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Guangzhou Rural Commercial Bank Co., Ltd.*

廣州農村商業銀行股份有限公司*

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

(H Share Stock code: 1551)

(Preference Share Stock code: 4618)

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

The board of directors (the “**Board**”) of Guangzhou Rural Commercial Bank Co., Ltd.* (the “**Bank**”) announces the unaudited consolidated interim results of the Bank and its subsidiaries (the “**Group**”) for the six months ended June 30, 2023 (the “**Interim Results**”). This results announcement contains the interim results of the Group for the six months ended June 30, 2023 and the contents were prepared in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the International Financial Reporting Standards. The Interim Results have been reviewed by the Board and the audit committee of the Board.

This results announcement is published on the websites of the Bank (www.grcbank.com) and the Hong Kong Stock Exchange (www.hkexnews.hk). The interim report of the Bank for the six months ended June 30, 2023 will be dispatched to shareholders of the Bank and will also be available at the abovementioned websites in due course.

By Order of the Board

Guangzhou Rural Commercial Bank Co., Ltd. *

Cai Jian

Chairman

Guangzhou, the PRC,
August 31, 2023

As at the date of this announcement, the Board comprises one executive director, namely Mr. Cai Jian; five non-executive directors, namely Mr. Da Hengcheng, Mr. Zuo Liang, Mr. Zhang Junzhou, Mr. Feng Yaoliang and Mr. Lai Zhiguang; and six independent non-executive directors, namely Mr. Liao Wenyi, Mr. Du Jinmin, Mr. Tan Jinsong, Mr. Zhang Weiguo, Mr. Zhang Hua and Mr. Ma Hok Ming.

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

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DEFINITIONS

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

| | |
|--|--|
| “Articles of Association” or “Articles” | the articles of association of the Bank, which was considered and approved by the shareholders of the Bank at the general meeting held on 16 June 2022 and was approved by the Guangdong Bureau of the former CBIRC with effect from 2 August 2022 (as amended, supplemented or otherwise revised from time to time) |
| “Board of Directors” | the board of directors of the Bank |
| “Board of Supervisors” | the board of supervisors of the Bank |
| “CBIRC” | the former China Banking and Insurance Regulatory Commission |
| “Central Bank”, “PBOC” | the People’s Bank of China |
| “China” | the People’s Republic of China |
| “Corporate Governance Code” | Appendix 14 of the Corporate Governance Code under the Listing Rules |
| “county bank(s)” | bank institutions that are approved by CBIRC to be incorporated in rural areas to provide services to local farmers or enterprises |
| “CSRC” | China Securities Regulatory Commission |
| “Group” | Guangzhou Rural Commercial Bank Co., Ltd. and its subsidiaries |
| “Guangzhou Rural Commercial Bank”, “the Bank”, “the Company” | Guangzhou Rural Commercial Bank Co., Ltd. |
| “H Shares” | the foreign shares which are registered in Mainland China and listed in Hong Kong |
| “HK\$” | the lawful currency of Hong Kong Region |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

| | |
|---------------------------|--|
| “Latest Practicable Date” | 31 August 2023 |
| “IFRS” | the International Financial Reporting Standards and International Accounting Standards (“IAS”), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board (“IASB”) |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| “Domestic Shares” | the ordinary shares with a nominal value of RMB1.00 each issued by the Bank in the PRC |
| “Reporting Period” | for the six months period from 1 January 2023 to 30 June 2023 |
| “RMB” | the lawful currency of the People’s Republic of China |
| “Sannong” | agriculture, rural areas and farmers |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “USD” | the lawful currency of the United States of America |

BASIC INFORMATION OF THE BANK

I. PROFILE OF THE BANK

- (I)** Official Names
1. Official Chinese Name: 廣州農村商業銀行股份有限公司
(Abbreviated as “廣州農村商業銀行”)
 2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
(Abbreviated as “GRCB”)
- (II)** Registered Capital: RMB11,451,268,539.00
- (III)** Legal Representative: Mr. Cai Jian
- (IV)** Authorized Representatives: Mr. Cai Jian and Mr. Ngai Wai Fung
- (V)** Joint Company Secretaries: Ms. Zheng Ying and Mr. Ngai Wai Fung
- (VI)** H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited
- (VII)** Share Abbreviation and Code: GRCB (1551.HK)
- (VIII)** Offshore Preference Share Abbreviation and Code: GRCB 19USDPRF (4618.HK)
- (IX)** Registered Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC
- (X)** Principal Place of Business in Hong Kong: 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong
- (XI)** Scope of Business: Monetary and financial services
- (XII)** Place of Inspection of the Report: Office of the Board of Directors of the Bank
- (XIII)** Auditor: PricewaterhouseCoopers
- (XIV)** Legal Advisor as to Mainland PRC Law: Guang Dong J&J Law Firm
- (XV)** Legal Advisor as to Hong Kong Law: Fangda Partners
- (XVI)** Domestic Shares Depository: China Securities Depository and Clearing Corporation Limited
- (XVII)** H-Share Registrar: Computershare Hong Kong Investor Services Limited
- (XVIII)** Other Relevant Information of the Company
- Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, PRC
Postal Code: 510623
Company Website: www.grcbank.com
Customer Service and Complaint Telephone No.: +8695313
Investor Relations Telephone No.: (8620)28019324
Email Address: ir@grcbank.com

BASIC INFORMATION OF THE BANK

II. BRANCHES OF THE BANK

The following table sets forth the basic information of the branches of the Bank as at the Latest Practicable Date:

| No. | Name of branch | Business address | Postal code | Contact telephone number | Facsimile number | Remarks |
|-----|--|---|-------------|--------------------------|------------------|--------------------------|
| 1 | Baiyun Sub-branch | 1/F to 3/F, No. 466-472 Huangshi West Road, Baiyun District, Guangzhou | 510425 | 020-86295397 | NA | - |
| 2 | Conghua Sub-branch | 1/F and 2/F, No. 98 Hebin North Road, Chengjiao Subdistrict, Conghua District, Guangzhou | 510900 | 020-87999029 | NA | - |
| 3 | Panyu Sub-branch | No. 239 Qinghe East Road, Shiqiao Subdistrict, Panyu District, Guangzhou | 511400 | 020-34619802 | NA | - |
| 4 | Haizhu Sub-branch | 1/F and 2/F, No. 173-1 Changgang Middle Road, Haizhu District, Guangzhou | 510250 | 020-84278835 | NA | - |
| 5 | Huanan Sub-branch | East Side of Tangxi, Village Entrance, Yingbin Road South, Tangbuxi Village, Nancun Town, Panyu District, Guangzhou | 511442 | 020-34693625 | NA | - |
| 6 | Huangpu Sub-branch | No. 138 Fengle North Road, Huangpu District, Guangzhou | 510700 | 020-32204220 | NA | - |
| 7 | Liwan Sub-branch | No. 89 Huadi Avenue Central, Liwan District, Guangzhou | 510380 | 020-81615680 | NA | - |
| 8 | Airport Economic Zone Sub-branch | Renhe Village, Renhe Town, Baiyun District, Guangzhou | 510470 | 020-86451956 | NA | - |
| 9 | Tianhe Sub-branch | 1/F to 2/F, No. 335 Longkou West Road, Tianhe District, Guangzhou | 510635 | 020-38478080 | NA | - |
| 10 | Yuexiu Sub-branch | 1/F, No. 60 Meidong Road, Yuexiu District, Guangzhou | 510030 | 020-87619149 | NA | - |
| 11 | Zengcheng Sub-branch | No. 88-15, 16, 17, 18, 19, 20, 21 and 22 Fuyou Road, Licheng Subdistrict, Zengcheng District, Guangzhou, and Rooms 201, 202, 210 and 211, No. 55 Zuanshi Street, Hehui Square, Licheng Subdistrict, Zengcheng District, Guangzhou | 511300 | 020-32162645 | NA | - |
| 12 | Huadu Branch in the Pilot Zone for Green Finance Reform and Innovation | South Tower, No. 21 Gongyi Road, Xinhua Subdistrict, Huadu District, Guangzhou | 510800 | 020-36911139 | NA | Branch |
| 13 | Guangdong Free Trade Zone Nansha Branch | No. 56 Xinxing Road, Wanqingsha Town, Nansha District, Guangzhou | 511462 | 020-34929298 | NA | Branch |
| 14 | Foshan Branch | Unit 1&2 on 1/F, Unit 1&2 on 2/F, Unit 1, 7&8 on 3/F, Shop 4001-4010 of Tower 1, No. 17, Jihua Sixth Road, Chancheng District, Foshan | 528000 | 0757-82581028 | NA | Branch outside Guangzhou |

BASIC INFORMATION OF THE BANK

| No. | Name of branch | Business address | Postal code | Contact telephone number | Facsimile number | Remarks |
|-----|---|--|-------------|--------------------------|------------------|--------------------------|
| 15 | Qingyuan Branch | Shop on 1/F to 3/F, Block 1, Oriental Paris, No. 5 Fengxiang Avenue, Qingcheng District, Qingyuan, Guangdong | 511500 | 0763-3910555 | NA | Branch outside Guangzhou |
| 16 | Zhaoqing Branch | Shop 01 on 1/F and Shops 01-07 on 2/F, Cultural Innovation Building, No. 5 Yuelong North Road, Duanzhou District, Zhaoqing, Guangdong | 526040 | 0758-2812835 | 0758-2812835 | Branch outside Guangzhou |
| 17 | Heyuan Branch | Rooms 101-102 and Rooms 1601-1602 on 1/F, Changhong Building (Changhong Financial Center), H Road West, Yanjiang Road North, Xueqianbaxiaoqu, Xinshi District, Heyuan, Guangdong | 517000 | 0762-2238111 | NA | Branch outside Guangzhou |
| 18 | Hengqin Branch in Guangdong-Macao In-depth Cooperation Zone | B6 to B10 Penguin Hotel Commercial Street, Chimelong International Ocean Tourist Resort, Fuxiang Bay, Hengqin New District, Zhuhai, Guangdong | 519031 | 0756-2993600 | NA | Branch outside Guangzhou |

III. MAJOR HONORS RECEIVED IN THE FIRST HALF OF 2023 OF THE BANK

| No. | Honors | Awarding/Granting authority | Obtaining time |
|-----|--|---|----------------|
| 1 | Top 10 Retail Banks for Rural Commercial Banks in 2022 | Retail Banking and Digital Bank | January 2023 |
| 2 | 184th in 2023 Global Bank Brand Value Top 500 | Brand Finance and The Banker (英國《銀行家》雜誌) | February 2023 |
| 3 | Golden Honor Award: Excellent Large-scale Asset Management Rural Commercial Bank | PY Standard | June 2023 |
| 4 | Golden Honor Award: Excellent Cash Management Banking Financial Products | PY Standard | June 2023 |

SUMMARY OF FINANCIAL DATA

The financial information of the Group set forth in this report is prepared on a consolidated basis in accordance with IFRS and expressed in Renminbi, unless otherwise stated.

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|------------------|--------------------|
| Operating results | | | | |
| Net interest income | 8,560.54 | 9,101.21 | (540.67) | (5.94) |
| Net fee and commission income | 520.58 | 564.13 | (43.55) | (7.72) |
| Operating income | 9,401.40 | 11,210.56 | (1,809.16) | (16.14) |
| Profit before income tax | 2,404.01 | 3,172.40 | (768.39) | (24.22) |
| Net profit | 2,388.73 | 2,964.72 | (575.99) | (19.43) |
| Net profit attributable to shareholders of the Bank | 2,103.18 | 2,526.58 | (423.40) | (16.76) |
| Net assets per share attributable to shareholders of the Bank ⁽¹⁾ | 6.30 | 6.17 | 0.13 | 2.11 |
| Basic earnings per share (Expressed in RMB per share) ⁽²⁾ | 0.13 | 0.17 | (0.04) | (23.53) |

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | As at 31 December 2022 | Change in amount | Rate of change (%) |
|--|--------------------|------------------------|------------------|--------------------|
| Scale indicators | | | | |
| Total assets | 1,263,850.35 | 1,233,454.45 | 30,395.90 | 2.46 |
| Among which: loans and advances to customers, net | 687,928.22 | 669,117.87 | 18,810.35 | 2.81 |
| Total liabilities | 1,174,553.01 | 1,145,205.35 | 29,347.66 | 2.56 |
| Among which: customers deposits | 923,032.21 | 910,485.03 | 12,547.18 | 1.38 |
| Equity attributable to shareholders of the Bank | 81,992.96 | 81,078.57 | 914.39 | 1.13 |
| Non-controlling interests | 7,304.38 | 7,170.53 | 133.85 | 1.87 |
| Total equity | 89,297.34 | 88,249.10 | 1,048.24 | 1.19 |

