Listed			
Of which: listed outside Hong Kong	<i>20(2)</i>	17,082,681	17,456,387
Unlisted		38,151,404	40,746,278
Total		55,234,085	58,202,665

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (continued)

- (1) Movements of the provision for impairment losses on financial investments measured at amortised cost are as follows:

	Six months ended 30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	191,705	27,839	2,727,174	2,946,718
(Reversal)/Charge for the period	(49,814)	(11,394)	609,436	548,228
Others	–	–	32,648	32,648
As at 30 June 2023	141,891	16,445	3,369,258	3,527,594

	2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2022	298,990	516,032	432,800	1,247,822
Transfer to				
– 12-month ECL	14,111	(14,111)	–	–
– Lifetime ECL				
– not credit-impaired	(183)	183	–	–
– credit-impaired	(5,887)	(497,184)	503,071	–
(Reversal)/Charge for the year	(115,326)	22,919	1,691,303	1,598,896
Others	–	–	100,000	100,000
As at 31 December 2022	191,705	27,839	2,727,174	2,946,718

- (2) Only bonds traded on stock exchanges are included in listed bonds.

21 INVESTMENT IN SUBSIDIARIES

	30 June 2023	31 December 2022
BQD Financial Leasing Company Limited	510,000	510,000
BQD Wealth Management Company Limited	1,000,000	1,000,000
Total	1,510,000	1,510,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT IN SUBSIDIARIES (continued)

The subsidiaries are as follows:

Name	Percentage of equity interest	Voting rights	Paid-in Capital <i>(in thousands)</i>	Amount invested by the Bank <i>(in thousands)</i>	Place of registration and operations	Principal activities
BQD Financial Leasing Company Limited <i>(Note (i))</i>	51.00%	51.00%	1,000,000	510,000	Qingdao, China	Financial leasing
BQD Wealth Management Company Limited <i>(Note (ii))</i>	100.00%	100.00%	1,000,000	1,000,000	Qingdao, China	Wealth Management

Notes:

- (i) BQD Financial Leasing Company Limited was co-established by the Bank, Qingdao Hanhe Cable Co., Ltd., Qingdao Port International Co., Ltd. and Qingdao Qianwan Container Terminal Co., Ltd. on 15 February 2017, with a registered capital of RMB1.00 billion.
- (ii) BQD Wealth Management Company Limited, a limited liability company wholly-owned by the Bank, was established on 16 September 2020, with a registered capital of RMB1.00 billion.

22 LONG-TERM RECEIVABLES

	30 June 2023	31 December 2022
Minimum lease receivables	18,884,549	17,338,104
Less: Unearned finance income	(2,015,759)	(1,839,700)
Present value of finance lease receivables	16,868,790	15,498,404
Accrued interest	210,826	220,389
Sub-total	17,079,616	15,718,793
Less: Provision for impairment losses		
– 12-month ECL	(391,226)	(265,041)
– Lifetime ECL		
– not credit-impaired	(46,188)	(65,109)
– credit-impaired	(70,317)	(107,694)
Carrying amount	16,571,885	15,280,949

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 LONG-TERM RECEIVABLES (continued)

Movements of the provision for impairment losses on long-term receivable are as follows:

	Six months ended 30 June 2023			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2023	265,041	65,109	107,694	437,844
Charge/(Reversal) for the period	126,185	(18,921)	(43,414)	63,850
Others	–	–	6,037	6,037
As at 30 June 2023	391,226	46,188	70,317	507,731

	2022			Total
	12-month ECL	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January 2022	227,836	36,120	45,036	308,992
Transfer to				
– 12-month ECL	968	(968)	–	–
– Lifetime ECL				
– not credit-impaired	(5,402)	5,402	–	–
– credit-impaired	–	(24,933)	24,933	–
Charge for the year	41,639	49,488	92,111	183,238
Others	–	–	(54,386)	(54,386)
As at 31 December 2022	265,041	65,109	107,694	437,844

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 LONG-TERM RECEIVABLES (continued)

Minimum lease receivables, unearned finance income and present value of finance lease receivables analysed by remaining period are listed as follows:

	30 June 2023		
	Minimum lease receivables	Unearned finance income	Present value of finance lease receivables
Repayable on demand	28,124	(1,552)	26,572
Less than 1 year (inclusive)	7,920,851	(987,869)	6,932,982
1 year to 2 years (inclusive)	5,329,756	(564,499)	4,765,257
2 years to 3 years (inclusive)	3,141,731	(277,354)	2,864,377
3 years to 5 years (inclusive)	2,122,179	(156,623)	1,965,556
More than 5 years	190,312	(14,306)	176,006
Indefinite (Note (i))	151,596	(13,556)	138,040
Total	18,884,549	(2,015,759)	16,868,790

	31 December 2022		
	Minimum lease receivables	Unearned finance income	Present value of finance lease receivables
Repayable on demand	10,588	–	10,588
Less than 1 year (inclusive)	8,114,338	(900,857)	7,213,481
1 year to 2 years (inclusive)	4,649,797	(477,521)	4,172,276
2 years to 3 years (inclusive)	2,107,665	(226,068)	1,881,597
3 years to 5 years (inclusive)	1,846,901	(178,214)	1,668,687
More than 5 years	433,569	(42,509)	391,060
Indefinite (Note (i))	175,246	(14,531)	160,715
Total	17,338,104	(1,839,700)	15,498,404

Note:

- (i) See Note 42 (3) for the definition of indefinite finance lease receivables.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT

	Premises	Electronic equipment	Vehicles	Machinery equipment and others	Construction in progress	Total
Cost						
As at 1 January 2022	3,477,058	733,001	72,664	119,376	73,908	4,476,007
Increase	81,573	128,729	5,736	15,825	25,791	257,654
Decrease	(98)	(16,946)	(3,691)	(2,119)	–	(22,854)
As at 31 December 2022	3,558,533	844,784	74,709	133,082	99,699	4,710,807
Increase	84,371	37,817	1,489	2,540	3,492	129,709
Decrease	(3,215)	(11,846)	(1,503)	(662)	–	(17,226)
As at 30 June 2023	3,639,689	870,755	74,695	134,960	103,191	4,823,290
Accumulated depreciation						
As at 1 January 2022	(490,838)	(471,337)	(50,700)	(72,939)	–	(1,085,814)
Increase	(81,581)	(78,442)	(6,429)	(13,510)	–	(179,962)
Decrease	–	15,832	3,507	2,016	–	21,355
As at 31 December 2022	(572,419)	(533,947)	(53,622)	(84,433)	–	(1,244,421)
Increase	(41,635)	(41,977)	(3,059)	(6,738)	–	(93,409)
Decrease	–	11,222	1,428	628	–	13,278
As at 30 June 2023	(614,054)	(564,702)	(55,253)	(90,543)	–	(1,324,552)
Net book value						
As at 30 June 2023	3,025,635	306,053	19,442	44,417	103,191	3,498,738
As at 31 December 2022	2,986,114	310,837	21,087	48,649	99,699	3,466,386

As at 30 June 2023 and 31 December 2022, the Group did not have significant property and equipment which were temporarily idle.

The net book value of the Group's premises with incomplete title deeds of the Group as at 30 June 2023 was RMB95 million (31 December 2022: RMB11 million). Management was of the opinion that the incomplete title deeds would not affect the Group's the rights to these assets.

As at 30 June 2023 and 31 December 2022, the Group was not aware of any indicators for the possibility of property and equipment impairment, hence no impairment loss was recognised.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

23 PROPERTY AND EQUIPMENT (continued)

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

	30 June 2023	31 December 2022
Held in Chinese Mainland		
– Long-term leases (over 50 years)	15,718	15,913
– Medium-term leases (10 – 50 years)	3,003,200	2,963,234
– Short-term leases (less than 10 years)	6,717	6,967
Total	3,025,635	2,986,114

24 RIGHT-OF-USE ASSETS

	Premises	Others	Total
Cost			
As at 1 January 2022	1,239,664	4,114	1,243,778
Increase	139,087	–	139,087
Decrease	(72,752)	–	(72,752)
As at 31 December 2022	1,305,999	4,114	1,310,113
Increase	86,263	–	86,263
Decrease	(21,564)	–	(21,564)
As at 30 June 2023	1,370,698	4,114	1,374,812
Accumulated depreciation			
As at 1 January 2022	(395,936)	(1,953)	(397,889)
Increase	(157,367)	(651)	(158,018)
Decrease	72,752	–	72,752
As at 31 December 2022	(480,551)	(2,604)	(483,155)
Increase	(77,482)	(326)	(77,808)
Decrease	21,564	–	21,564
As at 30 June 2023	(536,469)	(2,930)	(539,399)
Net book value			
As at 30 June 2023	834,229	1,184	835,413
As at 31 December 2022	825,448	1,510	826,958

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 DEFERRED INCOME TAX ASSETS

(1) Analysed by nature

	30 June 2023		31 December 2022	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Provision for impairment losses	12,722,459	3,180,615	11,660,966	2,915,242
Deferred interest income from discounted bills	107,993	26,998	163,569	40,892
Change in fair value	352,516	88,129	1,400,620	350,155
Others	727,667	181,917	560,218	140,054
Total	13,910,635	3,477,659	13,785,373	3,446,343

(2) Analysed by movement

	Provision for impairment losses	Deferred interest income from discounted bills (Note (i))	Change in fair value	Others (Note (ii))	Total
As at 1 January 2022	2,489,556	45,711	(134,697)	104,872	2,505,442
Recognised in profit or loss	359,669	(4,819)	331,705	33,422	719,977
Recognised in other comprehensive income	66,017	-	153,147	1,760	220,924
As at 31 December 2022	2,915,242	40,892	350,155	140,054	3,446,343
Recognised in profit or loss	295,627	(13,894)	(61,515)	41,315	261,533
Recognised in other comprehensive income	(30,254)	-	(200,511)	548	(230,217)
As at 30 June 2023	3,180,615	26,998	88,129	181,917	3,477,659

Notes:

- (i) Pursuant to the requirement issued by the local tax authority, income tax obligations arise when the Group receives discounted bills. The deductible temporary difference, which arises from the interest income recognised in profit or loss using the effective interest method, forms deferred tax assets.
- (ii) Others mainly include the amount accrued for early retirement and supplementary retirement plans, provisions, and other accrued expenses, which are deductible against taxable income when actual payment occurs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS

	Note	30 June 2023	31 December 2022
Continuously involved assets		922,695	922,695
Long-term deferred expense		383,515	379,973
Intangible assets	26(1)	359,554	353,076
Prepayments		172,369	184,694
Precious metals		112,690	112,690
Interest receivables (Note (i))	26(2)	34,342	39,810
Deferred expense		18,451	5,759
Others (Note (ii))		1,587,280	1,306,712
Sub-total		3,590,896	3,305,409
Less: Provision for impairment losses		(30,511)	(38,584)
Total		3,560,385	3,266,825

Notes:

- (i) As at 30 June 2023, the book value of the Group's interest receivables after deducting the provision for impairment is RMB16.81 million (31 December 2022: RMB15.44 million).
- (ii) Mainly includes settlement receivables and other receivables.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 OTHER ASSETS (continued)

(1) Intangible assets

	Six months ended 30 June 2023	2022
Cost		
As at 1 January	967,286	799,866
Additions	68,942	167,420
Decrease	–	–
As at 30 June/31 December	1,036,228	967,286
Accumulated amortisation		
As at 1 January	(614,210)	(503,254)
Additions	(62,464)	(110,956)
Decrease	–	–
As at 30 June/31 December	(676,674)	(614,210)
Net value		
As at 30 June/31 December	359,554	353,076
As at 1 January	353,076	296,612

Intangible assets of the Group mainly include software.