SUMMARY OF FINANCIAL DATA

| Item (Expressed in percentage) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount |
|--|---------------------------------------|---------------------------------------|------------------|
| Profitability indicators | | | |
| Return on average total assets ⁽³⁾ | 0.38 | 0.49 | (0.11) |
| Return on average equity ⁽⁴⁾ | 5.23 | 6.86 | (1.63) |
| Net interest spread ⁽⁵⁾ | 1.43 | 1.72 | (0.29) |
| Net interest margin ⁽⁶⁾ | 1.49 | 1.69 | (0.20) |
| Net fee and commission income to operating income ⁽⁷⁾ | 5.54 | 5.03 | 0.51 |
| Cost-to-income ratio ⁽⁸⁾ | 31.36 | 27.59 | 3.77 |

| Item (Expressed in percentage) | As at 30 June 2023 | As at 31 December 2022 | Change in Amount |
|--|--------------------|------------------------|------------------|
| Assets quality indicators | | | |
| Non-performing loan ratio ⁽⁹⁾ | 2.25 | 2.11 | 0.14 |
| Provision coverage ratio ⁽¹⁰⁾ | 158.03 | 156.93 | 1.10 |
| Allowance to total loans ⁽¹¹⁾ | 3.55 | 3.31 | 0.24 |

| Item (Expressed in percentage) | As at 30 June 2023 | As at 31 December 2022 | Change in Amount |
|--|--------------------|------------------------|------------------|
| Capital adequacy indicators ⁽¹²⁾ | | | |
| Core Tier 1 capital adequacy ratio | 9.06 | 9.21 | (0.15) |
| Tie 1 capital adequacy ratio | 10.38 | 10.56 | (0.18) |
| Capital adequacy ratio | 13.21 | 12.59 | 0.62 |
| Ratio of total equity to total assets | 7.07 | 7.15 | (0.08) |

| Item (Expressed in percentage) | As at 30 June 2023 | As at 31 December 2022 | Change in Amount |
|---------------------------------------|--------------------|------------------------|------------------|
| Other indicators | | | |
| Loan-to-deposit ratio ⁽¹³⁾ | 77.27 | 76.00 | 1.27 |

SUMMARY OF FINANCIAL DATA

Notes:

- (1) Calculated by dividing equity attributable to shareholders of the Bank for the period (excluding other equity instruments) by paid-in capital.
- (2) Dividends of preference shares declared and distributed in the year were excluded from this indicator.
- (3) The annualized return is calculated by dividing the annualized net profit for the period (including profit attributable to non-controlling interests) by the average balance of total assets as at the beginning and end of the period.
- (4) The annualized return is calculated by dividing the annualized net profit for the period (excluding the dividends of preference shares declared and distributed in the year) by the average balance of total equity (excluding other equity instruments) as at the beginning and end of the period.
- (5) The annualized return is calculated as the difference between the average yield rate on total interest-earning assets and the average cost rate on total interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the average daily balance of total interest-earning assets.
- (7) Calculated by dividing net fee and commission income by operating income.
- (8) Calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (9) Calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (10) Calculated by dividing the balance of allowance for loans (including discounted bills) losses by the balance of non-performing loans.
- (11) Calculated by dividing the balance of allowance for loans (including discounted bills) losses by the total loans and advances to customers.
- (12) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBIRC.

Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets * 100%

Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets * 100%

Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets * 100%

- (13) Calculated by dividing total loans and advances to customers by total deposits of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW FOR THE FIRST HALF OF 2023

(I) INCOME STATEMENT ANALYSIS

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|-------------------|--------------------|
| Interest income | 20,811.54 | 21,757.67 | (946.13) | (4.35) |
| Interest expense | (12,251.00) | (12,656.46) | 405.46 | (3.20) |
| Net interest income | 8,560.54 | 9,101.21 | (540.67) | (5.94) |
| Fee and commission income | 685.69 | 684.57 | 1.12 | 0.16 |
| Fee and commission expense | (165.11) | (120.44) | (44.67) | 37.09 |
| Net fee and commission income | 520.58 | 564.13 | (43.55) | (7.72) |
| Net trading gains | 63.98 | 972.08 | (908.10) | (93.42) |
| Net gains on financial investments | 151.76 | 97.54 | 54.22 | 55.59 |
| Other income, gains or losses | 104.54 | 475.60 | (371.06) | (78.02) |
| Operating income | 9,401.40 | 11,210.56 | (1,809.16) | (16.14) |
| Operating expenses | (3,062.65) | (3,225.50) | 162.85 | (5.05) |
| Credit impairment losses | (3,934.74) | (4,779.23) | 844.49 | (17.67) |
| Impairment losses on other assets | – | (33.43) | 33.43 | (100.00) |
| Profit before income tax | 2,404.01 | 3,172.40 | (768.39) | (24.22) |
| Income tax expense | (15.28) | (207.68) | 192.40 | (92.64) |
| Net profit | 2,388.73 | 2,964.72 | (575.99) | (19.43) |

In the first half of 2023, the Group recorded a net profit of RMB2,389 million, representing a year-on-year decrease of RMB576 million or 19.43%.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Net Interest Income

In the first half of 2023, the net interest income of the Group amounted to RMB8,561 million, representing a year-on-year decrease of RMB541 million and accounting for 91.06% of our total operating income. It was primarily due to the impact of the loan prime rate (LPR) reduction, as well as the Bank's active implementation of support for the development of the real economy, the decline in asset yields led to a year-on-year decrease in net interest income.

The following table sets forth interest income, interest expense and net interest income of the Group for the periods indicated:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|------------------|--------------------|
| Interest income | 20,811.54 | 21,757.67 | (946.13) | (4.35) |
| Interest expense | (12,251.00) | (12,656.46) | 405.46 | (3.20) |
| Net interest income | 8,560.54 | 9,101.21 | (540.67) | (5.94) |

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | | For the six months ended 30 June 2022 | | |
|--|---------------------------------------|-------------------------|--|---------------------------------------|-------------------------|--|
| | Average balance | Interest income/expense | Annualized average yield/cost rate (%) | Average balance | Interest income/expense | Annualized average yield/cost rate (%) |
| Loans and advances to customers | 687,680.74 | 15,028.37 | 4.37 | 654,321.53 | 16,391.41 | 5.01 |
| Financial investments | 287,059.24 | 4,203.07 | 2.93 | 245,649.05 | 3,816.15 | 3.11 |
| Placements and deposits with banks and other financial institutions | 75,212.98 | 794.25 | 2.11 | 58,096.87 | 653.66 | 2.25 |
| Financial assets held under resale agreements | 37,514.92 | 358.89 | 1.91 | 44,554.78 | 433.87 | 1.95 |
| Deposits with central bank | 63,888.17 | 426.96 | 1.34 | 75,520.05 | 462.58 | 1.23 |
| Total interest-earning assets | 1,151,356.05 | 20,811.54 | 3.62 | 1,078,142.28 | 21,757.67 | 4.04 |
| Due to customers | 890,565.91 | 9,594.97 | 2.15 | 847,147.18 | 9,403.95 | 2.22 |
| Debt securities issued | 119,589.96 | 1,583.87 | 2.65 | 134,771.52 | 1,886.73 | 2.80 |
| Borrowing from central bank | 21,537.24 | 260.53 | 2.42 | 30,851.95 | 375.73 | 2.44 |
| Placements and deposits from banks and other financial institutions and others | 59,357.17 | 556.98 | 1.88 | 59,260.25 | 826.15 | 2.79 |
| Financial assets sold under repurchase agreements | 30,499.40 | 254.65 | 1.67 | 19,983.33 | 163.90 | 1.64 |
| Total interest-bearing liabilities | 1,121,549.68 | 12,251.00 | 2.19 | 1,092,014.23 | 12,656.46 | 2.32 |
| Net interest income | | 8,560.54 | | | 9,101.21 | |
| Net interest spread | | | 1.43 | | | 1.72 |
| Net interest margin | | | 1.49 | | | 1.69 |

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023, the overall average yield of interest-earning assets decreased by 42 basis points to 3.62% over the same period last year, the overall average cost rate of interest-bearing liabilities decreased by 13 basis points to 2.19% over the same period last year, net interest spread decreased by 29 basis points to 1.43% over the same period last year, and net interest margin decreased by 20 basis points to 1.49% over the same period last year.

The following table sets forth changes in the Group's interest income and interest expense over the same period last year due to changes in volume and interest rate. Changes in volume are measured by movement of the average balance, while changes in interest rate are measured by the movement of the average interest rate:

| Item (Expressed in RMB million, unless otherwise stated) | Increase/(decrease) due to changes in the following item | | |
|--|--|-------------------|-----------------------|
| | Volume factor | Rate factor | Net increase/decrease |
| Assets | | | |
| Loans and advances to customers | 835.68 | (2,198.72) | 1,363.04 |
| Financial investments | 643.31 | (256.39) | 386.92 |
| Placements and deposits with banks and other financial institutions | 192.58 | (51.99) | 140.59 |
| Financial assets held under resale agreements | (68.55) | (6.43) | (74.98) |
| Deposits with central bank | (71.25) | 35.63 | (35.62) |
| Changes in interest income | 1,531.77 | (2,477.90) | (946.13) |
| Liabilities | | | |
| Due to customers | 481.98 | (290.96) | 191.02 |
| Placements and deposits from banks and other financial institutions and others | 1.35 | (270.52) | (269.17) |
| Financial assets sold under repurchase agreements | 86.25 | 4.50 | 90.75 |
| Debt securities issued | (212.53) | (90.33) | (302.86) |
| Borrowing from central bank | (113.44) | (1.76) | (115.20) |
| Changes in interest expense | 243.61 | (649.07) | (405.46) |

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Interest income

In the first half of 2023, interest income of the Group amounted to RMB20,812 million, representing a decrease of RMB946 million or 4.35% year on year.

① *INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS*

The average balance, interest income and annualized average yield for each component of loans and advances to customers of the Group are set forth as follows:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | | For the six months ended 30 June 2022 | | |
|--|---------------------------------------|------------------|------------------------------|---------------------------------------|------------------|------------------------------|
| | Average balance | Interest income | Annualized average yield (%) | Average balance | Interest income | Annualized average yield (%) |
| Corporate loans | 431,186.12 | 10,069.99 | 4.67 | 402,393.00 | 10,876.24 | 5.41 |
| Personal loans | 165,392.97 | 4,212.91 | 5.09 | 159,554.84 | 4,452.02 | 5.58 |
| Discounted bills | 91,101.65 | 745.47 | 1.64 | 92,373.69 | 1,063.15 | 2.30 |
| Total loans and advances to customers | 687,680.74 | 15,028.37 | 4.37 | 654,321.53 | 16,391.41 | 5.01 |

In the first half of 2023, interest income from loans and advances to customers amounted to RMB15,028 million, representing a year-on-year decrease of RMB1,363 million, and the annualized average yield decreased by 64 basis points to 4.37% as compared to the corresponding period of last year, which was mainly due to decline in LPR, as well as decline in interest rates on newly incurred loans and repricing rates on the stock of floating rate loans resulting the overall decrease in the Group's lending rates.

② *INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS*

The average balance, interest income and average yield for each component of amounts due from banks and other financial institutions of the Group are set forth as follows:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | | For the six months ended 30 June 2022 | | |
|--|---------------------------------------|-----------------|------------------------------|---------------------------------------|-----------------|------------------------------|
| | Average balance | Interest income | Annualized average yield (%) | Average balance | Interest income | Annualized average yield (%) |
| Placements and deposits with banks and other financial institutions | 75,212.98 | 794.25 | 2.11 | 58,096.87 | 653.66 | 2.25 |
| Financial assets held under resale agreements | 37,514.92 | 358.89 | 1.91 | 44,554.78 | 433.87 | 1.95 |
| Total amounts due from banks and other financial institutions | 112,727.90 | 1,153.14 | 2.05 | 102,651.65 | 1,087.53 | 2.12 |

In the first half of 2023, the interest income from amounts due from banks and other financial institutions of the Group amounted to RMB1,153 million, and the annualized average yield decreased by 7 basis points to 2.05% as compared to the corresponding period of last year, which was mainly due to the decrease of the rate of return on Group's amounts due from banks and other financial institutions arising from the downward impact of monetary market interest rates.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Interest expense

In the first half of 2023, the Group's interest expense was RMB12,251 million, representing a year-on-year decrease of RMB405 million or 3.20%.

① INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

The average balance, interest expense and annualized average cost rate for each component of amounts due to customers of the Group are set forth as follows:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | | For the six months ended 30 June 2022 | | |
|--|---------------------------------------|------------------|----------------------------------|---------------------------------------|------------------|----------------------------------|
| | Average balance | Interest expense | Annualized average cost rate (%) | Average balance | Interest expense | Annualized average cost rate (%) |
| Corporate deposits | | | | | | |
| Demand | 142,389.03 | 400.43 | 0.56 | 160,925.04 | 463.87 | 0.58 |
| Time | 191,934.79 | 3,046.61 | 3.17 | 204,346.23 | 3,387.87 | 3.32 |
| Subtotal | 334,323.82 | 3,447.04 | 2.06 | 365,271.27 | 3,851.74 | 2.11 |
| Personal deposits | | | | | | |
| Demand | 131,673.76 | 166.23 | 0.25 | 128,392.23 | 194.51 | 0.30 |
| Time | 394,314.78 | 5,696.61 | 2.89 | 335,103.07 | 5,181.47 | 3.09 |
| Subtotal | 525,988.54 | 5,862.84 | 2.23 | 463,495.30 | 5,375.98 | 2.32 |
| Other deposits | 30,253.55 | 285.09 | 1.88 | 18,380.61 | 176.23 | 1.92 |
| Due to customers | 890,565.91 | 9,594.97 | 2.15 | 847,147.18 | 9,403.95 | 2.22 |

In the first half of 2023, the Group's expense on amounts due to customers amounted to RMB9,595 million, representing an increase of RMB191 million year on year. In the first half of 2023, the annualized average cost rate of deposits was 2.15%, representing a decrease of 7 basis points over the same period last year, which was mainly due to further optimization of deposit structure.

MANAGEMENT DISCUSSION AND ANALYSIS

② *INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS*

The average balance, interest expense and annualized average cost rate for each component of the Group's amounts due to banks and other financial institutions are set forth as follows:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | | For the six months ended 30 June 2022 | | |
|--|---------------------------------------|------------------|----------------------------------|---------------------------------------|------------------|----------------------------------|
| | Average balance | Interest expense | Annualized average cost rate (%) | Average balance | Interest expense | Annualized average cost rate (%) |
| Placements and deposits from banks and other financial institutions and others | 59,357.17 | 556.98 | 1.88 | 59,260.25 | 826.15 | 2.79 |
| Financial assets sold under repurchase agreements | 30,499.40 | 254.65 | 1.67 | 19,983.33 | 163.90 | 1.64 |
| Total amounts due to banks and other financial institutions | 89,856.57 | 811.63 | 1.81 | 79,243.58 | 990.05 | 2.50 |

In the first half of 2023, the Group's interest expense on amounts due to banks and other financial institutions amounted to RMB812 million, representing a decrease of RMB178 million year on year, which was mainly due to the decrease in the interbank debt interest rate of the Group arising from the downward impact of monetary market interest rates.

(3) **Net interest spread and net interest margin**

In the first half of 2023, net interest spread decreased 29 basis points to 1.43% over the same period last year, and net interest margin decreased 20 basis points to 1.49% over the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Non-interest Income

(1) Net fee and commission income

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|------------------|--------------------|
| Fee and commission income | | | | |
| Agency and custodian service fees | 195.70 | 145.39 | 50.31 | 34.60 |
| Syndicated loan fees | 152.60 | 117.67 | 34.93 | 29.68 |
| Bank card fees | 100.36 | 98.09 | 2.27 | 2.31 |
| Wealth management products related fees | 79.86 | 107.80 | (27.94) | (25.92) |
| Settlement and electronic channel business fees | 72.41 | 86.71 | (14.30) | (16.49) |
| Guarantee and commitment service fees | 37.04 | 22.22 | 14.82 | 66.70 |
| Bond lending arrangement fees | 29.98 | 33.10 | (3.12) | (9.43) |
| Financial lease business fees | – | 47.93 | (47.93) | (100.00) |
| Others | 17.74 | 25.66 | (7.92) | (30.87) |
| Subtotal | 685.69 | 684.57 | 1.12 | 0.16 |
| Fee and commission expense | | | | |
| Bank card fees | (29.22) | (26.10) | (3.12) | 11.95 |
| Settlement and electronic channel business fees | (26.34) | (10.94) | (15.40) | 140.77 |
| Others | (109.55) | (83.39) | (26.16) | 31.37 |
| Subtotal | (165.11) | (120.44) | (44.67) | 37.09 |
| Net fee and commission income | 520.58 | 564.13 | (43.55) | (7.72) |

In the first half of 2023, net fee and commission income of the Group amounted to RMB521 million, representing a year-on-year decrease of RMB44 million or 7.72%, which was mainly due to the decrease in fee income from finance lease business, wealth management products and settlement and electronic channel business. Net fee and commission income accounted for 5.54% of the total operating income, which was mainly the fee income from agency and custodian business, syndicated loan business and bank card business.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Net trading gains

In the first half of 2023, the net trading gains of the Group amounted to RMB64 million, which were mainly the dividend income from funds at fair value through profit or loss.

(3) Net gains on financial investments

In the first half of 2023, the net gains on financial investments of the Group amounted to RMB152 million, which were mainly the financial investments at fair value through other comprehensive income and bid-ask spread of financial investments at amortized cost.

(4) Other income, gains or losses

In the first half of 2023, other income, gains or losses of the Group amounted to RMB105 million, which was mainly interest rate swap incentives and exchange gains and losses of the PBOC.

3. Operating Expenses

In the first half of 2023, the operating expenses of the Group amounted to RMB3,063 million, representing a decrease of RMB163 million or 5.05% year on year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated:

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|------------------|--------------------|
| Staff costs | 2,032.52 | 2,098.61 | (66.09) | (3.15) |
| Depreciation and amortization | 321.97 | 352.28 | (30.31) | (8.60) |
| Tax and surcharges | 114.78 | 132.49 | (17.71) | (13.37) |
| Others | 593.38 | 642.12 | (48.74) | (7.59) |
| Total operating expenses | 3,062.65 | 3,225.50 | (162.85) | (5.05) |

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Staff costs

Staff costs represents the largest component of operating expenses of the Group, accounting for 66.36% and 65.06% of our operating expenses for the first half of 2023 and 2022, respectively.

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

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | Change in amount | Rate of change (%) |
|---|---------------------------------------|---------------------------------------|------------------|--------------------|
| Salaries, bonuses and allowances (including early retirement) | 1,346.20 | 1,442.48 | (96.28) | (6.67) |
| Social insurance, employee benefits and others | 686.32 | 656.13 | 30.19 | 4.60 |
| Total staff costs | 2,032.52 | 2,098.61 | (66.09) | (3.15) |

In the first half of 2023, staff costs of the Group amounted to RMB2,033 million, representing a year-on-year decrease of RMB66 million or 3.15%.

(2) Depreciation and amortization

In the first half of 2023, depreciation and amortization of the Group amounted to RMB322 million, representing a year-on-year decrease of RMB30 million or 8.60%.

(3) Tax and surcharges

In the first half of 2023, the tax and surcharges incurred of the Group amounted to RMB115 million, representing a year-on-year decrease of RMB18 million or 13.37%.

(4) Others

In the first half of 2023, other expenses of the Group amounted to RMB593 million, representing a year-on-year decrease of RMB49 million or 7.59%.

MANAGEMENT DISCUSSION AND ANALYSIS

4. *Assets Impairment Losses*

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

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | For the six months ended 30 June 2022 | change in amount | Rate of change (%) |
|--|---------------------------------------|---------------------------------------|------------------|--------------------|
| Credit impairment losses | 3,934.74 | 4,779.23 | (844.49) | (17.67) |
| Impairment losses on other assets | – | 33.43 | (33.43) | (100.00) |
| Total | 3,934.74 | 4,812.66 | (877.92) | (18.24) |

In the first half of 2023, in order to improve the risk resistance, the Group made provision for asset impairment losses of RMB3,935 million.

5. *Income Tax Expense*

In the first half of 2023, income tax expense of the Group amounted to RMB15 million, representing a year-on-year decrease of RMB192 million, which was mainly due to the decrease in the Group's profit before tax and the increase in income from tax-exempt business. In the first half of 2023, the effective income tax rate of the Group was 0.64%.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) ANALYSIS OF STATEMENT OF FINANCIAL POSITION

1. Assets

The following table sets forth the composition of the Group's total assets as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|---------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Total loans and advances to customers | 713,251.21 | 56.43 | 691,971.92 | 56.10 |
| Allowances for impairment losses | (25,322.99) | (2.00) | (22,854.05) | (1.85) |
| Loans and advances to customers, net | 687,928.22 | 54.43 | 669,117.87 | 54.25 |
| Financial investments ⁽¹⁾ | 398,092.10 | 31.50 | 349,437.11 | 28.33 |
| Cash and deposits with the central bank | 78,410.48 | 6.20 | 87,256.14 | 7.07 |
| Deposits with banks and other financial institutions | 10,765.77 | 0.85 | 7,764.64 | 0.63 |
| Placements with banks and other financial institutions | 56,064.41 | 4.44 | 43,468.97 | 3.52 |
| Financial assets held under resale agreements | 12,973.00 | 1.03 | 57,474.33 | 4.66 |
| Others ⁽²⁾ | 19,616.37 | 1.55 | 18,935.39 | 1.54 |
| Total assets | 1,263,850.35 | 100.00 | 1,233,454.45 | 100.00 |

Notes:

- (1) Financial investments included financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost.
- (2) Other assets consisted of property and equipment, goodwill, deferred income tax assets, right-of-use assets and others.

As at 30 June 2023, the Group's total assets amounted to RMB1,263,850 million, representing an increase of RMB30,396 million, or 2.46%, as compared to the end of last year. Among them, the total loans and advances to customers increased by RMB21,279 million, or 3.08%, as compared to the end of last year, and the loan scale remained stable.

As at 30 June 2023, the Group's financial investments increased by RMB48,655 million, or 13.92%, as compared to the end of last year, primarily due to the increase in bond investment.

As at 30 June 2023, the Group's financial assets held under resale agreements decreased by RMB44,501 million, or 77.43%, as compared to the end of last year, primarily due to the decrease in financial assets purchased under resale agreements based on market conditions and intra-group balance sheet arrangements.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Corporate loans | 449,701.72 | 63.05 | 440,584.66 | 63.67 |
| Personal loans | 170,506.06 | 23.91 | 165,958.71 | 23.98 |
| Discounted bills | 93,043.43 | 13.04 | 85,428.55 | 12.35 |
| Total loans and advances to customers | 713,251.21 | 100.00 | 691,971.92 | 100.00 |

As at 30 June 2023, total loans and advances to customers of the Group increased by RMB21,279 million, or 3.08%, to RMB713,251 million as compared to the end of last year. As compared to the end of last year, the Group's total corporate loans increased by RMB9,117 million, or 2.07%, to RMB449,702 million; total personal loans increased by RMB4,547 million, or 2.74%, to RMB170,506 million; and total discounted bills increased by RMB7,615 million, or 8.91%, to RMB93,043 million.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Total corporate loans | 449,701.72 | 63.05 | 440,584.66 | 63.67 |
| Working capital loans | 183,369.81 | 25.71 | 182,194.84 | 26.33 |
| Fixed asset loans | 241,256.74 | 33.82 | 237,304.27 | 34.29 |
| Finance lease receivables | 21,683.37 | 3.04 | 20,841.89 | 3.01 |
| Others | 3,391.80 | 0.48 | 243.66 | 0.04 |
| Total personal loans | 170,506.06 | 23.91 | 165,958.71 | 23.98 |
| Personal mortgage loans | 72,572.17 | 10.17 | 73,570.72 | 10.63 |
| Personal business loans | 74,503.91 | 10.45 | 71,236.82 | 10.29 |
| Personal consumption loans | 12,469.98 | 1.75 | 10,999.74 | 1.59 |
| Balance of credit cards | 10,960.00 | 1.54 | 10,151.43 | 1.47 |
| Total discounted bills | 93,043.43 | 13.04 | 85,428.55 | 12.35 |
| Bank acceptance bills | 78,371.10 | 10.99 | 76,074.87 | 11.00 |
| Commercial acceptance bills | 14,672.33 | 2.06 | 9,353.68 | 1.35 |
| Total loans and advances to customers | 713,251.21 | 100.00 | 691,971.92 | 100.00 |

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2023, the Group's balances of working capital loans, fixed asset loans and finance lease receivables were RMB183,370 million, RMB241,257 million and RMB21,683 million, respectively, representing 40.78%, 53.65% and 4.82% of total corporate loans, respectively. Among them, working capital loans increased by RMB1,175 million, or 0.64%, as compared to the end of last year, and fixed asset loans increased by RMB3,952 million, or 1.67%, as compared to the end of last year.

As at 30 June 2023, the Group's personal mortgage loans, personal business loans, personal consumption loans and balance of credit cards were RMB72,572 million, RMB74,504 million, RMB12,470 million and RMB10,960 million, respectively, representing 42.56%, 43.7%, 7.31% and 6.43% of total personal loans, respectively. Among them, the balance of personal mortgage loans decreased by RMB999 million, or 1.36%, as compared to the end of last year, and the balance of personal business loans increased by RMB3,267 million, or 4.59%, as compared to the end of last year.

As at 30 June 2023, the Group's discounted bank acceptance bills and discounted commercial acceptance bills were RMB78,371 million and RMB14,672 million, respectively. Among them, discounted bank acceptance bills and discounted commercial acceptance bills increased by RMB2,296 million and RMB5,319 million, as compared to the end of last year, respectively.