As at 30 June 2023 and 31 December 2022, the Group was not aware of any indicators for the possibility of intangible assets impairment, hence no impairment loss was recognised.

(2) Interest receivables

	30 June 2023	31 December 2022
Interest receivables arising from:		
– Loans and advances to customers	34,342	39,810
Total	34,342	39,810

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 BORROWINGS FROM CENTRAL BANKS

	30 June 2023	31 December 2022
Borrowings	16,375,183	13,125,175
Re-discounted bills	109,480	73,957
Accrued interest	117,083	57,473
Total	16,601,746	13,256,605

28 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
In Chinese Mainland		
– Banks	808,213	2,526,890
– Other financial institutions	201,643	3,873,427
Accrued interest	26,841	39,343
Total	1,036,697	6,439,660

29 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2023	31 December 2022
In Chinese Mainland		
– Banks	17,475,600	16,753,990
– Other financial institutions	400,000	727,000
Outside Chinese Mainland		
– Banks	251,725	143,051
– Other financial institutions	823,329	–
Accrued interest	160,287	184,054
Total	19,110,941	17,808,095

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(1) *Analysed by type and location of counterparty*

	30 June 2023	31 December 2022
In Chinese Mainland		
– Central banks	3,000,000	–
– Banks	32,075,155	25,394,779
Outside Chinese Mainland		
– Other financial institutions	–	237,752
Accrued interest	1,203	1,823
Total	35,076,358	25,634,354

(2) *Analysed by types of collateral*

	30 June 2023	31 December 2022
Debt securities	23,100,000	7,632,752
Discounted bills	11,975,155	17,999,779
Accrued interest	1,203	1,823
Total	35,076,358	25,634,354

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

31 DEPOSITS FROM CUSTOMERS

	30 June 2023	31 December 2022
Demand deposits		
– Corporate customers	97,958,147	91,660,860
– Personal customers	28,298,182	29,571,148
Sub-total	126,256,329	121,232,008
Time deposits		
– Corporate customers	103,974,290	101,968,834
– Personal customers	139,712,150	117,757,021
Sub-total	243,686,440	219,725,855
Other deposits	109,426	389,313
Accrued interest	7,684,398	6,696,131
Total	377,736,593	348,043,307
Including:		
Pledged deposits	17,377,020	17,495,516

32 DEBT SECURITIES ISSUED

	30 June 2023	31 December 2022
Debt securities issued (Note (i))	9,994,366	9,993,574
Certificates of interbank deposit issued (Note (ii))	64,214,185	64,620,293
Accrued interest	110,111	253,084
Total	74,318,662	74,866,951

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 DEBT SECURITIES ISSUED (continued)

Notes:

- (i) The Group has issued several debt securities with fixed interest rates. The details are as follows:
- (a) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 22 May 2024 with annual interest payments. As at 30 June 2023, the fair value of the debts was RMB1.014 billion (31 December 2022: RMB1.016 billion).
 - (b) Five-year Financial Bonds were issued with an interest rate of 3.98% per annum and with a nominal amount of RMB1.0 billion in May 2019. The debts will mature on 31 May 2024 with annual interest payments. As at 30 June 2023, the fair value of the debts was RMB1.014 billion (31 December 2022: RMB1.016 billion).
 - (c) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.84% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 5 December 2024 with annual interest payments. As at 30 June 2023, the fair value of the debts was RMB1.017 billion (31 December 2022: RMB1.017 billion).
 - (d) Five-year Small and Micro Enterprises Financial Bonds were issued with an interest rate of 3.80% per annum and with a nominal amount of RMB1.0 billion in December 2019. The debts will mature on 16 December 2024 with annual interest payments. As at 30 June 2023, the fair value of the debts was RMB1.017 billion (31 December 2022: RMB1.017 billion).
 - (e) Ten-year tier-two capital bonds were issued with an interest rate of 4.80% per annum and with a nominal amount of RMB4.0 billion in March 2021. The debts will mature on 24 March 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year. As at 30 June 2023, the fair value of the debts was RMB4.162 billion (31 December 2022: RMB4.086 billion).
 - (f) Ten-year tier-two capital bonds were issued with an interest rate of 4.34% per annum and with a nominal amount of RMB2.0 billion in May 2021. The debts will mature on 28 May 2031 with annual interest payments. The Group has an option to redeem the debts at the end of the fifth year. As at 30 June 2023, the fair value of the debts was RMB2.057 billion (31 December 2022: RMB2.014 billion).
- (ii) The Group issued a number of certificates of interbank deposit with duration between 1 month to 1 year. As at 30 June 2023 and 31 December 2022, the fair value of outstanding certificates of interbank deposit was RMB64.282 billion and RMB64.583 billion, respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 LEASE LIABILITIES

Maturity analysis on lease liabilities of the Group – analysis on undiscounted cash flows:

	30 June 2023	31 December 2022
Less than 1 year (inclusive)	145,437	133,544
1 year to 2 years (inclusive)	113,575	110,492
2 years to 3 years (inclusive)	91,715	93,757
3 years to 5 years (inclusive)	130,478	119,643
Over 5 years	116,828	118,182
Total undiscounted lease liabilities	598,033	575,618
Lease liabilities on statement of financial position	536,625	515,043

34 OTHER LIABILITIES

	30 June 2023	31 December 2022
	<i>Note</i>	
Continuously involved liabilities	922,695	922,695
Settlement payable	820,519	114,183
Risk guarantee deposits for leasing business	449,873	677,270
ECL on credit commitments	<i>34(1)</i> 358,592	252,642
Employee benefits payable	<i>34(2)</i> 341,917	652,469
Taxes payable	<i>34(3)</i> 302,738	195,142
Payable arising from fiduciary activities	81,077	110,469
Dividend payable	20,153	19,258
Financial liabilities related to gold	–	1,830,079
Others	902,579	790,452
Total	4,200,143	5,564,659

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (continued)

(1) Expected credit loss on credit commitments

Movements of expected credit loss on credit commitments are as follows:

	Six months ended 30 June 2023			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL- credit- impaired	Total
As at 1 January 2023	249,614	3,028	–	252,642
Transfer to				
– 12-month ECL	(12)	12	–	–
– Lifetime ECL				
– not credit-impaired loans	251	(251)	–	–
– credit-impaired loans	–	–	–	–
Charge/(Reversal) for the period	107,253	(1,303)	–	105,950
As at 30 June 2023	357,106	1,486	–	358,592
	2022			
	12-month ECL	Lifetime ECL-not credit- impaired	Lifetime ECL- credit- impaired	Total
As at 1 January 2022	129,789	7,652	–	137,441
Transfer to				
– 12-month ECL	52	(52)	–	–
– Lifetime ECL				
– not credit-impaired loans	(1,658)	1,658	–	–
– credit-impaired loans	(744)	–	744	–
Charge/(Reversal) for the year	122,175	(6,230)	(744)	115,201
As at 31 December 2022	249,614	3,028	–	252,642

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (continued)

(2) Employee benefits payable

	30 June 2023	31 December 2022
Salaries, bonuses and allowances payable	189,725	525,727
Staff welfare expenses	8,340	2,611
Staff education expenses	38,471	25,068
Labor union expenses	18,921	18,200
Post-employment benefits		
– defined contribution plans (Note (i))	–	133
Early retirement and supplementary retirement plans (Note (ii))	86,460	80,730
Total	341,917	652,469

Notes:

- (i) Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance and unemployment insurance under the social insurance system established and managed by government authorities, and annuity plan.

As for defined contribution plan, forfeited contributions may not be used by the Group to reduce the existing level of contributions.

- (ii) Early retirement and supplementary retirement plans

Early retirement plan

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

Supplementary retirement plan

The Bank provides a supplementary retirement plan to its eligible employees.

In accordance with the projected unit credit method, the Group measures the obligations using actuarial assumptions to estimate the present value of the payables of early retirement and supplementary retirement plan.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 OTHER LIABILITIES (continued)

Primary assumptions used:

	30 June 2023	31 December 2022
Discount rate — early retirement plans	2.25%	2.50%
Discount rate — supplementary retirement plans	3.00%	3.25%

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (2010-2013), which is published historical statistics in China.

As at 30 June 2023 and 31 December 2022, there was no significant change in liabilities of early retirement and supplementary retirement plans that was attributable to changes in actuarial assumptions.

(3) Taxes payable

	30 June 2023	31 December 2022
Value added tax payable	213,217	146,222
Urban construction tax and surcharges payable	38,795	29,467
Others	50,726	19,453
Total	302,738	195,142

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

35 SHARE CAPITAL

Authorised and issued share capital

	30 June 2023	31 December 2022
Number of shares authorised, issued and fully paid at nominal value (in thousands)	5,820,355	5,820,355

In January 2022, the Bank issued 782 million ordinary A shares with a nominal value of RMB1 per share at RMB3.20 per share. In February 2022, the Bank issued 529 million ordinary H shares with a nominal value of RMB1 per share at HKD3.92 per share. After deducting the related issuance costs, the premium arising from the A Share and H Share Issue amounting to RMB2.844 billion was recorded in capital reserve. After the completion of the above rights issues, the balance of the share capital was RMB5.820 billion.

36 OTHER EQUITY INSTRUMENTS

(1) Perpetual bonds outstanding at the end of the accounting period

The Bank's undated capital bonds (the "Perpetual bonds") outstanding in the statement of financial position as at 30 June 2023 are as follows:

Financial instruments issued	Issue date	Accounting classification	Interest rate	Issue price	Amount <i>(in thousands of units)</i>	In RMB <i>(in thousands)</i>	Maturity	Conversion
2022 Domestic Perpetual Bond Series 1	14 July 2022	Equity	3.70%	100RMB/Unit	40,000	4,000,000	None	None
2022 Domestic Perpetual Bond Series 2	16 Aug 2022	Equity	3.55%	100RMB/Unit	24,000	2,400,000	None	None
Total						6,400,000		
Less: Issue costs						(4,217)		
Book value						6,395,783		

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS (continued)

(2) Main Clauses and Basic information

With the approvals of relevant regulatory authorities, the Bank issued RMB4 billion and RMB2.4 billion of undated capital bonds on 14 July 2022 and 16 August 2022 (hereinafter referred to as “2022 Domestic Perpetual Bond Series 1” and “2022 Domestic Perpetual Bond Series 2” respectively, collectively “Domestic Perpetual Bonds”) in the National Interbank Bond Market. The funds raised by the Bank from these bonds are used to supplement additional tier 1 capital of the Bank in accordance with the relevant laws and approvals by regulatory authorities.

(a) Interest

Each Domestic Perpetual Bond has a par value of RMB100, and the interest rate of the bonds for the first five years are 3.70% for 2022 Domestic Perpetual Bond Series 1 and 3.55% for 2022 Domestic Perpetual Bond Series 2, resetting every 5 years. The rates are determined by a benchmark rate plus a fixed spread. The initial fixed spreads are the difference between the interest rate and the benchmark rate as determined at the time of issuance. The fixed spread once determined will not be adjusted during the duration period. The interest of Domestic Perpetual Bond shall be paid annually.

(b) Interest stopper and setting mechanism

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

(c) Order of distribution and liquidation method

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

(d) Write down conditions

Upon the occurrence of the non survival trigger event, without the need for the consent of the holders of the Domestic Perpetual Bonds, the Bank has the right to write down all or part of the aggregate amount of the Bonds then issued and outstanding. The non survival trigger event means the earlier of the following events: (1) the regulatory authority having concluded that without a write-off of the Bank’s capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable. The write down is unrecoverable.

(e) Redemption

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

36 OTHER EQUITY INSTRUMENTS (continued)

(3) Changes in perpetual bonds outstanding

	31 December 2022		Increase during the period		30 June 2023	
	Amount (in thousands of units)	Book value (in thousands of RMB)	Amount (in thousands of units)	Book value (in thousands of RMB)	Amount (in thousands of units)	Book value (in thousands of RMB)
Perpetual bonds outstanding						
Domestic						
2022 Domestic Perpetual Bond Series 1	40,000	3,997,236	-	-	40,000	3,997,236
2022 Domestic Perpetual Bond Series 2	24,000	2,398,547	-	-	24,000	2,398,547
Total	64,000	6,395,783	-	-	64,000	6,395,783

(4) Relevant information on equity attribute to holders of equity instruments

Items	30 June 2023	31 December 2022
Total equity attribute to equity holders of the Bank	37,938,736	35,816,312
– Equity attribute to ordinary shareholders of the Bank	31,542,953	29,420,529
– Equity attribute to other equity instrument holders of the Bank	6,395,783	6,395,783
Total equity attribute to non-controlling interests	848,815	776,983
– Equity attribute to non-controlling interests of ordinary shares	848,815	776,983

37 RESERVES

(1) Capital reserve

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

(2) Surplus reserve

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

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises issued by the MOF after making up for the previous years' losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of the Bank's registered capital.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RESERVES (continued)

(3) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF in March 2012, the Bank is required to appropriate a general reserve from net profit as profit appropriation which should not be lower than 1.50% of the ending balance of its gross risk-bearing assets.

The Bank’s subsidiaries appropriate their profits to the general reserve according to the applicable industry regulations.

The Bank set aside a general reserve upon approval by the board of directors. The general reserve balance of the Bank as at 31 December 2022 amounted to RMB6.317 billion, which has reached 1.50% of the year ending balance of the Bank’s gross risk-bearing assets.

(4) Other comprehensive income

Items	Six months ended 30 June 2023					Balance at the end of the period
	Balance at the beginning of the period	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	
Items that will not be reclassified to profit or loss Including: Remeasurements of defined benefit plan	(16,853)	(2,190)	–	548	(1,642)	(18,495)
Items that may be reclassified to profit or loss Including: Changes in fair value from financial assets measured at FVOCI Credit losses of financial assets measured at FVOCI	(72,988)	1,057,477	(228,111)	(200,511)	628,855	555,867
	173,567	240,560	(119,542)	(30,254)	90,764	264,331
Total	83,726	1,295,847	(347,653)	(230,217)	717,977	801,703

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

37 RESERVES (continued)

Item	2022					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Balance at the end of the year
Items that will not be reclassified to profit or loss						
Including: Remeasurements of defined benefit plan	(11,573)	(7,040)	-	1,760	(5,280)	(16,853)
Items that may be reclassified to profit or loss						
Including: Changes in fair value from financial assets measured at FVOCI	386,452	(134,216)	(478,371)	153,147	(459,440)	(72,988)
Credit losses of financial assets measured at FVOCI	371,620	63,659	(327,729)	66,017	(198,053)	173,567
Total	746,499	(77,597)	(806,100)	220,924	(662,773)	83,726

38 PROFIT APPROPRIATION

- (1) At the Bank's 2022 annual general meeting held on 31 May 2023, the directors approved the following profit appropriation for the year ended 31 December 2022:
- Appropriated RMB284 million to surplus reserve;
 - Appropriated RMB907 million to general reserve;
 - Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).
- (2) According to the terms of issuance of the Offshore Preference Shares and related authorisation, the chairman, the president and the secretary to the board of directors of the Bank jointly signed the Decision on Full Distribution of Dividends on Offshore Preference Shares of Bank of Qingdao Co., Ltd. for the Fifth Dividend Accruing Year at the Bank's board of directors meeting held on 22 July 2022 and agreed the dividend distribution plan for Offshore Preference Shares, with dividends of USD73.5167 million (before tax) to be distributed, which was calculated at the initial annual dividend rate of 5.50% (after tax) before the first reset date pursuant to the terms and conditions of Offshore Preference Shares. The dividend payment date was 20 September 2022, and the amount of dividend was equivalent to approximately RMB510 million (before tax).
- (3) At the Bank's 2021 annual general meeting held on 10 May 2022, the shareholders approved the following profit appropriation for the year ended 31 December 2021:
- Appropriated RMB244 million to surplus reserve;
 - Appropriated RMB429 million to general reserve;
 - Declared cash dividends to all ordinary shareholders of approximately RMB931 million representing RMB1.60 per 10 shares (before tax).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents:

	30 June 2023	30 June 2022
Cash	379,784	333,407
Surplus deposit reserves with central banks	6,628,211	19,884,893
Original maturity within three months:		
– Deposits with banks and other financial institutions	1,322,274	1,007,586
– Placements with banks and other financial institutions	1,783,548	200,000
– Certificates of interbank deposit issued	–	4,289,406
Total	10,113,817	25,715,292

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Bank with direct ownership of 5% or above.

Major shareholders' information

Company name	Number of ordinary shares of the Bank held by the Company (in thousands)	Proportion of ordinary shares of the Bank held by the Company		Registered location	Principal activities	Legal form	Legal representative
		30 June 2023	31 December 2022				
Intesa Sanpaolo S.p.A. ("ISP")	1,018,562	17.50%	17.50%	Italy	Commercial banking	Joint stock limited company	Gian Maria GROS-PIETRO
Qingdao Conson Industrial Co., Ltd. ("Qingdao Conson")	654,623	11.25%	11.25%	Qingdao	State-owned assets operation and investment, import and export of goods and technology	Limited liability company	Wang Jianhui
Qingdao Haier Industrial Development Co., Ltd. ("Haier Industrial Development")	532,601	9.15%	9.15%	Qingdao	Business services	Limited liability company	Xie Juzhi

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

Changes in ordinary shares of the Bank held by major shareholders

	ISP		Qingdao Conson		Haier Industrial Development	
	Number <i>(in thousands of shares)</i>	Percentage	Number <i>(in thousands of shares)</i>	Percentage	Number <i>(in thousands of shares)</i>	Percentage
As at 1 January 2022	624,754	13.85%	503,556	11.17%	409,693	9.08%
Increase	393,808	3.65%	151,067	0.08%	122,908	0.07%
As at 31 December 2022	1,018,562	17.50%	654,623	11.25%	532,601	9.15%
Increase	-	-	-	-	-	-
As at 30 June 2023	1,018,562	17.50%	654,623	11.25%	532,601	9.15%

Changes in registered capital of major shareholders

	Currency	30 June 2023	31 December 2022
ISP	EUR	10,369 Million	10,369 Million
Qingdao Conson	RMB	2,000 Million	2,000 Million
Haier Industrial Development	RMB	4,500 Million	4,500 Million

(b) *Subsidiaries of the Bank*

The detailed information of the Bank's subsidiaries is set out in Note 21.

(c) *Other related parties*

Other related parties include members of the board of directors, the board of supervisors and senior management and close family members of such individuals; entities (and their subsidiaries) which members of the board of directors, the board of supervisors and senior management, and close family members of such individuals can control, jointly control or act as directors or senior management, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(2) Related party transactions and balances

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

(a) Transactions with the related parties except subsidiaries (excluding remuneration of key management personnel)

	ISP and its group	Qingdao Conson and its group	Haier Investment Development and its group	Other legal person related parties	Other natural person related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 30 June 2023							
Loans and advances to customers	-	-	1,504,719	84,824	296,570	1,886,113	0.67%
Financial investments measured at amortised cost	-	-	-	447,009	-	447,009	0.81%
Financial investments at FVOCI	-	204,719	-	-	-	204,719	0.19%
Financial investments at FVTPL	-	-	-	447,798	-	447,798	0.98%
Long-term receivables	-	-	126,258	-	-	126,258	0.76%
Deposits with banks and other financial institutions	4	-	-	-	-	4	0.00%
Deposits from customers	79,503	53,740	344,766	4,406,212	732,339	5,616,560	1.49%
Deposits from banks and other financial institutions	-	75	518	3,401	-	3,994	0.39%
Credit commitments: Bank acceptances	-	100	73,758	1,100	-	74,958	0.25%
Six months ended 30 June 2023							
Interest income	-	188	53,316	465	9,352	63,321	0.62%
Interest expense	712	453	1,792	54,099	5,772	62,828	1.09%
Fee and commission income	-	-	-	12,544	-	12,544	1.06%
Fee and commission expense	-	-	-	40	-	40	0.02%
Other net operating losses	-	-	-	500	-	500	0.64%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

	ISP and its group	Qingdao Conson and its group	Haier Industrial Development and its group	Other corporate related parties (Note (i))	Other individual related parties	Total	Proportion to gross amount/ balance of similar transactions
As at 31 December 2022							
Loans and advances to customers	-	-	1,351,200	-	311,449	1,662,649	0.62%
Financial investments measured at amortised cost	-	-	-	1,005,318	-	1,005,318	1.64%
Financial investments measured at FVTPL	-	-	-	444,301	-	444,301	0.94%
Long-term receivables	-	-	193,436	-	-	193,436	1.23%
Deposits with banks and other financial institutions	19,498	-	-	-	-	19,498	0.85%
Deposits from customers	134,322	48,349	334,017	3,745,736	556,003	4,818,427	1.38%
Deposits from banks and other financial institutions	-	-	516	5,534	-	6,050	0.09%
Credit commitments:							
Bank acceptances	-	100	-	100	-	200	0.00%
Six months ended 30 June 2022							
Interest income	-	-	44,103	-	516	44,619	0.46%
Interest expense	914	393	3,540	52,218	1,942	59,007	1.02%
Fee and commission income	-	-	-	18,497	-	18,497	1.89%
Other net operating losses	-	-	-	2,100	-	2,100	7.84%

Note:

- (i) For the six months ended 30 June 2022, AMTD Global Markets Limited, the Group's related party, as one of the Underwriters and Joint Bookrunners of the Bank's H Share Rights Issue, received an underwriting commission fee from the Group which is not significant to the financial statements of the Group. The above underwriting commission fee was capitalised as issuance costs of the H Share Rights Issue.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Transactions with subsidiaries

	30 June 2023	31 December 2022
Balances at the end of the period/year:		
Placements with banks and other financial institutions	1,718,066	1,311,569
Deposits from banks and other financial institutions	1,168,960	829,336
Six months ended 30 June		
	2023	2022
Transactions during the period:		
Interest income	32,803	1,778
Interest expense	3,736	2,846
Fee and commission income	125,652	105,481
Fee and commission expense	–	55,519
Other net operating income	1,016	1,016

Intra-group balances and transactions are eliminated in full in preparing the consolidated financial statements.