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Collateralized loans | 329,649.59 | 46.22 | 331,676.97 | 47.93 |
| Pledged loans | 37,324.55 | 5.23 | 36,930.81 | 5.34 |
| Guaranteed loans | 162,252.82 | 22.75 | 163,524.69 | 23.63 |
| Credit loans | 184,024.25 | 25.80 | 159,839.45 | 23.10 |
| Total loans and advances to customers | 713,251.21 | 100.00 | 691,971.92 | 100.00 |

As at 30 June 2023, the Group's collateralized loans decreased by RMB2,027 million, or 0.61%, as compared to the end of last year, pledged loans and credit loans increased by RMB394 million and RMB24,185 million, or 1.07% and 15.13%, respectively, as compared to the end of last year; Guaranteed loans decreased by RMB1,272 million, or 0.78%, as compared to the end of the last year; Overall, the proportion of collateralized loans and pledged loans to total loans is 51.45%.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Financial investments

The following table sets forth the composition of financial investments of the Group as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|---|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Financial assets at fair value through profit or loss | 69,486.53 | 17.45 | 81,974.53 | 23.46 |
| Financial assets at fair value through other comprehensive income | 105,281.92 | 26.45 | 70,945.26 | 20.30 |
| Financial assets at amortized cost | 223,323.65 | 56.10 | 196,517.32 | 56.24 |
| Total financial investments | 398,092.10 | 100.00 | 349,437.11 | 100.00 |

As at 30 June 2023, the financial investments of the Group totaled RMB398,092 million, which increased by RMB48,655 million, or 13.92%, as compared to the end of last year, mainly due to the increase in bond investment.

2. Liabilities

The following table sets forth the composition of total liabilities of the Group as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|---------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Amounts due to customers | 923,032.21 | 78.59 | 910,485.03 | 79.51 |
| Deposits from banks and other financial institutions | 37,264.07 | 3.17 | 29,324.94 | 2.56 |
| Placements from banks and other financial institutions | 952.89 | 0.08 | 3,342.94 | 0.29 |
| Financial assets sold under repurchase agreements | 38,261.58 | 3.26 | 38,717.32 | 3.38 |
| Debt securities issued | 132,545.93 | 11.28 | 124,580.53 | 10.88 |
| Others ⁽¹⁾ | 42,496.33 | 3.62 | 38,754.59 | 3.38 |
| Total liabilities | 1,174,553.01 | 100.00 | 1,145,205.35 | 100.00 |

Note:

- (1) Mainly including tax payable, borrowings from other banks, salaries, bonuses, allowances and subsidies payable, lease liabilities, etc.

As at 30 June 2023, the Group's total liabilities amounted to RMB1,174,553 million, representing an increase of RMB29,348 million or 2.56% as compared to the end of last year, mainly driven by the increase in amounts due to customers, debt securities issued and deposits from banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

Amounts due to customers

The following table sets forth the amounts due to customers of the Group by product type as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Corporate deposits ⁽¹⁾ | | | | |
| Time | 197,018.61 | 21.34 | 189,613.48 | 20.83 |
| Demand | 148,481.45 | 16.09 | 168,622.67 | 18.52 |
| Subtotal | 345,500.06 | 37.43 | 358,236.15 | 39.35 |
| Personal deposits | | | | |
| Time | 419,165.13 | 45.41 | 385,050.63 | 42.29 |
| Demand | 130,955.73 | 14.19 | 131,603.21 | 14.45 |
| Subtotal | 550,120.86 | 59.60 | 516,653.84 | 56.74 |
| Pledged deposits | 24,795.46 | 2.69 | 33,083.27 | 3.63 |
| Other deposits ⁽²⁾ | 2,615.83 | 0.28 | 2,511.77 | 0.28 |
| Amounts due to customers | 923,032.21 | 100.00 | 910,485.03 | 100.00 |

Notes:

- (1) Mainly including deposits from corporate customers and government bodies.
- (2) Mainly including treasury time deposits and fiscal deposits, etc..

As at 30 June 2023, amounts due to customers of the Group amounted to RMB923,032 million, representing an increase of RMB12,547 million or 1.38% as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 59.60% of the total amount due to customers, and the balance of personal deposits increased by RMB33,467 million or 6.48% as compared to the end of last year, which is the most important source of amounts due to customers; corporate deposits accounted for 37.43% of the total amount due to customers, and the balance of corporate deposits decreased by RMB12,736 million or 3.56% as compared to the end of last year. With respect to the maturity structure, demand deposits accounted for 30.27% of the total amount due to customers, representing a decrease of 2.70 percentage points over the end of last year, while time deposits accounted for 66.76%, representing an increase of 3.64 percentage points over the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Composition of Shareholders' Equity

The following table sets forth the composition of shareholders' equity of the Group as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Share capital | 11,451.27 | 12.82 | 11,451.27 | 12.98 |
| Preference shares | 9,820.73 | 11.00 | 9,820.73 | 11.13 |
| Capital reserve | 18,951.20 | 21.22 | 18,951.20 | 21.47 |
| Surplus reserve | 5,650.36 | 6.33 | 5,650.36 | 6.40 |
| General risk reserve | 15,770.29 | 17.66 | 15,770.29 | 17.87 |
| Investment revaluation reserve | 153.97 | 0.17 | (505.15) | (0.57) |
| Remeasurement on defined benefit plans | (54.77) | (0.06) | (54.65) | (0.07) |
| Retained earnings | 20,249.91 | 22.68 | 19,994.52 | 22.66 |
| Non-controlling interests | 7,304.38 | 8.18 | 7,170.53 | 8.13 |
| Total shareholders' equity | 89,297.34 | 100.00 | 88,249.10 | 100.00 |

As at 30 June 2023, the Group recorded a paid-in capital of RMB11,451 million, and capital reserve reached RMB18,951 million, both basically remained stable as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) LOAN QUALITY ANALYSIS

1. *Five-Category Classification of Loans*

The following table sets forth the distribution of the Group's loans by the five-category classification as at the dates indicated, under which non-performing loans include loans classified into substandard, doubtful and loss categories:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Normal | 650,976.10 | 91.27 | 624,007.98 | 90.18 |
| Special mention | 46,239.12 | 6.48 | 53,366.69 | 7.71 |
| Substandard | 7,542.14 | 1.06 | 5,745.54 | 0.83 |
| Doubtful | 7,171.37 | 1.01 | 8,013.10 | 1.16 |
| Loss | 1,322.48 | 0.18 | 838.61 | 0.12 |
| Total loans and advances to customers | 713,251.21 | 100.00 | 691,971.92 | 100.00 |
| Non-performing loan ratio ⁽¹⁾ | | 2.25 | | 2.11 |

Note:

(1) Calculated by dividing the total amount of non-performing loans by total loans.

Under the complex external environment, combined with the impact of factors such as macroeconomic downturn, the non-performing loan ratio of the Group as of 30 June 2023 was 2.25%, which increased by 0.14 percentage point from the end of last year.

2. *Distribution of Non-performing Loans by Product Type*

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | | As at 31 December 2022 | | |
|--|--------------------|-------------------------|--------------------------------|------------------------|-------------------------|--------------------------------|
| | Amount | Percentage of total (%) | Non-Performing loans ratio (%) | Amount | Percentage of total (%) | Non-Performing loans ratio (%) |
| Corporate loans | 12,720.16 | 79.32 | 2.83 | 11,879.50 | 81.38 | 2.70 |
| Personal loans | 3,315.83 | 20.68 | 1.94 | 2,717.75 | 18.62 | 1.64 |
| Total non-performing loans | 16,035.99 | 100.00 | 2.25 | 14,597.25 | 100.00 | 2.11 |

Note:

(1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) in each product type by gross loans in that product type.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Distribution of Non-performing Corporate Loans by Industry*

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | | As at 31 December 2022 | | |
|---|--------------------|-------------------------|--------------------------------|------------------------|-------------------------|--------------------------------|
| | Amount | Percentage of total (%) | Non-Performing loans ratio (%) | Amount | Percentage of total (%) | Non-Performing loans ratio (%) |
| Lease and commercial services | 4,703.85 | 36.98 | 3.73 | 4,454.75 | 37.50 | 3.57 |
| Wholesale and retail | 4,229.91 | 33.25 | 7.29 | 4,435.86 | 37.34 | 7.60 |
| Real estate | 1,886.04 | 14.83 | 3.40 | 1,604.12 | 13.50 | 2.83 |
| Manufacturing | 746.24 | 5.87 | 1.47 | 567.84 | 4.78 | 1.18 |
| Construction | 307.11 | 2.41 | 0.83 | 184.30 | 1.55 | 0.50 |
| Healthcare and social welfare | 136.15 | 1.07 | 6.25 | 138.77 | 1.17 | 5.76 |
| Agriculture, forestry, animal husbandry and fishery | 345.69 | 2.72 | 2.97 | 118.60 | 1.00 | 1.08 |
| Production and supply of electricity, heat, gas and water | 93.09 | 0.73 | 1.39 | 93.39 | 0.79 | 2.02 |
| Information transmission, software and IT services | 70.44 | 0.56 | 0.92 | 80.85 | 0.68 | 1.14 |
| Household, repair and other services | 58.75 | 0.46 | 0.31 | 58.75 | 0.49 | 0.28 |
| Accommodation and catering | 24.72 | 0.19 | 0.19 | 49.15 | 0.41 | 0.37 |
| Transportation, storage and postal services | 45.00 | 0.35 | 0.26 | 45.01 | 0.38 | 0.26 |
| Education | 47.85 | 0.38 | 0.38 | 31.61 | 0.27 | 0.25 |
| Water conservation, environment and public utilities management | 0.02 | – | – | 0.02 | – | – |
| Others | 25.30 | 0.20 | 0.12 | 16.48 | 0.14 | 0.10 |
| Total non-performing corporate loans | 12,720.16 | 100.00 | 2.83 | 11,879.50 | 100.00 | 2.70 |

Note:

- (1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) of each industry by gross loans granted to such industry.

Under the complex external environment, as of 30 June 2023, the Group's non-performing loans of lease and commercial service, real estate and other industries increased as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

4. *Overdue Loans to Customers*

The following table sets forth the aging timetable of the Group's loans by loan certificate as at the dates indicated:

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Loans that were not past due | 678,476.59 | 95.12 | 665,036.30 | 96.11 |
| Loans that were past due | 34,774.62 | 4.88 | 26,935.62 | 3.89 |
| Within 3 months | 19,794.74 | 2.78 | 11,960.02 | 1.73 |
| 3 months to 1 year | 7,513.06 | 1.05 | 7,087.52 | 1.02 |
| 1 year to 3 years | 4,622.31 | 0.65 | 5,090.02 | 0.74 |
| Over 3 years | 2,844.51 | 0.40 | 2,798.06 | 0.40 |
| Total loans and advances | 713,251.21 | 100.00 | 691,971.92 | 100.00 |

As at 30 June 2023, overdue loans of the Group amounted to RMB34,775 million, representing an increase of RMB7,839 million from the end of last year and accounting for 4.88% of the total loans, representing an increase of 0.99 percentage point from the end of last year.

5. *Rescheduled Loans and Advances*

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | | As at 31 December 2022 | |
|--|--------------------|-------------------------|------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Rescheduled loans and advances | 25,234.30 | 3.54 | 23,003.54 | 3.32 |

As at 30 June 2023, rescheduled loans and advances amounted to RMB25,234 million, representing an increase of RMB2,231 million from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) to calculate its capital adequacy ratio, under which credit risks are measured by weighted method, market risks are measured by standard method and operational risks are measured by basic indicator approach, and the scope of this calculation covers all branches of the Bank as well as subsidiaries which are financial institutions which comply with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The following table sets forth the relevant information of the Group's capital adequacy ratio as at the dates indicated.

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------|------------------------|
| Core Tier 1 capital adequacy ratio | 9.06% | 9.21% |
| Tier 1 capital adequacy ratio | 10.38% | 10.56% |
| Capital adequacy ratio | 13.21% | 12.59% |
| Portion of paid-in capital that may be included | 11,451.27 | 11,451.27 |
| Portion of capital reserve that may be included | 18,951.20 | 18,951.20 |
| Surplus reserve | 5,650.36 | 5,650.36 |
| General risk reserve | 15,770.29 | 15,770.29 |
| Retained earnings | 20,249.91 | 19,994.52 |
| Portion of minority interests that may be included | 2,930.67 | 2,735.35 |
| Others | 99.20 | (559.80) |
| Total core Tier 1 capital | 75,102.90 | 73,993.19 |
| Regulatory deductions for core Tier 1 capital | (4,462.69) | (4,145.51) |
| Among which: Goodwill and other intangible assets (excluding land use rights) | (1,038.86) | (1,018.36) |
| Core Tier 1 capital, net | 70,640.21 | 69,847.69 |
| Other Tier 1 capital | | |
| Other Tier 1 capital instruments and their premium | 9,820.73 | 9,820.73 |
| Portion of minority interests that may be included | 423.72 | 397.45 |
| Net Tier 1 capital | 80,884.66 | 80,065.87 |
| Tier 2 capital | | |
| Tier 2 capital instruments and related premium that may be included | 14,999.01 | 9,999.14 |
| Excessive loan loss allowances | 6,301.69 | 4,575.53 |
| Portion of minority interests that may be included | 818.12 | 766.53 |
| Net capital | 103,003.48 | 95,407.08 |
| Total risk-weighted assets | 779,472.39 | 758,009.74 |

As at 30 June 2023, the capital adequacy ratio of the Group was 13.21%, representing an increase of 0.62 percentage point over the end of last year, mainly due to the growth rate of the net capital over the end of last year exceeded that of risk-weighted assets. The net capital amounted to RMB103,003 million, representing an increase of RMB7,596 million or 7.96% over the end of last year, mainly due to the tier 2 capital bonds newly issued. Risk-weighted assets amounted to RMB779,472 million, representing an increase of RMB21,463 million or 2.83% over the end of last year, mainly due to the increase in credit risk-weighted assets for on-balance sheet businesses and market risk-weighted assets over the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(V) ANALYSIS OF LEVERAGE RATIO

As at 30 June 2023, the Group measured and disclosed the leverage ratio in accordance with the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》).

| Item (Expressed in RMB million, unless otherwise stated) | As at 30 June 2023 |
|--|--------------------|
| Net Tier 1 capital | 80,884.66 |
| The balance of assets on and off balance sheet after adjustments | 1,330,377.26 |
| Leverage ratio (%) | 6.08% |

(VI) SEGMENT INFORMATION

The Group conducts its business principally in Guangdong Province, the PRC, and its major customers and non-current assets are located in Guangdong Province, the PRC.

Summary of Business Segment

Operating income

| Item (Expressed in RMB million, unless otherwise stated) | For the six months ended 30 June 2023 | | For the six months ended 30 June 2022 | |
|--|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
| | Amount | Percentage of total (%) | Amount | Percentage of total (%) |
| Corporate banking business | 4,815.89 | 51.23 | 5,752.46 | 51.31 |
| Personal banking business | 3,490.81 | 37.13 | 3,758.99 | 33.53 |
| Capital business | 1,022.34 | 10.87 | 1,492.25 | 13.31 |
| Other businesses | 72.36 | 0.77 | 206.86 | 1.85 |
| Total operating income | 9,401.40 | 100.00 | 11,210.56 | 100.00 |

(VII) OFF-BALANCE-SHEET ITEMS

The Group's off-balance-sheet items include loan commitments (including undrawn credit card limits), acceptance bills, issuance of letters of guarantee and issuance of letters of credit. As at 30 June 2023, the balances of loan commitments (including undrawn credit card limits), acceptance bills, issuance of letters of guarantee and issuance of letters of credit were RMB137,126 million, RMB39,485 million, RMB29,581 million and RMB2,946 million, respectively.

(VIII) CONTINGENT LIABILITIES AND ASSETS PLEDGED AS SECURITY

For details of the Group's contingent liabilities and assets pledged as security as at 30 June 2023, please refer to notes 38 and 40 to the condensed consolidated financial statements.

II. BUSINESS OPERATION

(I) Corporate Banking Business

1. *Corporate Deposit Business*

In the first half of 2023, the Bank adhered to a strategy of “taking deposits as the key foundation of the Bank” and promoted high-quality development of its corporate deposit business. The Bank focused on marketing to small and medium-sized enterprises, continued to expand its effective deposit account base, implemented its customer doubling plan, and strengthened its customer base. The Bank also adhered to a customer-centered approach, developed precise customer profiles by focusing on various financial scenarios for customers, and emphasized the integrated use of various transaction and settlement products, such as cash management, to continue to promote the growth of settlement deposits, optimise deposit maturity structure, and effectively reduce the cost of liabilities. The Bank also thoroughly implemented the requirements of the “Hundreds-Thousands-Ten Thousands of Engineering Project” to comprehensively promote the rural revitalization strategy, and effectively improved the quality and effectiveness of financial assistance for rural revitalization. The Bank made efforts to refine and specialize the integrated operation of villages and communities through a series of measures, such as solidly promoting hierarchical management of villages and communities, advancing the construction of rural financial scenarios, and continuously enriching and optimising the product and service system in villages and communities, so as to firmly build the “moat for rural finance (鄉村金融護城河)”. The Bank fully leveraged its network distribution and advantages of local financial institutions to continuously expand the depth and breadth of cooperation between the Bank and the government, vigorously expanded institutional deposits at various levels, such as provincial, municipal, district and township levels, and created a marketing ecosystem where government institutions are at the center and various institutional businesses promote each other. As of the end of the Reporting Period, the Bank ranked fourth in terms of the scale of the point of time for corporate deposits in the same industry in Guangzhou area.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Corporate Loan Business*

In the first half of 2023, the Bank rooted itself in the local market and adhered to the guidance of the “14th Five-Year” Plan of the central government and the provincial and municipal governments, firmly supported the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, continued to support regional industry optimisation and upgrading, seized opportunities for the development of new infrastructure, and committed to enhancing financial support for key areas and projects in Guangdong Province and Guangzhou City. Following the work deployment of “prioritizing industry, building market reputation with manufacturing” set by the People’s Government of Guangzhou Municipality, the Bank closely focused on key areas such as advanced manufacturing, strategic emerging industries, “Specialized, Fine, Unique and Innovative” industries, and green finance, anchored research and development and innovative service products in local key industry clusters, launched exclusive credit products for park enterprises, automobile industry chain suppliers, and advanced manufacturing, and accurately met the capital needs of enterprises with different characteristics. The Bank focused on provincial- and municipal-level key projects and industry development plans to deepen and implement local financial services, implemented the requirements of the General Plan for Deepening Guangdong-Hong Kong-Macao Comprehensive Cooperation in Nansha, Guangzhou with a Focus on Global Orientation (《廣州南沙深化面向世界的粵港澳全面合作總體方案》), capitalized on the policy advantages of the Huadu Green Finance Demonstration Zone, and leveraged on the effect of the Huangpu Advanced Manufacturing Cluster to enhance the penetration rate of the Bank’s financial services. The Bank adhered to the development orientation of supporting agriculture and small businesses, took the comprehensive financial needs of small and medium-sized enterprises as the guide to increase the product innovation of small and medium-sized asset businesses, launched a series of products such as preferred loans for small and medium-sized enterprises, working capital loans, and science and technology loans, and made all-out efforts to promote the high-quality and extraordinary development of small and medium-sized asset businesses. As of the end of the Reporting Period, the Bank ranked the sixth among peers of Guangzhou region in terms of the scale of the point of time for corporate loans .

MANAGEMENT DISCUSSION AND ANALYSIS

3. Trading Bank Business

In the first half of 2023, the Bank's trading bank business is led by high-quality development, guided by market and customer demand, and promotes deep integration of technology and business, continuously improving the digital transformation system of trading bank business. Firstly, the Bank deeply engaged in local and rural financial services, continued to enrich the "smart village" characteristic settlement product system, and successfully passed the system acceptance of the Guangdong Provincial Department of Finance, being selected as a backup bank for special bond regulatory accounts (first batch). Secondly, the Bank continuously optimised and integrated online channels for trading bank business, expanded mobile payment channels through the introduction of the new "Jinmi Corporate Butler (金米企業管家)" one-stop public mobile financial service platform, and continuously iterated and upgraded the corporate internet banking 3.0, providing customers with more diverse, convenient, and high-quality service experiences. Thirdly, the Bank launched a series of supply chain financial services, including the "Cloud-based Financial Chain (雲融鏈)" online factoring financing service, electronic letter of credit and forfaiting business, electronic guarantee business, and the new generation of bill business system functions. Fourthly, the Bank fully committed to serving The China Import and Export Fair (廣交會) and launched the "Jinmi Zhiying (金米智盈)" cross-border financial service program, providing customized services for exhibitors and purchasers to comprehensively cover the needs of foreign trade enterprises in cross-border settlement, foreign exchange hedging, trade financing and global capital management.

4. Investment Banking Business

In the first half of 2023, the Bank fully leveraged its license advantage as a lead underwriter for local corporate, actively implemented the requirements of high-quality development, adhered to the development concept of light capitalization, focused on building an investment banking product system mainly based on direct financing, asset securitization, and structured financing, and supported the development of the Guangdong-Hong Kong-Macao Greater Bay Area with a wide range of investment banking products to help Guangzhou achieve new vitality as an old city. Driven by innovation, the Bank deepened its roots in local market, and identified potential customer segments. With investment banking products as a breakthrough, the Bank continued to expand the breadth and depth of its financial services to high-quality enterprises in the Bay Area.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Retail Financial Business

1. *Personal Deposit Business*

In the first half of 2023, the Bank, based on the local community and rooted in villages and communities, steadfastly implemented the new development concept to ensure steady growth in retail deposits. Firstly, the Bank focused on customer needs and provided distinctive deposit products with market competitiveness to satisfy the financial needs of customers at different levels. Secondly, the Bank optimised product services by setting up self-service channels for nine additional products such as Happy Deposits and Dream Deposits to further improve business efficiency. Thirdly, the Bank continued to promote the house rental scenario-based financial services to enhance the level of digital financial services for urban and rural rental scenarios. As of the end of the Reporting Period, the Bank's personal savings and deposits reached RMB443.1 billion and ranked second in the same industry in Guangzhou area.

2. *Personal Loan Business*

In the first half of 2023, the Bank adhered to the customer-centered approach, practiced the service concept of "financial services for the people", focused on customer needs and consumption scenarios, continually innovated financial products, and comprehensively enhanced the level of financial services to effectively support the growth of consumption capacity and the cultivation of new consumption points. Firstly, the Bank continued to upgrade products and launched special preferential programs for consumer loans, serving over 10,000 customers. Secondly, the Bank accelerated the online transformation of consumer loans, expanded online application channels, enriched repayment methods, and improved the convenience and efficiency of business processing. Thirdly, the Bank continued to improve the second-hand housing mortgage and transfer service to effectively shorten the processing time and save the time spent on housing transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Wealth Management Business*

In the first half of 2023, the Bank remained committed to serving the local economy and supporting social development as its own responsibility. In response to the trend of rapid growth in the demand for wealth management of residents in the Greater Bay Area, the Bank promoted wealth and financial services for the people's livelihood through the supply of rich wealth products and attentive professional services, supporting the high-quality development of the Greater Bay Area.

Firstly, the Bank comprehensively strengthened the professional accompanying services for customers. Through the professional support of investment research and advisory services, the Bank regularly published hot topic analysis and market analysis to enhance customers' investment cognitive ability, adjusted the asset allocation structure of customers to mitigate the impact of market fluctuations, thus deepening customer engagement. Secondly, the Bank improved the wealth product system, on the basis of 7 major product systems and 18 product strategies, it increased the distribution of wealth management product lines, improved the competitiveness and profitability of asset management products to meet the diverse needs of customers for stable products, enhanced the accessibility of high-end wealth products through the integration of "insurance + insurance fund trust", and strengthened the extension of services to the next generation of customers. Thirdly, the Bank focused on building a wealth management center, strengthened the professional capabilities of private banking relationship managers team and investment advisors team, and improved its ability to accompany and serve high-end customers. Fourthly, the Bank continued to optimise the functions of the mobile banking wealth business and built an integrated wealth management system to improve the level of business management while enhancing the customer experience.

In the first half of 2023, the Bank was awarded two external honors, the "Prestigious Award" of 2023 Outstanding Regional Private Bank and the "Prestigious Award" of 2023 Outstanding Wealth Management Services Capability issued by PY Standard.

MANAGEMENT DISCUSSION AND ANALYSIS

4. *Bank Card Business*

(1) Debit card

The Bank has followed the policy guidelines, continued to enrich its debit card products, and vigorously developed its debit card business. Firstly, focusing on the development of talent base in the Greater Bay Area, the Bank continued to promote “Ling Yue (領粵)” series of themed debit card, providing a comprehensive package of value-added financial services for talents in the Greater Bay Area. Secondly, the Bank expanded the breadth and depth of its social security card services, strengthened the construction of business channels, and improved the efficiency of business processing, effectively improving the quality and efficiency of pension financial services for urban and rural residents. As of the end of the Reporting Period, the Bank issued more than 310,000 debit cards, the total number of debit cards in use was more than 7.9 million; nearly 500 outlets provided social security card services, and 90,000 new social security cards were issued. In the first half of 2023, the Bank was awarded the “Top 10 Retail Banks for Rural Commercial Banks in 2022”.

(2) Credit card

The Bank’s credit card business was based on its original source, and implemented the gist of the provincial and municipal high-quality development conferences, fully leveraged its positive role in consumer payments and consumer credit, put diverse measures into effect to promote consumption, expand domestic demand, and serve the real economy, and assisted in enhancing the endogenous power of the new development landscape, empowering and increasing efficiency for high-quality development.