(3) Key management personnel

The Bank's key management personnel includes people having authority and responsibility, directly or indirectly, to plan, command and control the activities of the Bank, including directors, supervisors and senior management at bank level.

	Six months ended 30 June	
	2023	2022
Remuneration of key management personnel	8,007	10,252

The Bank enters into banking transactions with key management personnel in the normal course of business. For the reporting period, the Bank had no material banking transactions and balances with key management personnel. As at 30 June 2023, the credit card overdraft balance of the Bank to the key management personnel amounted to RMB47.3 thousands (31 December 2022: RMB10.6 thousands), which have been included in loans and advances to related parties stated in Note 40(2).

(4) Transactions with the annuity

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING

The Group manages its businesses by business lines. Segment assets and liabilities, and segment income, expense and operating results are measured in accordance with the Group's accounting policies. Internal charges and transfer pricing of transactions between segments are determined for management purpose and have been reflected in the performance of each segment. Interest income and expenses earned from third parties are referred to as "External net interest income/expense". Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "Internal net interest income/expense".

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

The Group defines its reporting segments based on the following for management purpose:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, deposit taking activities, agency services, remittance and settlement services, etc.

Retail banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans and deposit services, etc.

Financial market business

This segment covers the financial market operations. The financial market business includes inter-bank money market transactions, repurchases transactions, investments in debt securities, and non-standardised debt investments, etc.

Unallocated items and others

This segment contains related business of the subsidiaries except BQD Wealth Management Company Limited., head office assets, liabilities, income and expenses that are not directly attributable to a segment.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING (continued)

	Six months ended 30 June 2023				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
External net interest income/(expense)	2,841,804	(183,240)	1,560,886	289,961	4,509,411
Internal net interest (expense)/income	(267,439)	1,533,454	(1,266,015)	–	–
Net interest income	2,574,365	1,350,214	294,871	289,961	4,509,411
Net fee and commission income/(expense)	253,855	395,079	292,057	(958)	940,033
Net trading losses	(1,957)	(2,123)	(100,564)	–	(104,644)
Net gains arising from investments	79,042	–	868,305	887	948,234
Other net operating income	35,970	–	10,193	31,614	77,777
Operating income	2,941,275	1,743,170	1,364,862	321,504	6,370,811
Operating expenses	(833,273)	(615,185)	(292,468)	(33,750)	(1,774,676)
Credit losses	(827,342)	(381,758)	(539,597)	(61,135)	(1,809,832)
Profit before taxation	1,280,660	746,227	532,797	226,619	2,786,303
Other segment information					
– Depreciation and amortisation	(124,912)	(132,748)	(18,434)	(729)	(276,823)
– Capital expenditure	76,364	81,154	9,857	876	168,251
	30 June 2023				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	225,921,922	89,520,048	232,806,724	16,674,554	564,923,248
Deferred tax assets					3,477,659
Total assets					568,400,907
Segment liabilities/Total liabilities	224,655,973	174,992,719	116,041,475	13,923,189	529,613,356
Credit commitments	50,857,001	23,779,523	–	–	74,636,524

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

41 SEGMENT REPORTING (continued)

	Six months ended 30 June 2022				Total
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	
External net interest income	2,374,968	495,614	886,923	217,245	3,974,750
Internal net interest income/(expense)	561,151	414,677	(975,828)	-	-
Net interest income/(expense)	2,936,119	910,291	(88,905)	217,245	3,974,750
Net fee and commission income	107,695	364,848	347,310	15,992	835,845
Net trading (losses)/gains	(9,026)	(8,312)	439,961	-	422,623
Net gains arising from investments	41,102	-	910,221	-	951,323
Other net operating (losses)/income	(480)	11	300	26,968	26,799
Operating income	3,075,410	1,266,838	1,608,887	260,205	6,211,340
Operating expenses	(829,287)	(609,610)	(357,478)	(26,084)	(1,822,459)
Credit losses	(1,579,765)	(220,723)	(159,443)	(98,552)	(2,058,483)
Impairment losses on other assets	(6,027)	-	-	-	(6,027)
Profit before taxation	660,331	436,505	1,091,966	135,569	2,324,371
Other segment information					
- Depreciation and amortisation	(101,303)	(148,717)	(14,995)	(3,779)	(268,794)
- Capital expenditure	72,259	106,079	12,369	1,514	192,221
	31 December 2022				
	Corporate banking	Retail banking	Financial market business	Unallocated items and others	Total
Segment assets	209,943,060	88,215,513	212,537,502	15,471,574	526,167,649
Deferred tax assets					3,446,343
Total assets					529,613,992
Segment liabilities/Total liabilities	223,436,198	153,209,549	103,132,597	13,242,353	493,020,697
Credit commitments	49,637,911	18,441,375	-	-	68,079,286

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT

The main risks of the Group are described and analysed as follows:

The board of directors has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management and Consumer Right Protection Committee, the Audit Committee and the Related Party Transaction Control Committee, etc.

The President is responsible for overall risk management at the senior management level with the assistance of other key management personnel. In accordance with the risk management strategy determined by the board of directors, the senior management keeps abreast of the level of risk and the management status, enabling the Group to have sufficient resources to develop and implement risk management policies and systems, and to monitor, identify and control risks in various businesses.

The Group establishes the comprehensive risk management committee, which is mainly in charge of the comprehensive risk management. Each department within the Group implements risk management policies and procedures in accordance with their respective management functions and is responsible for their own risk management in their respective business areas.

Each branch establishes a branch risk management committee, which is in charge of evaluating the risk status of the branch regularly, determining and improving the risk management and internal control measures and methods, etc., under the guidance from relevant risk management departments of the head office. Each branch should report major risk events to the relevant risk management department of the head office, and carry out risk treatments according to the plans or improvements proposed by the head office department.

The Group has exposure to the following risks arises from the Group's daily operations, which mainly include: credit risk, interest rate risk, foreign currency risk, liquidity risk and operational risk. This note presents information about the Group's exposure to each of the above risks and their sources, as well as the Group's risk management objectives, policies and processes for measuring and managing risks.

The Group aims to seek an appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and utilisation of limits by means of reliable and up-to-date management information systems.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(1) Credit risk

(a) Definition and scope

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group. Credit risk mainly arises from loan portfolio, investment portfolio, guarantees and various other on- and off-balance sheet credit risk exposures.

The Risk Management and Consumer Right Protection Committee of the Board of Directors monitors the control of credit risk, and regularly reviews related reports on risk profile. Credit risk management is under the unified leadership of the Risk Management Committee of the head office. Each business unit is required to implement credit policies and procedures, and is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Without taking account of any collateral and other credit enhancements, the maximum exposure to credit risk is represented by the carrying amount of each type of financial assets and the contract amount of credit commitments. In addition to the Group's credit commitments disclosed in Note 44(1), the Group did not provide any other guarantee that might expose the Group to credit risk. The maximum exposure to credit risk in respect of above credit commitments as at the end of the reporting period is disclosed in Note 44(1).

(b) Credit risk assessment method

Stage of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

Financial instruments that have low credit risk

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed as at the end of the reporting period with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

- Failure to make payments of principal or interest on their contractually due dates;
- An actual or expected significant deterioration in a financial instrument's external or internal credit rating;
- An actual or expected significant deterioration in the operating results of the debtor; and
- Existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Credit impairment assessment

At the end of the reporting period, the Group assesses whether financial assets carried at amortised cost and financial assets measured at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or delinquency in interest or principal payments for over 90 days, etc.;
- For economic or contractual reasons relating to the borrower's financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of the borrower's financial difficulties.

Measuring ECL – the parameters, assumptions and valuation techniques

Based on whether there is significant increase in credit risk since initial recognition and whether the financial instrument has suffered credit impairment, the Group measures provision for loss of different financial instruments with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the product of three key parameters, namely the probability of default (PD), loss given default (LGD) and exposure at default (EAD), taking into account the time value of the currency. The definitions of these terms are as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The Group's PD is adjusted based on the results of the internal rating model, taking the forward-looking information into account to reflect the influence on future's point-in-time PD under the macro-economic environment.
- LGD is expressed as a percentage loss per unit of exposure at the time of default. It varies depending on the type of business products, collateral and other factors.
- EAD is based on the amounts the Group expects to be owed at the time of default.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

During the reporting period, there has been no significant changes in the estimate techniques and key assumptions of the Group.

The impairment loss on credit-impaired corporate loans and advance to customers applied cash flow discount method, if there is objective evidence that an impairment loss on a loan or advance has incurred, the amount of the loss is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the statement of profit or loss. In determining allowances on an individual basis, the following factors are considered:

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

It may not be possible to identify a single, or discrete events that result in the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Forward-looking information contained in ECL

Both the assessment of significant increase in credit risk since initial recognition and the measurement of ECL of financial instruments involve forward-looking information.

The Group assumes three economic scenarios: the base scenario in line with the average internal forecast; the upside scenario and the downside scenario. Weighted credit loss is the expected credit loss calculated by assigning scenario weighting of multiple scenarios.

Based on the analysis on historical data, the Group periodically assessed alternative macroeconomic indicators and identified key economic indicators that affect the credit risk and ECL of business types, including gross domestic product (GDP), consumer price index (CPI), and monetary aggregates (M2) etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting future economic indicators.

During the six months ended 30 June 2023, the Group has taken into account different macroeconomic scenarios and made forward-looking forecasts of key economic indicators, including the average forecasted year-on-year growth rate of GDP, used to estimate ECL, which is about 5.17% in the neutral scenario.

The Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at 30 June 2023 and 31 December 2022, when the key economic indicators in the neutral scenario move up or down by 5%, the ECL will not change by more than 5%.

Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the ECL were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Write-off policy

The Group writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(c) *Assessing credit risk of financial assets after the amendment of contractual cash flows*

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

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

(d) *Collaterals and other credit enhancements*

The Group and its subsidiaries have respectively established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Group's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Group has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Group will seek additional collateral from counterparties/require additional guarantors or squeeze the credit limit. It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(e) Maximum credit risk exposure

As at the end of the reporting period, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

The Group

	30 June 2023	31 December 2022
Deposits with central banks	24,886,497	27,475,825
Deposits with banks and other financial institutions	2,129,920	2,301,037
Placements with banks and other financial institutions	12,879,648	8,432,022
Derivative financial assets	104,771	108,376
Financial assets held under resale agreements	7,985,878	–
Loans and advances to customers	281,776,342	262,518,662
Financial investments:		
– Financial investments measured at FVTPL	45,862,730	12,307,062
– Financial investments measured at FVOCI	109,193,922	96,655,451
– Financial investments measured at amortised cost	55,234,085	58,202,665
Long-term receivables	16,571,885	15,280,949
Others	1,591,111	1,307,938
Subtotal	558,216,789	484,589,987
Credit commitments	74,636,524	68,079,286
Total	632,853,313	552,669,273

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(f) Risk concentrations

Credit risk is often greater when transactions are concentrated in one single industry or have comparable economic features. In addition, different industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

The composition of the Group's gross loans and advances to customers (excluding accrued interest) by industry is analysed as follows:

	30 June 2023		31 December 2022	
	Amount	Percentage	Amount	Percentage
Construction	40,736,394	14.10%	36,870,337	13.70%
Wholesale and retail trade	34,016,401	11.78%	27,177,633	10.10%
Renting and business activities	27,809,003	9.63%	22,197,699	8.25%
Manufacturing	25,146,630	8.71%	30,836,317	11.46%
Water, environment and public utility management	23,786,916	8.24%	24,242,353	9.01%
Real estate	22,817,808	7.90%	21,744,001	8.08%
Financial service	15,635,427	5.41%	13,558,837	5.04%
Transportation, storage and postal services	6,641,627	2.30%	5,031,283	1.87%
Production and supply of electric and heating power, gas and water	4,744,981	1.64%	4,837,379	1.80%
Scientific Research and Technical Services Industries	3,705,408	1.28%	2,788,039	1.04%
Others	8,513,038	2.95%	6,365,544	2.37%
Subtotal for corporate loans and advances (including discounted bills and forfeiting)	213,553,633	73.94%	195,649,422	72.72%
Personal loans and advances	75,281,924	26.06%	73,380,030	27.28%
Total for loans and advances to customers	288,835,557	100.00%	269,029,452	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Distribution of debt securities investments (excluding accrued interest) analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Wind, Bloomberg Composite, or major rating agencies where the issuers of debt securities are located. The account balance of debt securities investments analysed by rating as at the end of the reporting period are as follows:

	30 June 2023					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers)						
Government and central banks	–	59,078,799	–	–	–	59,078,799
Policy banks	–	21,503,166	–	–	–	21,503,166
Banks and other financial institutions	3,432,905	31,997,754	2,299,781	143,359	269,391	38,143,190
Corporate entities	21,204	23,014,029	16,181,215	58,011	2,255,443	41,529,902
Total	3,454,109	135,593,748	18,480,996	201,370	2,524,834	160,255,057

	31 December 2022					
	Unrated	AAA	AA	A	Below A	Total
Debt securities (analysed by type of issuers)						
Governments and central banks	–	63,706,037	–	–	–	63,706,037
Policy banks	–	17,899,619	–	–	–	17,899,619
Banks and other financial institutions	3,376,161	25,658,379	1,875,288	237,208	256,545	31,403,581
Corporate entities	91,295	15,810,493	16,450,173	83,875	2,675,963	35,111,799
Total	3,467,456	123,074,528	18,325,461	321,083	2,932,508	148,121,036

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(g) Analysis on the credit quality of financial instruments

As at 30 June 2023, the Group's credit risk stages of financial instruments are as follows:

The Group

Financial assets measured at amortised cost	30 June 2023							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	25,266,281	-	-	25,266,281	-	-	-	-
Deposits with banks and other financial institutions	2,130,773	-	-	2,130,773	(853)	-	-	(853)
Placements with banks and other financial institutions	12,912,364	-	-	12,912,364	(32,716)	-	-	(32,716)
Financial assets held under resale agreements	8,000,000	-	-	8,000,000	(14,122)	-	-	(14,122)
Loans and advances to customers								
- Corporate loans and advances	187,283,667	1,405,134	2,268,188	190,956,989	(4,198,061)	(267,522)	(1,985,962)	(6,451,545)
- Personal loans and advances	73,653,992	763,291	1,026,152	75,443,435	(372,775)	(145,941)	(658,904)	(1,177,620)
Financial investments	54,104,075	120,209	4,537,395	58,761,679	(141,891)	(16,445)	(3,369,258)	(3,527,594)
Long-term receivables	16,748,925	192,650	138,041	17,079,616	(391,226)	(46,188)	(70,317)	(507,731)
Total	380,100,077	2,481,284	7,969,776	390,551,137	(5,151,644)	(476,096)	(6,084,441)	(11,712,181)

Financial assets measured at FVOCI	30 June 2023							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
- Discounted bills and forfeiting	22,987,226	17,857	-	23,005,083	(185,226)	(28)	-	(185,254)
Financial investments	109,027,182	166,740	-	109,193,922	(159,160)	(8,027)	-	(167,187)
Total	132,014,408	184,597	-	132,199,005	(344,386)	(8,055)	-	(352,441)
Credit commitments	74,582,111	53,413	1,000	74,636,524	(357,106)	(1,486)	-	(358,592)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Financial assets measured at amortised cost	31 December 2022							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and balances with central banks	27,825,306	-	-	27,825,306	-	-	-	-
Deposits with banks and other financial institutions	2,303,628	-	-	2,303,628	(2,591)	-	-	(2,591)
Placements with banks and other financial institutions	8,459,377	-	-	8,459,377	(27,355)	-	-	(27,355)
Loans and advances to customers								
– Corporate loans and advances	169,381,379	1,395,899	2,608,188	173,385,466	(3,631,302)	(312,800)	(2,263,910)	(6,208,012)
– Personal loans and advances	72,078,420	814,528	655,589	73,548,537	(269,848)	(197,911)	(433,700)	(901,459)
Financial investments	56,482,930	235,908	4,430,545	61,149,383	(191,705)	(27,839)	(2,727,174)	(2,946,718)
Long-term receivables	15,340,939	216,795	161,059	15,718,793	(265,041)	(65,109)	(107,694)	(437,844)
Total	351,871,979	2,663,130	7,855,381	362,390,490	(4,387,842)	(603,659)	(5,532,478)	(10,523,979)

Financial assets measured at FVOCI	31 December 2022							
	Book balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
– Discounted bills and forfeiting	22,676,508	17,622	-	22,694,130	(27,639)	(31)	-	(27,670)
Financial investments	94,715,912	1,939,539	-	96,655,451	(51,725)	(152,028)	-	(203,753)
Total	117,392,420	1,957,161	-	119,349,581	(79,364)	(152,059)	-	(231,423)
Credit commitments	67,960,640	97,646	21,000	68,079,286	(249,614)	(3,028)	-	(252,642)

Note:

- (i) As simplified approach of impairment allowance is applied to other financial assets measured at amortised cost, three-stage model is not applicable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(2) *Market risk*

Market risk is the risk of loss, in respect of the Group's on- and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and other prices, etc.

The Group has implemented a market risk management system that formulates procedures to identify, measure, monitor and control market risks. This system aims to minimise market risk to an acceptable level through examining and approving new products and quota management.

The Group adopts sensitivity analysis, interest repricing gap analysis and foreign currency gap analysis to measure and monitor market risks. The Group classifies transactions as banking book and trading book transactions, and applies different approaches based on the nature and characteristics of these books to monitor the associated risks.

The Group is exposed to market risk in the ordinary course of business, which includes the interest rate risk and the currency risk.

(a) *Interest rate risk*

Interest rate risk refers to the risk that the adverse changes in market interest rate and maturity structures will cause the overall revenue and economic value of financial instruments to suffer losses. The Group's interest rate exposures mainly comprise the mismatching of interest-earning assets and interest-bearing liabilities' repricing dates, as well as the effect of interest rate volatility on trading positions.

The Group primarily uses gap analysis to assess and monitor its repricing risk and adjusts the ratio of floating and fixed rate accounts, the loan repricing cycle, as well as optimises the term structure of its deposits according to the gap status.

The Group implements various methods, such as sensitivity analysis and scenario simulation to measure and monitor interest risk exposure; risk exposure limits, such as interest rate sensitivity and risk exposure are set regularly, and the relevant implementation of these limits is also monitored, managed and reported on a regular basis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

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

	30 June 2023					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central banks	25,266,281	452,494	24,813,787	-	-	-
Deposits with banks and other financial institutions	2,129,920	8,499	1,321,914	799,507	-	-
Placements with banks and other financial institutions	12,879,648	128,441	2,381,295	10,170,035	199,877	-
Financial assets held under resale agreements	7,985,878	315	7,985,563	-	-	-
Loans and advances to customers (Note (i))	281,776,342	559,138	79,695,420	148,961,210	46,570,467	5,990,107
Financial investments (Note (ii))	210,313,987	41,586,415	4,047,003	10,146,183	87,015,249	67,519,137
Long-term receivables	16,571,885	206,122	1,801,323	9,992,468	4,571,972	-
Others	11,476,966	11,476,966	-	-	-	-
Total assets	568,400,907	54,418,390	122,046,305	180,069,403	138,357,565	73,509,244
Liabilities						
Borrowings from central banks	16,601,746	117,083	1,628,865	14,855,798	-	-
Deposits from banks and other financial institutions	1,036,697	26,841	1,009,856	-	-	-
Placements from banks and other financial institutions	19,110,941	160,287	5,884,954	12,875,700	190,000	-
Financial assets sold under repurchase agreements	35,076,358	1,203	35,075,155	-	-	-
Deposits from customers	377,736,593	7,793,824	174,927,964	69,860,061	125,154,744	-
Debt securities issued	74,318,662	110,111	20,278,166	44,958,936	8,971,449	-
Others	5,732,359	5,195,734	41,263	98,559	303,897	92,906
Total liabilities	529,613,356	13,405,083	238,846,223	142,649,054	134,620,090	92,906
Asset-liability gap	38,787,551	41,013,307	(116,799,918)	37,420,349	3,737,475	73,416,338

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	31 December 2022					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with central banks	27,825,306	394,369	27,430,937	-	-	-
Deposits with banks and other financial institutions	2,301,037	13,130	2,088,048	199,859	-	-
Placements with banks and other financial institutions	8,432,022	208,644	4,733,686	3,489,692	-	-
Loans and advances to customers (Note (i))	262,518,662	563,118	68,781,574	152,363,980	35,395,663	5,414,327
Financial investments (Note (ii))	202,141,128	43,709,191	7,991,469	11,534,615	69,140,563	69,765,290
Long-term receivables	15,280,949	216,532	6,469,227	5,168,662	3,426,528	-
Others	11,114,888	11,114,888	-	-	-	-
Total assets	529,613,992	56,219,872	117,494,941	172,756,808	107,962,754	75,179,617
Liabilities						
Borrowings from central banks	13,256,605	57,473	3,477,252	9,721,880	-	-
Deposits from banks and other financial institutions	6,439,660	39,343	2,898,857	3,501,460	-	-
Placements from banks and other financial institutions	17,808,095	184,054	5,216,610	12,307,431	100,000	-
Financial assets sold under repurchase agreements	25,634,354	1,823	25,632,531	-	-	-
Deposits from customers	348,043,307	7,085,444	167,691,199	67,206,597	106,042,651	17,416
Debt securities issued	74,866,951	253,084	21,435,717	43,184,576	9,993,574	-
Others	6,971,725	4,666,033	1,853,926	64,869	293,537	93,360
Total liabilities	493,020,697	12,287,254	228,206,092	135,986,813	116,429,762	110,776
Asset-liability gap	36,593,295	43,932,618	(110,711,151)	36,769,995	(8,467,008)	75,068,841

Notes:

- (i) As at 30 June 2023 and 31 December 2022, the category "Less than three months" of the Group's loans and advances to customers includes overdue loans and advances (net of provision for impairment losses) of RMB1,489 million and RMB1,237 million, respectively.
- (ii) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI, financial investments measured at amortised cost.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the effect on the Group's net interest income and equity from possible and reasonable interest rate fluctuations with all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the reporting period and whose interest rates are expected to be repriced within one year. The effect on equity refers to the effect of certain interest rate changes on the fair value change generated by debt investments measured at FVOCI that are held at the end of the reporting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

Changes in annualised net interest income	30 June 2023 (Decrease)/ Increase	31 December 2022 (Decrease)/ Increase
Interest rates increase by 100 bps	(887,347)	(831,337)
Interest rates decrease by 100 bps	887,347	831,337

Change in annualized equity	30 June 2023 (Decrease)/ Increase	31 December 2022 (Decrease)/ Increase
Interest rates increase by 100 bps	(3,075,232)	(2,782,794)
Interest rates decrease by 100 bps	3,307,062	3,051,735

This sensitivity analysis is based on a static interest rate risk profile of the assets and liabilities and certain simplified assumptions. The analysis shows how annualised interest income and equity would have been affected by the repricing of the Group's assets and liabilities. The analysis is based on the following assumptions:

- Regardless of subsequent changes, the analysis is based on the static gap at the end of the reporting period;
- In measuring the effect of changes in interest rates on the Group's net interest income, all assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the beginning of the respective periods;
- Interest rates on deposits with central banks and on demand deposits deposited and absorbed remain unchanged;
- There is a parallel shift in the yield curve and in interest rates;
- There are no other changes to the portfolio and all positions will be retained and rolled over upon maturity;
- other variables (including exchange rates) remain unchanged; and
- no consideration of impact on customers' behavior, market price and off-balance sheet business resulting from interest rate changes.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's net interest income and equity resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(b) Currency risk

Currency risk is the risk of loss caused by adverse changes in market exchange rate. The Group's currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

	30 June 2023			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and deposits with central banks	25,113,471	150,014	2,796	25,266,281
Deposits with banks and other financial institutions	1,531,830	566,739	31,351	2,129,920
Placements with banks and other financial institutions	12,446,036	433,612	–	12,879,648
Financial assets held under resale agreements	7,985,878	–	–	7,985,878
Loans and advances to customers	280,978,953	797,389	–	281,776,342
Financial investments (Note (i))	203,312,472	7,001,515	–	210,313,987
Long-term receivables	16,571,885	–	–	16,571,885
Others	11,007,165	466,464	3,337	11,476,966
Total assets	558,947,690	9,415,733	37,484	568,400,907
Liabilities				
Borrowings from central banks	16,601,746	–	–	16,601,746
Deposits from banks and other financial institutions	282,045	754,652	–	1,036,697
Placements from banks and other financial institutions	18,031,904	1,079,037	–	19,110,941
Financial assets sold under repurchase agreements	35,076,358	–	–	35,076,358
Deposits from customers	376,047,387	1,667,356	21,850	377,736,593
Debt securities issued	74,318,662	–	–	74,318,662
Others	5,540,439	184,677	7,243	5,732,359
Total liabilities	525,898,541	3,685,722	29,093	529,613,356
Net on balance sheet position	33,049,149	5,730,011	8,391	38,787,551
Net position of foreign exchange swaps and others		(5,590,923)	1,002	(5,589,921)
Net position	33,049,149	139,088	9,393	33,197,630
Credit commitments	70,735,250	3,459,529	441,745	74,636,524

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	31 December 2022			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Assets				
Cash and deposits with central banks	27,689,844	131,884	3,578	27,825,306
Deposits with banks and other financial institutions	1,465,218	757,794	78,025	2,301,037
Placements with banks and other financial institutions	8,432,022	–	–	8,432,022
Loans and advances to customers	260,885,963	1,629,357	3,342	262,518,662
Financial investments (Note (i))	194,601,933	7,539,195	–	202,141,128
Long-term receivables	15,280,949	–	–	15,280,949
Others	10,676,780	435,312	2,796	11,114,888
Total assets	519,032,709	10,493,542	87,741	529,613,992
Liabilities				
Borrowings from central banks	13,256,605	–	–	13,256,605
Deposits from banks and other financial institutions	3,960,620	2,479,040	–	6,439,660
Placements from banks and other financial institutions	17,663,785	144,310	–	17,808,095
Financial assets sold under repurchase agreements	25,395,789	238,565	–	25,634,354
Deposits from customers	346,301,171	1,684,653	57,483	348,043,307
Debt securities issued	74,866,951	–	–	74,866,951
Others	984,776	5,969,696	17,253	6,971,725
Total liabilities	482,429,697	10,516,264	74,736	493,020,697
Net position	36,603,012	(22,722)	13,005	36,593,295
Credit commitments	65,256,071	2,406,503	416,712	68,079,286

Note:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency on the Group's net profit and equity. The following table presents the exchange rate sensitivity analysis based on assets and liabilities as at 30 June 2023 and 31 December 2022.

Changes in annualised net profit and equity	30 June 2023 Increase/ (Decrease)	31 December 2022 (Decrease)/ Increase
Foreign exchange rate increase by 100 bps	154	(10)
Foreign exchange rate decrease by 100 bps	(154)	10

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions:

- the foreign exchange sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- the fluctuation of exchange rates by 100 basis points at the reporting date is based on the assumption of exchange rates movement over the next 12 months;
- the exchange rates against RMB for all foreign currencies change in the same direction simultaneously;
- Since the Group's assets and liabilities in other foreign currencies (excluding in USD) are not significant in proportion to the total assets and total liabilities, the possible impact of other foreign currencies on the Group's net profit and equity is calculated at the amount converted into USD in the above sensitivity analysis;
- the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity;
- other variables (including interest rates) remain unchanged; and
- no consideration of impact on customers' behavior and market price resulting from exchange rate changes.

The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the Group's gain or loss and equity resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(3) *Liquidity risk*

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business even if a bank's solvency remains strong. The liquidity risk management is to ensure that the Group has sufficient cash flow to meet payment obligations and fund business operations on a timely basis. To achieve this, the Group should have the ability to make full payment due on demand deposits or early withdrawal of term deposits, make full repayment of placements upon maturity, or meet other payment obligations. The Bank also needs to comply with statutory requirements on liquidity ratios, and actively carry out lending and investment business. The Group monitors the future cash flow according to its liquidity management policies, and keeps its high liquidity assets at an appropriate level.

Under the guidance of the Asset and Liability Management Committee, the Financial Planning Department performs daily management of liquidity risk in accordance with the liquidity management objectives, and to ensure the normal payment of the business.

The Group holds an appropriate amount of liquid assets (such as deposits with central banks, other short-term deposits and securities) to ensure liquidity needs and unpredictable demand for payment in the ordinary course of business. A substantial portion of the Group's assets are funded by deposits from customers. As a major source of funding, customer deposits have been growing steadily in recent years and are widely diversified in terms of type and duration.

The Group principally uses liquidity gap analysis to measure liquidity risk. Stress testing is also adopted to assess the impact of liquidity risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(a) Maturity analysis

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

	30 June 2023							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	18,249,572	7,016,709	-	-	-	-	-	25,266,281
Deposits with banks and other financial institutions	-	1,322,946	-	-	806,974	-	-	2,129,920
Placements with banks and other financial institutions	-	-	1,034,017	1,352,826	10,292,525	200,280	-	12,879,648
Financial assets held under resale agreements	-	-	7,985,878	-	-	-	-	7,985,878
Loans and advances to customers	734,210	572,238	24,129,151	21,009,632	85,421,412	81,289,406	68,620,293	281,776,342
Financial investments (Note (i))	1,189,807	2,630,230	19,379,574	3,700,718	12,986,041	95,273,023	75,154,594	210,313,987
Long-term receivables	70,439	25,537	735,410	1,150,356	5,047,126	9,369,887	173,130	16,571,885
Others	9,411,933	9,525	105,477	36,388	60,074	270,373	1,583,196	11,476,966
Total assets	29,655,961	11,577,185	53,369,507	27,249,920	114,614,152	186,402,969	145,531,213	568,400,907
Liabilities								
Borrowings from central banks	-	-	1,255,990	373,808	14,971,948	-	-	16,601,746
Deposits from banks and other financial institutions	-	252,527	-	784,170	-	-	-	1,036,697
Placements from banks and other financial institutions	-	-	1,820,375	3,070,840	12,954,662	1,265,064	-	19,110,941
Financial assets sold under repurchase agreements	-	-	35,076,358	-	-	-	-	35,076,358
Deposits from customers	-	127,012,227	21,815,132	26,944,883	72,110,919	129,853,432	-	377,736,593
Debt securities issued	-	-	9,364,977	10,913,189	46,003,379	2,041,638	5,995,479	74,318,662
Others	373,174	55,986	454,366	1,373,231	1,419,596	936,446	1,119,560	5,732,359
Total liabilities	373,174	127,320,740	69,787,198	43,460,121	147,460,504	134,096,580	7,115,039	529,613,356
Net position	29,282,787	(115,743,555)	(16,417,691)	(16,210,201)	(32,846,353)	52,306,389	138,416,174	38,787,551

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

	31 December 2022							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	17,697,313	10,127,993	-	-	-	-	-	27,825,306
Deposits with banks and other financial institutions	-	1,389,349	204,888	503,947	202,853	-	-	2,301,037
Placements with banks and other financial institutions	-	-	1,851,427	3,038,226	3,542,369	-	-	8,432,022
Loans and advances to customers	719,658	385,543	20,949,483	21,389,393	87,255,059	67,179,734	64,639,792	262,518,662
Financial investments (Note (i))	326,384	46,246	22,850,091	6,299,348	17,944,465	76,135,202	78,539,392	202,141,128
Long-term receivables	53,366	8,481	1,165,757	1,182,373	4,893,901	7,590,630	386,441	15,280,949
Others	8,603,214	432,394	40,037	38,057	142,250	308,774	1,550,162	11,114,888
Total assets	27,399,935	12,390,006	47,061,683	32,451,344	113,980,897	151,214,340	145,115,787	529,613,992
Liabilities								
Borrowings from central banks	-	-	54,040	3,470,285	9,732,280	-	-	13,256,605
Deposits from banks and other financial institutions	-	1,158,513	-	1,765,320	3,515,827	-	-	6,439,660
Placements from banks and other financial institutions	-	-	2,058,040	3,278,093	12,371,962	100,000	-	17,808,095
Financial assets sold under repurchase agreements	-	-	25,531,243	103,111	-	-	-	25,634,354
Deposits from customers	-	122,042,969	19,152,844	27,829,442	68,818,498	110,181,658	17,896	348,043,307
Debt securities issued	-	-	4,982,830	16,601,753	43,288,794	3,998,641	5,994,933	74,866,951
Others	267,224	166,769	855,276	1,939,064	1,551,557	1,074,057	1,117,778	6,971,725
Total liabilities	267,224	123,368,251	52,634,273	54,987,068	139,278,918	115,354,356	7,130,607	493,020,697
Net position	27,132,711	(110,978,245)	(5,572,590)	(22,535,724)	(25,298,021)	35,859,984	137,985,180	36,593,295

Notes:

- (i) Financial investments include financial investments measured at FVTPL, financial investments measured at FVOCI and financial investments measured at amortised cost.
- (ii) For cash and deposits with central banks, the indefinite period amount represents statutory deposit reserves, fiscal deposits and foreign exchange risk reserves maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, financial investments and long-term receivables, the "indefinite" period amount represents the balance being credit-impaired or not credit-impaired but overdue for more than one month, and the balance not credit-impaired but overdue within one month is included in "repayable on demand".