In the first half of 2023, the Bank, firstly, iteratively optimised special products including “Respect for Teachers Plan”, “Preferred Customer Plan” and “Preferred Enterprise Plan”, and proactively expanded its high-quality customer base; secondly, based on customer needs as origin, concentrated on the hotspots of cultural tourism consumption, accelerated R&D of new products, initiated crossover cooperation between “cultural tourism + finance”, and launched the Jinmi Cultural Tourism Card; thirdly, introduced a smart marketing platform, upgraded mobile marketing system, strengthened technology empowerment, improved intelligent services level, sped up the connection and sharing of social security, provident fund, credit, and risk tag data within and outside the Bank, and enhanced its digital operation capabilities. As of the end of the Reporting Period, the Bank has issued 2.0382 million credit cards, representing an increase of 4.2% as compared with the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Sannong Financial Business

In the first half of 2023, the Bank thoroughly implemented the spirit of the No. 1 document of the Central Government, fully implemented the “high-quality development project for hundreds of counties, thousands of towns, and tens of thousands of villages”, adhered to the origin of supporting agriculture and SMEs in local corporate banks, and provided comprehensive financial services to propel high-quality development of rural revitalization. During the Reporting Period, the Bank formulated and issued the “Implementation Plan on Focusing on the High-quality Development Project of Hundreds of Counties, Thousands of Towns, and Tens of Thousands of Villages, and Promoting the Comprehensive Financial Services for Rural Revitalization in 2023”, which aims to create a comprehensive and integrated rural financial service system. Firstly, the Bank innovated and optimised credit products to provide financial support, and launched “Agricultural Loan”, “Village Community Loan”, and “Home Rental Loan” for agriculture, rural customers and special industries, to provide credit lines that precisely channel financial support for Sannong customer base. Secondly, focusing on key areas of rural revitalization, the Bank strongly supported ocean ranches, stable production and supply, spring farming preparation, prepared dishes, urban agricultural industry chains and other areas to promote the rapid development of leading agricultural enterprises, “vegetable basket” enterprises and other key enterprises. Thirdly, the Bank made good use of monetary policy to support agriculture and SMEs, strengthened the use of monetary policy for re-lending loans to support agriculture, stimulated the release of agriculture-related loans, and promoted the implementation of the policy of benefiting farmers. As of the end of the Reporting Period, the Bank’s agricultural loan balance amounted to RMB45.85 billion, representing an increase of RMB2.411 billion over the beginning of the year; the re-lending business in support of farmers amounted to RMB1.266 billion, the scale of which ranked first in Guangzhou.

(IV) Inclusive Financial Business

In the first half of 2023, to implement national major strategies and policy deployments, and meet the requirements of governments at various levels in supporting the development of inclusive small and micro business, the Bank closely focused on the “strengthening foundation, improving profitability, and promoting transformation” strategy, strengthened collaboration with corporate and wealth businesses internally, enhanced linkage with government agencies, chambers of commerce and associations, and established a diversified customer acquisition channel system externally. On the one hand, the Bank focused on creating flagship products and continuously optimised the Online Housing Loan (線上房易貸), Jinmi Micro E-loan (金米微易貸), and Jinmi SME Extended Loans (金米小微續貸), accelerated R&D of new products such as Jinmi Quick E-loan (金米速e貸) to enhance financial service capabilities and levels, in line with the strategic goal of “prioritizing industry, building market reputation with manufacturing” in Guangzhou. On the other hand, the Bank expedited digital transformation by introducing third-party external data to enhance online marketing and risk control capabilities. As of the end of the Reporting Period, the inclusive and SME loans of the Bank amounted to RMB45.433 billion, representing an increase of RMB2.326 billion as compared with the beginning of the year, and the small and micro enterprises served were 60,105, representing an increase of 11,855 as compared with the beginning of the year. In addition, the “two increases” index fully met the target.

MANAGEMENT DISCUSSION AND ANALYSIS

(V) Financial Market Business

In the first half of 2023, the external environment was complex and volatile, with a moderate macroeconomic recovery and a stable and loose monetary policy. The interest rate pivot in the financial market gradually declined. Facing a complex market situation, the Bank's financial market business centered on the overall operation of the whole bank, and all businesses were carried out in a healthy and orderly manner, with operational efficiency presenting a steady rise.

1. Flexible and efficient management on assets and liabilities allocation, and continuous improvement of trading and investment capabilities. In terms of asset side, the Bank conducted forward-looking analysis of market changes, reasonably managed the scale and maturity of various assets, and reinforced investment in high-quality assets to foster effective optimisation of the asset structure. In terms of liability side, the Bank strengthened the overall management of liability types and maturities, achieved comprehensive balanced development of assets and liabilities, and effectively reduced the cost of interbank liabilities. In terms of trading capabilities, the Bank conducted in-depth research and evaluation of interest rate trends, actively seized market trading opportunities, and continuously increased profit from price spreads. Under the premise of strict risk control, the Bank increased the breadth of counterparties and continuously enhanced the Bank's influence in the interbank market. In the first half of 2023, the Bank's fund business transaction volume reached RMB6.37 trillion.
2. Continuously strengthening the basic support, and core capacity building was gradually showing results. In terms of interbank customer management, the Bank constructed a top-level design for interbank customer management, conducted precise customer segmentation and classification management, and actively expanded interbank network, further improving the market activity and financial market brand influence. In terms of investment, research and development, the Bank focused on interbank comparison and asset-liability allocation research, cultivated a steady and aggressive investment and research concept, optimised investment decision-making mechanisms, and enhanced the scientific and systematic nature of investment decision-making to provide research guarantee and support for business elaborate management. In terms of digital transformation, the Bank stuck to the dual-drive strategy of business leadership and technological empowerment, and rapidly pushed forward the updating of interbank, wealth management, custody, and other business systems to effectively consolidate digital infrastructure.
3. Carrying out in-depth business marketing and steadily developing asset custody business. The Bank focused on core customer groups, with a key emphasis on intensifying marketing efforts towards public offering of funds, securities traders, wealth management subsidiaries, and government industry funds, closely followed customer needs and continuously optimised customer experience, and provided liquidation, accounting, and investment supervision and other efficient and high-quality services.

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) Asset Management Business

In the first half of 2023, the Bank continued to optimise the wealth management structure, create key products and boost the retail wealth management business, with synergetic development of wealth finance business. Focusing on customers' needs, the Bank continued to promote product innovation, newly issued wealth management products valued by the amortized cost method and hybrid valuation method to meet customers' needs for stable investment.

In the first half of 2023, the Bank won two industry awards, namely the Prestigious Award of "Excellent Large-scale Asset Management Rural Commercial Bank" and "Excellent Cash Management Banking Financial Products"; ranked third and second in the 2022 comprehensive banking and wealth management capabilities (in terms of wealth management institutions of rural commercial bank) and the comprehensive banking and wealth management capabilities of the fourth quarter of 2022 (in terms of rural commercial bank) issued by China Securities Jinniu.

(VII) Distribution Channels

1. *Physical Outlets*

As of the end of Reporting Period, the Bank had 606 operating outlets (including 1 franchise institution), of which 586 were located in the Guangzhou region (including 1 franchise institution) and 20 were non-local outlets in the province. In terms of the number of outlets in the Guangzhou region, the Bank ranked first among the banks in the Guangzhou region. The Bank operated 5 non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai Hengqin, 15 sub-branches.

2. *Self-service Bank*

As of the end of Reporting Period, the number of ATMs, self-service inquiry terminals and smart service terminals of the Bank amounted to 1,663, among which 913 were ATMs, 201 were self-service inquiry terminals and 549 were smart service terminals.

3. *Smart Banking*

As of the end of Reporting Period, the Bank had a total of 307 smart banking outlets, and smart facilities including 549 STM were installed.

MANAGEMENT DISCUSSION AND ANALYSIS

4. *Electronic Channels*

During the first half of 2023, the Bank adhered to the concept of “customer-centric”, deepened digital transformation, established an online channel service matrix including mobile banking, Internet banking, WeChat banking, and online business hall, strengthened the synergy of online channels, and improved the quality and efficiency of online financial services. As of the end of Reporting Period, the total number of customers of the Bank’s online channels (including mobile banking, Internet banking, WeChat banking, etc.) exceeded 4 million with 10.63 million financial transactions, and a transaction amount of RMB773.1 billion.

III. DEVELOPMENT OF FINANCIAL TECHNOLOGY

The development of financial technology of the Bank is based on the Bank’s “14th Five-Year” Financial Technology Strategic Development Plan. The Bank proactively propelled the digital transformation of the business of the Bank, focusing on technological innovation and application capacity building, so as to achieve steady improvement of the support for business development and service capability of financial technology. In the first half of 2023, all important information systems of the Bank maintained a stable operation, no unplanned system outages occurred and the network operation was stable.

(I) Promoting Digital Transformation of the Bank

The Bank was committed to implementing the strategy and strengthening top-level design, established a digital transformation leadership group and a digital transformation office, focusing on promoting the digital transformation of the Bank by focusing on the digital construction of small and medium-sized asset business. The Bank promoted the application of the self-service query platform for business data, enriched the database of six major business data themes and tags, and improved the data analysis and application capabilities of the Bank, thus injecting new impetus for the high-quality and extraordinary business development.

(II) Building Technology Applications to Empower Business Operation and Management

The Bank concentrated its superior resources in technology, made full use of technologies and concepts such as big data, cloud computing, channel collaboration, and platformization, innovated digital financial service models and products, deeply empowered the business operations and management of the Bank, and promoted the high-quality development of the four major characteristic financial businesses. In the first half of 2023, the Bank successfully launched 20 system development projects, including the account risk monitoring and management platform project, the real-time audit module of the dual-record audit system, and the IFRS9 valuation and impairment project for wealth management business, which effectively supported the business development and operation management of various business lines of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Information Security Guarantee

The Bank continued to strengthen its capability of information security guarantee by improving its emergency response mechanism for financial technology incidents, and enhancing its ability and capacity to respond to financial technology and network security incidents. The Bank promoted 12 security protection projects, including network security level protection test and evaluation, information system security assessment, network security protection service, and automated penetration testing system construction, to strengthen technical protection capabilities and consolidate the security foundation. The Bank carried out special inspections on data technology security risks and strictly implemented data security management and control strategies. It also carried out network security training for all staff to effectively enhance the level of information security guarantee.

(IV) Business Continuity Management

The Bank actively implemented various tasks of business continuity management, and strengthened the protection of infrastructure resources by steadily advancing the assessment of data center infrastructure (basic resources), optimising the work monitoring of TSM server backup, launching the construction of infrastructure projects such as proactive replacement of old equipment, and increasing the capacity of co-located disaster recovery backup repository for multiple application systems. The Bank formulated and implemented the Digital Operation and Maintenance Capacity Construction Programme to explore a digital operation and maintenance technology route suitable for the Bank and to enhance its digital operation and maintenance capacity. In the first half of 2023, the Bank completed four batches of emergency switchover drills for 93 sets of systems, which enhanced the Bank's ability to respond to emergencies in its information systems.

(V) Deepening Financial Technology Management System

With the guidance of professional-driven and technology-agile service philosophy, the Bank has established five specialised virtual management rooms in the financial technology department, to strengthen technology co-ordination and professional control capabilities; explored the establishment of an agile development team for platform loans, piloted the operational plan of the agile development mechanism, optimised the research and development mode, and realised the rapid and iterative development of the platform loan requirements and put them into production; launched the unified application development platform, promoted the DevOps platform and system construction, expanded the breadth and depth of the use of research and development tools, implemented hierarchical technology control, and strengthened the standard management of the testing environment, etc., so as to improve the quality and efficiency of scientific and technological R&D and the ability of independent control, and to build a technical framework for digital transformation and a mechanism for safeguarding the management of science and technology through multiple measures.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. COMPREHENSIVE RISK MANAGEMENT

The Bank has established a sound organisational structure and clear boundaries of responsibilities for comprehensive risk management, which clearly defined the duties and responsibilities of the Board of Directors, the Board of Supervisors, senior management, various departments and branches of the headquarters. Risk management covers all business segments, branches, subsidiaries, departments, positions and personnel, all types of risks, and all management aspects of decision-making, execution and supervision. An independent organisational structure for comprehensive risk management has been established, and an operational mechanism of mutual coordination and checks and balances has been formed. At the same time, the Bank continued to optimise the risk management structure, improve the risk management system, evaluation system, decision-making system and monitoring system, strengthen the whole process management of credit granting business, and optimise the asset structure, so as to build a comprehensive, prudent, independent, effective and dynamically balanced comprehensive risk management system in light of the actual situation and management needs of the Bank.

(I) Credit Risk Management

Credit risk refers to the risk of economic losses arising from failure of the borrower or the counterparty of the Bank to fulfil relevant obligations as per the contract for various reasons.

The Board of Directors of the Bank assumes the ultimate responsibility for credit risk management. The Risk Management Committee under the senior management is responsible for formulating policies and strategies relating to the overall credit risk management of the Group, and the Risk Management Department, Credit Management Department, the Credit Approval Department and the Asset Preservation Department are responsible for the specific implementation, monitoring and evaluation of credit risk management policies and strategies. Various business segments provide active cooperation in risk management and control.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023, the Group continued to strengthen the credit risk management and control. Firstly, launching the “Year of Compliance Construction”, and focusing on the promotion of compliance culture, optimisation of the system and improvement of the institutional mechanism to enhance risk awareness of staff, accelerate the improvement of the risk control mechanisms covering the whole process, whole business, whole product, and whole segment, and improve the mechanism for identifying, monitoring, measuring and controlling credit risk, so as to comprehensively enhance the risk management capabilities and levels. Secondly, the Bank strengthened the management of the “Triple Checks” of the credit business, introduced annual credit policy to guide high-quality development of the business; promoted professionalisation in the approval process, and continued to improve key points of the risk control in the review and approval process and scientifically formulated the credit scheme; strengthened the management of credit business, and further withdrew the authority to review and approve the lending of the credit business, and strictly implemented risk-control measures prior to the lending; and strengthened post-loan management and risk monitoring, revised post-loan management methods, and launched high-frequency risk-specific inspections to detect hidden risks and handle them as early as possible. Thirdly, the Bank made greater efforts in disposal of non-performing assets, introducing an annual assessment program for the control of non-performing assets to strengthen the accountability of relevant entities and guide operating institutions in implementing control goals and tasks; accelerating the disposal of existing risky assets through multiple measures, and comprehensively utilizing various risk disposal means to effectively mitigate risks. Fourthly, the Bank promoted the informatization construction of credit business, and continued to optimize the functions of the credit management system to help improve the efficiency of business operations and the quality and effectiveness of risk control; engaged professional institutions to conduct compliance assessments for expected credit losses, and optimised the impairment models to improve the level of credit risk measurement and management. Fifthly, the Bank strengthened the professional training of the staff by launching training on credit policies, risk classification and other regulatory frameworks and explaining the key points of the policies and regulations, so as to improve the understanding and operational skills of the staff.

In the first half of 2023, the overall credit risk of the Group were under control. The non-performing loan ratio was kept within the pre-determined control target.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Liquidity Risk Management

Liquidity risk refers to the risk that sufficient funds cannot be obtained at a reasonable cost in time to meet debts falling due, perform other payment obligations and meet other capital needs of normal business. The objective of liquidity risk management of the Group is to meet the liquidity needs arising from assets, liabilities and off-balance sheet businesses and fulfil payment obligations to external parties in a timely manner under the normal operating environment of the Group or at a highly stressed condition through the establishment of a scientific and comprehensive liquidity risk management mechanism and effective identification, measurement, monitoring and reporting of liquidity risks, so as to maintain the balance between effectiveness and security of funds.

The Board of the Bank assumes the ultimate responsibility for liquidity risk management. The Asset and Liability Management Committee under the senior management is responsible for formulating policies and strategies relating to overall liquidity risk management of the Group; under the guidance of the Asset and Liability Management Committee, the Asset and Liability Management Department is responsible for daily liquidity risk management; various business sectors provide active cooperation in liquidity management.

In the first half of 2023, the Group continued to implement liquidity risk policies and various measures for liquidity risk management and enhanced the uniform and centralized management of liquidity risk. Firstly, the Group made use of the capital position system for daily position management, centralized scheduling, and conducted timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Group included the requirements for liquidity risk management into its business plan to ensure limiting the existing quality liquidity assets within a safe range. Thirdly, based on the risk preference in liquidity risk approved by the Board of Directors, the Group formulated limits on liquidity risk every month, and monitored and assessed the execution of the risk limit to ensure liquidity risk is under control. Fourthly, the Group monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Group carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis. Sixthly, the Group regularly carried out liquidity risk emergency drills in order to improve the efficiency of its response under emergency situation.

In the first half of 2023, the overall liquidity risks of the Group were under control, without any liquidity risk incidents, all liquidity risk indicators were able to meet the standards, and results of the stress test also showed that the Group had adequate risk mitigating capability to deal with crises under pressure.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Market Risk Management

Market risk refers to the risk of losses in on- and off-balance sheet businesses from adverse changes in market prices (interest rate, exchange rate, stock prices and commodity prices). The market risk faced by the Group exists in the Group's transaction books and bank books, mainly including interest rate risk and exchange rate risk.

In the first half of 2023, the Group remained concerned about changes in currency policies and market prices, and took a number of measures to enhance the capability to manage market risk. Firstly, it introduced the proprietary investment policy and wealth management investment policy for 2023 to clarify, investment target scope, duration, warning and stop-loss actions, etc. Secondly, it regularly conducted inspections on the implementation of the investment policies, and notified the Group of the investment policy objectives, external regulatory indicators, the achievement of monitoring and surveillance indicators, as well as the implementation of new businesses policies, so as to promote the continuous optimisation of the business structure. Thirdly, it conducted stress tests on market risk on a regular basis, analysed the market risk volatility assumed by the Bank under light, medium and heavy stress scenarios, and provided relevant recommendations to prevent market risk fluctuations.

In the first half of 2023, the market risk of the Group was overall controllable, without any significant market risk event, and various key market risk indicators of each month met the standards. The stress test results also showed that the Group is capable of coping with market risks under various stress scenarios.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Operational Risk Management

Operational risk refers to the risk of losses caused by imperfections or problems of internal procedures, staff and IT system, and external events.

Operational risks of the Group are classified mainly into internal risks and external risks. Internal risks mainly include risks arising from human factors, inappropriate procedures and operational processes, and failure of information system. External risks mainly include risks caused by external emergencies.

In the first half of 2023, the Group continuously improved the level of operational risk prevention from employee management and risk identification. Firstly, it carried out the continuous special investigations such as staff abnormal behaviour investigations, staff account monitoring and staff home visits, effectively prevented the transformation of abnormal behaviour risks of employees outside eight hours into those within eight hours, and standardised employee behaviour management. Secondly, in accordance with the requirements of the Implementation Plan for Improving and Strengthening the Supervision System of the Bank, it adequately identified all internal factors (such as organisational structure, products and services, personnel flow, application of new equipment and new systems) or external environment factors (such as technological progress, changes in laws and regulations, industry changes, adjustment of market structure, etc.) that caused financial or non-financial losses to business activities and business processes, strengthened the control of procedures, personnel and authority in important links, regularly carried out system implementation inspection and operational risk assessment, timely identified and rectified operational risk hazards, and effectively prevented operational risks.

(V) Information Technology Risk Management

Information Technology Risk Conditions refer to operation, law and reputation risks generated during the process of applying information technology by the Bank due to natural factors, human factors, technical loopholes and management flaws.

In the first half of 2023, the Group continued to strengthen its information technology risk management. Firstly, it completed a comprehensive analysis of business impact, re-identified and determined the important businesses and information systems of the Bank, and further assessed and revised the Business Continuity Plan and various important business-specific plans, comprehensively improving the emergency management mechanism for important businesses. Secondly, it conducted comprehensive review of network and data management in third-party collaborations and launched risk investigations to further strengthen the identification and assessment of information technology outsourcing risks. Thirdly, it launched a "Retrospective" inspection to comprehensively review and examine the rectification of information technology issues identified in internal and external inspections since 2020. Fourthly, it formulated the Monitoring Indicators of Information Technology Risk (2023) to enhance the comprehensiveness and targeted monitoring of risk.

In the first half of 2023, the information technology risks of the Group were generally controllable.

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) Compliance Risk Management

Compliance risk refers to the risk of legal sanction or regulatory penalty, major property loss or reputation loss as a result of its non-compliance with the laws, regulations and codes as well as relevant industry codes. The objective of the Bank's compliance risk management is to achieve effective identification, assessment, prevention and disposal of compliance risks through the establishment of a sound compliance risk management mechanism, so as to ensure the Bank's compliance operation in accordance with the laws.

In the first half of 2023, the Group coordinated its deployment and made key breakthroughs to launch the "Year of Compliance Construction" activities in a comprehensive and systematic manner. Firstly, it comprehensively and systematically sorted out existing systems, formulated the work plan for system sorting, and completed the establishment, revision and abolition of the system according to the plan, improving the system of the Bank. Secondly, it comprehensively deepened the construction of internal control system, conducted a comprehensive sorting out of the risk management system according to the types of risks, clarified necessary links and personnel positions for risk control, and strengthened the effective management of business risks. Thirdly, it worked together to carry out compliance promotion and training, integrating the requirements of the "Year of Compliance Construction" into various training programs to achieve full coverage of all staff. Fourthly, it endeavored to improve marketing and service levels, focusing on optimising products, streamlining processes and strengthening the organization, so as to provide guarantees and support for the development of small and medium-sized asset businesses.

(VII) Legal Risk Management

Legal risk refers to the risk of incurring legal sanctions or other negative consequences that arises out of or in connection with the failure of the Bank to comply with requirements of relevant laws and regulations during the Bank's operation; the unfavorable legal defects that exist in products, services or information provided to clients, transactions engaged in, and contracts, agreements or other documents executed by the Bank; legal disputes (litigation or arbitration proceedings) between the Bank and its clients, counterparties and stakeholders; important changes in relevant laws and regulations and other relevant rules; and other relevant legal events that occur internally and externally.

In the first half of 2023, the Group continuously strengthened legal risk management, improved legal risk management level and prevention capability, conducted special training on the Civil Code, improved and optimised agreement contents, and practically enhanced risk prevention and control in litigation cases.

MANAGEMENT DISCUSSION AND ANALYSIS

(VIII) Implementation of the Basel Capital Accord

The Group promoted the implementation of the New Basel Capital Accord in accordance with regulatory requirements. In the first half of 2023, firstly, we formulated an annual risk preference statement and indicator system which was considered and approved by the Board of Directors; secondly, we set up a project team for the implementation of the new capital regulations to carry out regulatory analysis and consulting projects focusing on the Administrative Measures for the Capital of Commercial Banks (for Public Comments); thirdly, we promoted in the fourth round of quantitative measurement of the Administrative Measures for the Capital; fourthly, we continued to monitor the operation of the project to optimise and upgrade the non-retail internal assessment system, and launched the reminder function for rating expiration; fifthly, we conducted the annual banking stress test.

(IX) Money Laundering Risk Management

Money laundering risk refers to money laundering, terrorist financing and proliferation financing risks. The occurrence of money laundering risk events or cases may cause serious reputational risks and legal risks as well as loss of customers, business and financing to the Bank.

In the first half of 2023, the Group strictly complied with anti-money laundering laws and regulations, implemented various regulatory policies, seriously performed anti-money laundering obligations in accordance with the principle of “risk-based”, continuously improved the construction of anti-money laundering internal control systems, solidly implemented the requirements of money laundering risk assessment, steadily pushed forward the digital transformation of anti-money laundering, vigorously improved the quality and efficiency of internal inspection and supervision of anti-money laundering, actively created a favorable culture of money laundering risk management, and strictly prevented and controlled money laundering risks. There were no significant money laundering risk events during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

(X) Reputation Risk Management

Reputation risk refers to the behavior of the Bank, behavior of its staff or external events, lead to negative evaluations of the Bank by stakeholders, the public and the media, thereby damaging the brand value of the Bank, detrimental to the normal operations of the Bank, and even affecting market stability and social stability.

In the first half of 2023, the Group established a sound reputation risk management system and formed a relatively complete mechanism for monitoring, investigating, reporting and responding to reputation risk. We took the initiative to press forward on the management of public opinion, strictly implemented 7*24-hour real-time monitoring and reporting, conducted regular and normalized reputation risk investigation, adopted all-round and multi-level preventive measures, and effectively responded to and coped with reputation risks. We increased the positive publicity efforts, gave full play to the publicity of the Bank's internal and external media, and actively publicized and reported on the effectiveness of the Bank's work in deepening reforms, supporting agriculture and SMEs, serving real economy, and promoting high-quality development, to form a favorable atmosphere for public opinion. We regularly reviewed and improved the reputation risk management, comprehensively enhanced the quality and efficiency of the reputation risk management, and effectively maintained the Bank's positive market image. During the Reporting Period, the Bank's public opinion was generally stable.

(XI) Country Risk Management

Country risk refers to the risk incurred to a bank arising from the inability or refusal by the borrower or debtor to repay banking financial institution debt, losses suffered by banking financial institution or its commercial presence in such country or region and other losses due to economic, political, social changes and events in a country or a region.

In the first half of 2023, the Bank adhered to the principle of "risk-based", and strictly implemented the regulatory requirements. Combined with business development needs and in the face of increasingly complex external environment, the Bank comprehensively deepened the systematic construction of compliance risk management, and continuously strengthened country risk management, promoting the high-quality development of the Bank's business.