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

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

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

	30 June 2023								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central banks	-	-	1,255,239	395,966	15,094,060	-	-	16,745,265	16,601,746
Deposits from banks and other financial institutions	-	252,527	-	786,862	-	-	-	1,039,389	1,036,697
Placements from banks and other financial institutions	-	-	1,823,242	3,138,756	13,296,809	1,389,903	-	19,648,710	19,110,941
Financial assets sold under repurchase agreements	-	-	35,080,725	-	-	-	-	35,080,725	35,076,358
Deposits from customers	-	127,012,227	21,969,182	27,168,169	73,449,358	138,882,824	-	388,481,760	377,736,593
Debt securities issued	-	-	9,380,000	10,950,000	46,854,181	2,556,112	6,378,738	76,119,031	74,318,662
Lease liabilities	-	15,777	7,491	21,256	100,913	335,768	116,828	598,033	536,625
Other financial liabilities	14,582	40,209	70,595	920,752	500,726	167,075	922,695	2,636,634	2,636,634
Total	14,582	127,320,740	69,586,474	43,381,761	149,296,047	143,331,682	7,418,261	540,349,547	527,054,256

	31 December 2022								
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Contractual undiscounted cash flow	Carrying Amount
Borrowings from central banks	-	-	54,076	3,517,460	9,864,710	-	-	13,436,246	13,256,605
Deposits from banks and other financial institutions	-	1,158,513	-	1,775,204	3,570,747	-	-	6,504,464	6,439,660
Placements from banks and other financial institutions	-	-	2,072,109	3,290,564	12,630,182	105,776	-	18,098,631	17,808,095
Financial assets sold under repurchase agreements	-	-	25,537,711	103,572	-	-	-	25,641,283	25,634,354
Deposits from customers	-	122,042,969	19,181,984	28,189,089	70,741,471	118,416,931	35,653	358,608,097	348,043,307
Debt securities issued	-	-	4,990,000	16,712,000	43,922,800	5,271,200	7,115,200	78,011,200	74,866,951
Lease liabilities	-	9,537	28,906	14,949	80,152	323,892	118,182	575,618	515,043
Other financial liabilities	13,418	157,232	121,294	1,792,607	404,847	183,624	922,695	3,595,717	3,595,717
Total	13,418	123,368,251	51,986,080	55,395,445	141,214,909	124,301,423	8,191,730	504,471,256	490,159,732

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(c) Analysis on contractual undiscounted cash flows of derivative financial instruments.

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

	30 June 2023							Contractual undiscounted cash flow
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Cash flows of derivative financial instruments:								
Derivative financial instruments settled on net basis	-	-	(1,057)	(1,830)	(570)	1,102	-	(2,355)
Derivative financial instruments settled on gross basis	-	-	148,626	5,521,014	27,716	-	-	5,697,356
Including: Cash inflow	-	-	(148,063)	(5,918,277)	(27,703)	-	-	(6,094,043)
Cash outflow	-	-	(148,063)	(5,918,277)	(27,703)	-	-	(6,094,043)
Total	-	-	563	(397,263)	13	-	-	(396,687)

	31 December 2022							Contractual undiscounted cash flow
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Cash flows of derivative financial instruments:								
Derivative financial instruments settled on net basis	-	-	23	(109)	(549)	1,621	-	986
Derivative financial instruments settled on gross basis	-	-	14,333	336,595	5,616,499	-	-	5,967,427
Including: Cash inflow	-	-	(14,315)	(336,458)	(5,804,543)	-	-	(6,155,316)
Cash outflow	-	-	(14,315)	(336,458)	(5,804,543)	-	-	(6,155,316)
Total	-	-	18	137	(188,044)	-	-	(187,889)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

(4) *Operational risk*

Operational risk refers to the risk arising from inadequate or failed internal control procedures, personnel and information technology systems, or external events. The primary operational risks the Group face include internal and external frauds, worksite safety failures, business interruptions and failure in the information technology system.

The board of directors of the Bank is ultimately responsible for the operational risk management, and the Bank's senior management leads the bank-wide operational risk management on a day-to-day basis. The Group has established "three lines of defences" to manage operational risk on an end-to-end basis. The business lines and functions are the first line of defence against operational risks, taking direct responsibilities for operational risk management. The legal and compliance department is the second line of defence against operational risks, responsible for the establishment of operational risk management policies and procedures and the coordination, support, and supervision of operational risk management. The audit department is the third line of defence against operational risk, responsible for assessing the internal control system and compliance of operational risk.

(5) *Capital management*

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. Among them, capital adequacy ratio management is especially important. The Group calculates capital adequacy ratios in accordance with the guidance issued by the regulatory authorities. The capital of the Group is divided into three pieces: core tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the core of the capital management of the Group. Capital adequacy ratio reflects the Group's capability in sound operations and risk management. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading banks and the Group's operating situations.

The Group considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio. The required information is filed with the regulatory authority by the Group periodically.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

42 RISK MANAGEMENT (continued)

The Group calculates the core tier-one capital adequacy ratio, the tier-one capital adequacy ratio and the capital adequacy ratio in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) issued by the former CBRC in 2012 and other relevant requirements promulgated by the former CBRC as follows:

	30 June 2023	31 December 2022
Total core tier-one capital	32,185,239	30,003,939
Share capital	5,820,355	5,820,355
Eligible portion of capital reserve	10,687,634	10,687,634
Other comprehensive income	801,703	83,726
Surplus reserve	2,388,248	2,388,248
General reserve	6,618,047	6,618,047
Retained earnings	5,226,966	3,822,519
Eligible portion of non-controlling interests	642,286	583,410
Core tier-one capital deductions	(654,644)	(834,333)
Net core tier-one capital	31,530,595	29,169,606
Other tier-one capital	6,481,421	6,473,571
– Additional tier-one capital instruments and related premium	6,395,783	6,395,783
– Eligible portion of minority interests	85,638	77,788
Net tier-one capital	38,012,016	35,643,177
Tier-two capital	9,935,805	9,569,041
Eligible portions of tier-two capital instruments issued	6,000,000	6,000,000
Surplus provision for loan impairment	3,764,529	3,413,465
Eligible portion of non-controlling interests	171,276	155,576
Total net capital	47,947,821	45,212,218
Total risk weighted assets	358,521,966	333,440,925
Core tier-one capital adequacy ratio	8.79%	8.75%
Tier-one capital adequacy ratio	10.60%	10.69%
Capital adequacy ratio	13.37%	13.56%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE

(1) *Methods and assumptions for measurement of fair value*

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

(a) *Debt securities investments*

The fair value of debt securities that are traded in an active market is based on their quoted market prices at the end of the reporting period.

(b) *Other financial investments and other non-derivative financial assets*

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

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

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

(d) *Derivative financial instruments*

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards and swaps, etc. The most frequently applied valuation techniques include discounted cash flow model, etc. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

(2) Financial instruments measured at fair value

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

The Group

	30 June 2023			
	Level 1	Level 2	Level 3 Note (i)	Total
Financial investments measured at FVTPL				
– Debt securities	–	3,612,021	–	3,612,021
– Asset management plans	–	–	7,824,064	7,824,064
– Trust fund plans	–	–	447,245	447,245
– Investment funds	–	33,979,400	–	33,979,400
Derivative financial assets	–	104,771	–	104,771
Financial investments measured at FVOCI				
– Debt securities	–	108,573,445	–	108,573,445
– Asset management plans	–	620,477	–	620,477
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	23,005,083	23,005,083
Total financial assets	–	146,890,114	31,299,642	178,189,756
Derivative financial liabilities	–	466,644	3,619	470,263
Total financial liabilities	–	466,644	3,619	470,263

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

	31 December 2022			Total
	Level 1	Level 2	Level 3 Note (j)	
Financial investments measured at FVTPL				
– Debt securities	–	3,727,428	–	3,727,428
– Asset management plans	–	–	7,787,802	7,787,802
– Trust fund plans	–	–	791,832	791,832
– Investment funds	–	34,950,084	–	34,950,084
– Other Investments	–	2,616	–	2,616
Derivative financial assets	–	108,376	–	108,376
Financial investments measured at FVOCI				
– Debt securities	–	95,922,326	–	95,922,326
– Asset management plans	–	733,125	–	733,125
– Equity investments	–	–	23,250	23,250
Loans and advances to customers measured at FVOCI	–	–	22,694,130	22,694,130
Total financial assets	–	135,443,955	31,297,014	166,740,969
Derivative financial liabilities	–	187,076	1,071	188,147
Total financial liabilities	–	187,076	1,071	188,147

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

- (i) Movements in Level 3 of the fair value hierarchy

The Group

The following table shows the movement of level 3 financial instruments measured at fair value for the six months ended 30 June 2023:

	As at 1 January 2023	Transfer into level 3	Transfer out of level 3	Total gains or losses for the period		Purchases, issues, disposals and settlements			As at 30 June 2023
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
– Asset management plans	7,787,802	–	–	61,169	–	–	–	(24,907)	7,824,064
– Trust fund plans	791,832	–	–	1,413	–	–	–	(346,000)	447,245
Financial investments measured at FVOCI									
– Equity investments	23,250	–	–	–	–	–	–	–	23,250
Loans and advances to customers measured at FVOCI	22,694,130	–	–	335,904	46,937	43,928,591	–	(44,000,479)	23,005,083
Total financial assets	31,297,014	–	–	398,486	46,937	43,928,591	–	(44,371,386)	31,299,642
Derivative financial liabilities	1,071	–	–	2,548	–	–	–	–	3,619
Total financial liabilities	1,071	–	–	2,548	–	–	–	–	3,619

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

The following table shows the movement of level 3 financial instruments measured at fair value during the year of 2022:

	As at 1 January 2022	Transfer into level 3	Transfer out of level 3	Total gains or losses for the year		Purchases, issues, disposals and settlements			As at 31 December 2022
				In profit or loss	In other comprehensive income	Purchases	Issues	Disposals and settlements	
Financial investments measured at FVTPL									
- Asset management plans	13,488,145	-	(2,453,369)	(62,684)	-	4,390,000	-	(7,574,290)	7,787,802
- Trust fund plans	1,501,437	-	-	(513,923)	-	-	-	(195,682)	791,832
Financial investments measured at FVOCI									
- Equity investments	23,250	-	-	-	-	-	-	-	23,250
- Other investments	728,917	-	-	2,695	(31,612)	-	-	(700,000)	-
Loans and advances to customers measured at FVOCI	17,640,224	-	-	266,049	(29,912)	71,488,373	-	(66,670,604)	22,694,130
Total financial assets	33,381,973	-	(2,453,369)	(307,863)	(61,524)	75,878,373	-	(75,140,576)	31,297,014
Derivative financial liabilities	2,447	-	-	(1,376)	-	-	-	-	1,071
Total financial liabilities	2,447	-	-	(1,376)	-	-	-	-	1,071

(3) Transfers between levels

Transfers between level 2 and level 3

Certain financial instruments were transferred out from level 3 to level 2 of the fair value hierarchy for financial instruments, when significant inputs used in their fair value measurements, which was previously unobservable became observable, or when there was a change in valuation technique.

(4) Valuation of financial instruments with significant unobservable inputs

A majority of the financial instruments classified as level 3 are discounted bills, asset management plans and trust fund plans. As not all of the inputs needed to estimate the fair value of these assets are observable, the Group classified these underlying assets within Level 3 of the fair value measurement hierarchy. The significant unobservable inputs related to these assets are those parameters relating to credit risk, liquidity and discount rates. Management has made assumptions on unobservable inputs based on observed indicators of impairment, significant changes in yield, external credit ratings and comparable credit spreads, but the fair value of these financial assets could be different from those disclosed.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

(5) Level 2 of the fair value hierarchy

A majority of the financial instruments classified as level 2 are RMB bonds. The fair value of these bonds is determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(6) Fair value of financial assets and liabilities not measured at fair value

(i) *Cash and deposits with central banks, borrowings from central banks, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements*

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

(ii) *Loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and long-term receivables*

The estimated fair value of loans and advances to customers measured at amortised cost, non-debt securities financial investments measured at amortised cost and the estimated fair value of long-term receivables represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

(iii) *Debt securities financial investments measured at amortised cost*

The fair value for debt securities financial investments measured at amortised cost is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quoted price of security products with similar characteristics such as credit risk, maturities and yield.

(iv) *Deposits from customers*

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

(v) *Debt securities issued*

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 FAIR VALUE (continued)

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

	30 June 2023				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	47,537,750	49,763,557	–	49,223,588	539,969
Total	47,537,750	49,763,557	–	49,223,588	539,969
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	10,104,477	10,390,464	–	10,390,464	–
– Certificates of interbank deposit	64,214,185	64,282,480	–	64,282,480	–
Total	74,318,662	74,672,944	–	74,672,944	–
	31 December 2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial investments measured at amortised cost (including accrued interest)					
– Debt securities	48,911,446	49,180,473	–	48,356,749	823,724
Total	48,911,446	49,180,473	–	48,356,749	823,724
Financial liabilities					
Securities issued (including accrued interest)					
– Debt securities	10,246,658	10,419,636	–	10,419,636	–
– Certificates of interbank deposit	64,620,293	64,583,013	–	64,583,013	–
Total	74,866,951	75,002,649	–	75,002,649	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMMITMENTS AND CONTINGENCIES

(1) Credit commitments

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

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	30 June 2023	31 December 2022
Bank acceptances bills	29,662,542	36,283,077
Unused credit card limits	23,779,521	18,441,375
Usance letters of credit	11,384,484	8,253,753
Financing letters of guarantees issued	6,803,948	3,145,598
Non-financing letters of guarantees issued	1,465,887	754,600
Irrevocable loan commitments	940,332	983,936
Sight letters of credit	599,810	216,947
Total	74,636,524	68,079,286

Irrevocable loan commitments only include unused loan commitments granted to syndicated loans.

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

For details of ECL of credit commitments, please refer to Note 34(1).

(2) Credit risk-weighted amount

	30 June 2023	31 December 2022
Credit risk-weighted amount of contingent liabilities and commitments	22,411,813	18,680,164

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors.

(3) Capital commitments

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

	30 June 2023	31 December 2022
Contracted but not paid for	93,686	82,606

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

44 COMMITMENTS AND CONTINGENCIES (continued)

(4) Outstanding litigations and disputes

A number of outstanding litigations against the Group had arisen in the normal course of its operation as at 30 June 2023 and 31 December 2022. With the professional advice from counselors, the Group's management believes that the final result of such litigations will not have a material impact on the financial position or operations of the Group.

(5) Bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any unpaid interest accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold, but not yet matured at the end of the reporting period:

	30 June 2023	31 December 2022
Bonds redemption obligations	3,673,440	3,536,451

(6) Pledged assets

	30 June 2023	31 December 2022
Investment securities	42,846,561	26,190,712
Discounted bills	11,975,155	17,999,779
Total	54,821,716	44,190,491

Some of the Group's assets are pledged as collateral under repurchase agreements, borrowings from central banks, deposits from customers and securities lending.

The Group maintains statutory deposit reserves with the PBOC as required (Note 12). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2023 and 31 December 2022, the Group did not have these discounted bills under resale agreements. As at 30 June 2023 and 31 December 2022, the Group did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 INTERESTS IN STRUCTURED ENTITIES

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

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. The Group does not consolidate these structured entities. Such structured entities include asset management plans, trust plans, asset-backed securities and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 30 June 2023 and 31 December 2022 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	30 June 2023				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Investment funds	33,979,400	–	–	33,979,400	33,979,400
Asset management plans	7,824,064	620,477	2,086,852	10,531,393	10,531,393
Trust fund plans	447,245	–	478,128	925,373	925,373
Asset-backed securities	112,728	2,391,334	922,286	3,426,348	3,426,348
Total	42,363,437	3,011,811	3,487,266	48,862,514	48,862,514

	31 December 2022				
	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Financial investments measured at amortised cost	Carrying amount	Maximum exposure
Investment funds	34,950,084	–	–	34,950,084	34,950,084
Asset management plans	7,787,802	733,125	2,469,057	10,989,984	10,989,984
Trust fund plans	791,832	–	607,482	1,399,314	1,399,314
Asset-backed securities	124,277	1,919,509	922,253	2,966,039	2,966,039
Total	43,653,995	2,652,634	3,998,792	50,305,421	50,305,421

The maximum exposures to loss in the above structured entities are the amortised cost or the fair value of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 INTERESTS IN STRUCTURED ENTITIES (continued)

(2) *Unconsolidated structured entities sponsored by the Group in which the Group holds an interest*

The types of unconsolidated structured entities sponsored by the Group mainly include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services to these structured entities. As at 30 June 2023, the carrying amounts of the management and other service fee receivables being recognised was RMB148 million in the consolidated statement of financial position.

As at 30 June 2023, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, was RMB222.600 billion (31 December 2022: RMB200.815 billion).

(3) *Unconsolidated structured entities sponsored and issued by the Group after 1 January but matured before the end of the reporting period in which the Group no longer holds an interest*

During the six months ended 30 June 2023, there was no fee and commission income recognised from the above-mentioned structured entities by the Group (2022: RMB36 million).

During the six months ended 30 June 2023, there were no non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June (2022: RMB5.852 billion).

(4) *Consolidated structured entities*

The consolidated structured entities of the Group are primarily asset-backed securities initiated by the Group and certain asset management plans invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

46 TRANSFERS OF FINANCIAL ASSETS

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 TRANSFERS OF FINANCIAL ASSETS (continued)

(1) *Repurchase transactions and securities lending transactions*

Transfers of financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

(2) *Asset securitisation*

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors, or carries out trust beneficial rights registration and transfer business in China Credit Assets Registry & Exchange Co., Ltd..

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitisation vehicle. In return, the Group receives a service fee that is expected to compensate the Group for servicing the related assets.

(3) *Transfer of non-performing loans*

For the six months ended 30 June 2023 and the year ended 31 December 2022, the Group transferred loans and advances to customers to independent third parties with principal amount of RMB52 million and RMB314 million respectively, and with the transfer price (including overdue interest, penalty interest, etc.) of RMB58 million and RMB183 million respectively. The Group carried out an assessment and concluded that these transferred assets qualified for full derecognition in the statement of financial position.

47 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in the statements of financial position as they are not the Group's assets.

As at 30 June 2023, the entrusted loans balance of the Group was RMB4.952 billion (31 December 2022: RMB5.301 billion).

48 SUBSEQUENT EVENTS

(1) *The distribution payment of undated capital bonds*

A distribution payment related to the 2022 Undated Capital Bonds (first tranche) of Bank of Qingdao Co., Ltd., at the distribution rate of 3.70% with the total amount of RMB4.0 billion, amounting to RMB148 million in total was distributed on 18 July 2023.

A distribution payment related to the 2022 Undated Capital Bonds (second tranche) of Bank of Qingdao Co., Ltd., at the distribution rate of 3.55% with the total amount of RMB2.4 billion, amounting to RMB85.20 million in total was distributed on 18 Aug 2023.

Up to the approval date of the report, the Group has no other significant subsequent events for disclosure.

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

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

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary Financial Information as follows:

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

Liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the relevant regulations promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the MOF.

(1) Liquidity coverage ratio

	30 June 2023	31 December 2022
Qualified and high-quality current assets	84,926,093	90,470,924
Net cash outflows in the next 30 days	66,522,420	73,656,093
Liquidity coverage ratio (RMB and foreign currency)	127.67%	122.83%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum liquidity coverage ratio of 100% is required.

(2) Leverage ratio

	30 June 2023	31 December 2022
Leverage ratio	6.07%	6.07%

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

(3) Net stable funding ratio

	30 June 2023	31 March 2023
Available stable funding	347,687,603	325,450,287
Required stable funding	299,759,086	292,192,537
Net stable funding ratio	115.99%	111.38%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of commercial banks 100% is required.

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	30 June 2023			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	9,415,733	8,719	28,765	9,453,217
Spot liabilities	(3,685,722)	(1,635)	(27,458)	(3,714,815)
Forward purchases	392,458	–	1,002	393,460
Forward sales	(5,983,381)	–	–	(5,983,381)
Net long position	139,088	7,084	2,309	148,481
Structural exposure	(144,516)	–	–	(144,516)

	31 December 2022			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	10,493,542	9,260	78,481	10,581,283
Spot liabilities	(10,516,264)	(2,378)	(72,358)	(10,591,000)
Forward purchases	42,793	–	–	42,793
Forward sales	19,409	–	–	19,409
Net long position	39,480	6,882	6,123	52,485
Structural exposure	(139,292)	–	–	(139,292)

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Chinese Mainland and claims dominated in foreign currency on third parties in Chinese Mainland as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and financial investments.

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

	30 June 2023			
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	Total
– Asia Pacific	146,881	5,781,482	2,728,781	8,657,144
– of which attributed to Hong Kong	–	4,935,421	–	4,935,421
– North and South America	–	312,299	–	312,299
– Europe	–	8,044	–	8,044
	146,881	6,101,825	2,728,781	8,977,487
	31 December 2022			
	Public sector entities	Banks and other financial institutions	Non-bank private sector institutions	Total
– Asia Pacific	129,114	5,474,744	3,967,781	9,571,639
– of which attributed to Hong Kong	–	5,075,937	–	5,075,937
– North and South America	–	532,705	–	532,705
– Europe	–	32,287	–	32,287
	129,114	6,039,736	3,967,781	10,136,631

SECTION XII UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)

4 TOTAL AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

	30 June 2023	31 December 2022
Total loans and advances whose principal or interest has been overdue		
– between 3 and 6 months (inclusive)	356,641	664,466
– between 6 months and 1 year (inclusive)	1,125,051	1,115,515
– over 1 year	1,434,007	813,375
Total	2,915,699	2,593,356
As a percentage of total loans and advances (excluding accrued interest)		
– between 3 and 6 months (inclusive)	0.12%	0.25%
– between 6 months and 1 year (inclusive)	0.39%	0.41%
– over 1 year	0.50%	0.30%
Total	1.01%	0.96%