(XII) Large Risk Exposure Management

The Bank strictly followed regulatory requirements in managing large risk exposures, earnestly implemented unified credit management for customers, strengthened pre-loan limit management, collected the Bank's data on large risk exposures on a monthly basis to fill in the Statistical Sheet of Large Risk Exposures (《大額風險暴露統計表》) according to the requirements for off-site supervision reporting forms in the banking industry, aiming to reflect the Bank's concentration of risk exposures to customers, and continued to monitor and manage large risk exposures, ensuring that relevant indicators of large exposures meet regulatory requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

V. INTERNAL AUDIT

The Bank has established independent and vertical audit management system. The independent audit department was established under the headquarters. Under the leadership of the Party Committee and the Board of Directors of the Bank, as well as the guidance and supervision of the Board of Supervisors, the audit department is responsible for the overall management the whole bank's audit work. It improves our business operations, risk management, internal control and compliance, and corporate governance on an ongoing basis through audits, evaluations, and the supervision of rectification.

During the Reporting Period, the audit department thoroughly implemented the work requirements of the upper superior regulators, fully implemented the work arrangements of the Party committee and the Board of Directors of the headquarters, raised political awareness, strictly implemented the system and mechanism of audit work under the leadership of the Party committee of the headquarters, comprehensively promoted full coverage of audit supervision, continuously strengthened audit system, technology, and team building, and continued to improve the long-term mechanism for audit rectification, further deepening the construction of a centralised, unified, comprehensive, authoritative and efficient audit supervision system.

During the Reporting Period, the audit department focused on the work center of the Bank and highlighted the key points of audit supervision, carried out various types of audit projects in a solid manner regarding risk management and control, internal control compliance, management improvement, and responsibility implementation, continued to increase the intensity of audit inspections, promptly pointed out the deficiencies in relevant system construction, internal management and fulfillment of duties, and proposed corresponding management and rectification suggestions, effectively fulfilling its responsibilities in audit supervision and evaluation. Meanwhile, through dedicated personnel tracking, rectification and verification, account reconciliation, and regular reporting, the audit department effectively fulfilled its responsibilities in tracking and supervising audit rectification. By integrating the "bottom half" of the audit rectification with the "top half" of the audit issues, the audit department further promoted the Bank's internal control and management level.

MANAGEMENT DISCUSSION AND ANALYSIS

VI. INTERNAL CONTROL

The Bank has established an internal control governance and organisation structure with reasonable division of labor, clear responsibilities and clear reporting relationships. Among them, the Board of Directors is responsible for the establishment and effective implementation of the internal control system. The Audit Committee and Related Party Transactions and Risk Management Committee under the Board of Directors are responsible for assisting the Board of Directors in fulfilling its supervision and management responsibilities. The Board of Supervisors is responsible for supervising the Board of Directors and the senior management to improve the internal control system and perform their internal control duties. The senior management is responsible for implementing the decisions of the Board of Directors and guaranteeing the effective fulfillment of all responsibilities of internal control.

The Bank attaches great importance to the construction of internal control management and has formulated the Internal Control Guidelines of Guangzhou Rural Commercial Bank (《廣州農村商業銀行內部控制指引》) in accordance with the Guidelines on Internal Control of Commercial Banks (《商業銀行內部控制指引》), the Basic Standard for Enterprise Internal Control (《企業內部控制基本規範》) and other laws and regulations, and in conjunction with the actual situation of the Bank, which regulate internal control responsibilities, internal control measures, internal control guarantees, internal control evaluation, internal control supervision, information and communication, and internal control of subsidiaries.

VII. PRINCIPAL SUBSIDIARIES

Zhujiang County Bank is the general term for the various rural banks established by the Bank as a main promoter. It is of great significance for the Bank to perform social responsibility, improving the level of financial services for Sannong, and small and micro businesses, assisting rural revitalization and inclusive financial development, and further building a multi-level rural financial service network. During the Reporting Period, the Bank strengthened its consolidated management capabilities for county banks and promoted their steady and high-quality development. As of the end of the Reporting Period, the Bank established 25 Zhujiang County Banks in 9 provinces and cities nationwide.

As a wholly-owned subsidiary promoted and established by the Bank, Zhujiang Financial Leasing Co., Ltd. was incorporated and commenced operation in December 2014, mainly engaged in financial leasing related business. In December 2021, Zhujiang Financial Leasing Co., Ltd. increased its registered capital by RMB500 million with undistributed profits, increasing the registered capital from RMB1 billion to RMB1.5 billion.

The Bank strategically controls four rural commercial banks, namely Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd., Chaozhou Rural Commercial Bank Co., Ltd., Guangdong Nanxiong Rural Commercial Bank Co., Ltd. and Shaoguan Rural Commercial Bank Co., Ltd. They are mainly engaged in monetary financial business. Among them, Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. completed its restructuring and commenced operation in December 2017, with a registered capital of RMB600 million. Chaozhou Rural Commercial Bank Co., Ltd. completed its restructuring and commenced operation in June 2019, with a registered capital of RMB2,630 million. Guangdong Nanxiong Rural Commercial Bank Co., Ltd. completed its restructuring and commenced operation in July 2019, with a registered capital of RMB430 million. Shaoguan Rural Commercial Bank Co., Ltd. completed its restructuring and commenced operation in June 2020, with a registered capital of RMB1,370 million.

MANAGEMENT DISCUSSION AND ANALYSIS

VIII. OUTLOOK OF THE SECOND HALF OF 2023

In the first half of 2023, China's macro-economy showed signs of recovery. In the first quarter, the gross domestic product (GDP) grew by 4.5% year-on-year, 1.6 percentage points more than in the fourth quarter of 2022, indicating a strong momentum of recovery. Among which, consumption saw rapid growth, and the industrial economy gradually recovered. However, fixed asset investment was slightly sluggish, with growth declining. In the second quarter, the economic recovery momentum slowed down due to factors such as the global slowdown in trade and investment and insufficient domestic demand. China's GDP grew by 5.5% year-on-year, with industrial production steadily recovering, while the growth of fixed asset investment, consumption, and net exports all declined in the same period compared with the first quarter.

Looking forward to the second half of the year, as the destocking stage approaches its end and policies to promote stable growth continue to be implemented, China's economy is expected to continue along the path of recovery and enter the second phase of growth in the "N-shaped" trajectory. In terms of consumption, as the pent-up demand for consumption from residents has been largely released, it is expected that relevant consumption indicators will gradually stabilize in the second half of the year, with automotive consumption remaining a major source of growth. In terms of investment, due to the high base effect of the previous year, the growth of fixed asset investment remained at a low level. The sluggish demand for real estate and lack of confidence in private investment have posed constraints on investment growth. In terms of exports, China's export growth may pick up slightly due to the slowdown in inflation in major overseas economies. In terms of industrial production, major industries have basically completed destocking, and production is expected to gradually accelerate, driving increases in output and revenue. In terms of prices, on the industry side, the PPI may continue to decline during the year due to the impact of international crude oil prices and high base effect, putting pressure on upstream enterprises; on the resident side, although there was some deflationary pressure in the first half of the year, with the clearance of pig inventories, it is expected that the CPI will gradually rise, supporting steady growth in domestic economy.

MANAGEMENT DISCUSSION AND ANALYSIS

Against the backdrop of the recovery of the macro economy, in the first half of 2023, the Bank fully implemented the guiding principles of the Central Economic Work Conference and the work deployment of the provincial and municipal high-quality development conferences, adhered to the direction of the 14th Five-Year Plan, unswervingly focused on supporting agriculture and SMEs, and continued to promote business transformation and management optimisation. In terms of business, the Bank continued to expand its involvement in key agricultural projects and inclusive small and micro business, while improving service quality of “specialized and new” enterprises and manufacturing enterprises, to fully stimulate the development of industrial finance; in terms of management, the Bank carried out the “Year of Compliance Construction” activities, continued to optimise the internal management environment, and deepened the integrated marketing reform to continuously enhance the marketing vitality of its outlets by optimising the supporting mechanisms such as outlet rating, personnel configuration, and cultivation of marketing capabilities. In the second half of 2023, the Bank will pay sustained attention to changes in the domestic and international macro-environment, closely follow the layout of key industries and policy directions in the provinces and cities, and further promote business transformation and structural optimisation. Firstly, the Bank will focus on the strategic emerging industry layout of “one core, two belts, three cities, and multiple nodes” in Guangzhou, and increase the penetration of small and medium-sized business; secondly, the Bank will accelerate the implementation of measures to support the “high-quality development project for hundreds of counties, thousands of towns, and tens of thousands of villages”, and to increase the proportion of business in supporting agriculture and SMEs. thirdly, the Bank will provide comprehensive guarantee to outlets, continuously improving outlet marketing capabilities and business performance; fourthly, the Bank will optimise and improve the regulations for asset risk classification and grading management, and increase efforts to dispose of and resolve risky assets, while making all-out efforts to maintain the stability of the quality of the assets.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARES

Unit: share, %

| | 31 December 2022 | | Change during the Reporting Period | 30 June 2023 | |
|---|-----------------------|--------------|--|-----------------------|--------------|
| | Quantity | Proportion | | Quantity | Proportion |
| Total share capital | 11,451,268,539 | 100 | - | 11,451,268,539 | 100 |
| Domestic Shares | 9,325,933,539 | 81.44 | - | 9,325,933,539 | 81.44 |
| Domestic Shares held by legal persons | 6,849,947,888 | 59.82 | - | 6,849,947,888 | 59.82 |
| Domestic Shares held by natural persons | 2,475,985,651 | 21.62 | - | 2,475,985,651 | 21.62 |
| H Shares | 2,125,335,000 | 18.56 | - | 2,125,335,000 | 18.56 |

Notes:

- (1) As of the end of the Reporting Period, the total number of shareholders of the Bank's Domestic Shares was 29,125, and all Domestic Shares of the Bank were deposited in China Securities Depository and Clearing Corporation Limited. The total number of registered shareholders of H Shares was 87 (of which HKSCC Nominees Limited, as a nominee, acted on behalf of some shareholders).
- (2) As of the end of the Reporting Period, 137,445,296 Domestic Shares of the Bank were involved in judicial freezing, representing 1.20% of the total share capital of the Bank, and 808,054,752 Domestic Shares of the Bank were involved in pledge, representing 7.06% of the total share capital of the Bank.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

II. ISSUE, PURCHASE, SALE AND REDEMPTION OF SECURITIES AND DEBT SECURITIES

During the Reporting Period, the Bank did not issue any securities. Pursuant to the resolutions of the annual general meeting and class meetings on 20 June 2023, the Bank will simultaneously conduct a private placement of not more than 2.964 billion Domestic Shares and a non-public issuance of not more than 676 million H Shares with a par value of RMB1.00 per share.

During the Reporting Period, the Bank redeemed RMB10 billion in the first tranche of tier 2 capital bonds of 2018 in advance on 23 March 2023; completed the issuance and listing of RMB15 billion in tier 2 capital bonds on 3 April 2023. After deducting the issuance expenses, all of the proceeds will be used to supplement the tier 2 capital of the Bank.

During the Reporting Period, the Bank did not issue any convertible bonds.

Save as disclosed above, during the Reporting Period, the Bank and its subsidiaries did not purchase, sell and redeem any securities of the Bank.

III. INCREASE OR DECREASE OF REGISTERED CAPITAL, DIVISION AND MERGER

During the Reporting Period, the Bank did not increase or decrease its registered capital or have any division or merger matter.

IV. SHAREHOLDINGS OF SHAREHOLDERS

(I) Total Number of Shareholders and Their Shareholdings

As of the end of the Reporting Period, the Bank had a total share capital of 11,451 million shares, comprising 9,326 million Domestic Shares and 2,125 million H Shares. There were 715 legal person shareholders in possession of 6,850 million Domestic Shares, accounting for 59.82% of the total share capital. 28,410 were natural person shareholders in possession of 2,476 million Domestic Shares, accounting for 21.62% of the total share capital.

(II) Top Ten Shareholders

As of the end of the Reporting Period, the top ten shareholders of the Bank together held 47.33% of the Bank's total share capital, with no single holder of Domestic Shares having control of more than 5% of the total share capital except Guangzhou Metro Group Co., Ltd., Guangzhou City Renewal Group Co., Ltd. All of these top three shareholders of Domestic Shares are state-owned enterprises. Among the top ten shareholders, the largest shareholder of Domestic Shares was Guangzhou Metro Group Co., Ltd., which held 6.31% of the total share capital. The second largest shareholder of Domestic Shares was Guangzhou City Renewal Group Co., Ltd., with 5.82% of the total share capital, and the third largest was Guangzhou Finance Holdings Group Co., Ltd., with 3.20% of the total share capital. The shareholding structure of the Bank is relatively dispersed.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

The top ten shareholders of the Bank are as follows:

| No. | Name | Class of shareholder | Nature of shareholder | Number of shares (Share) | Shareholding proportion (%) |
|--------------|--|----------------------|-----------------------|--------------------------|-----------------------------|
| 1 | HKSCC Nominees Limited ⁽¹⁾ | H Shares | Other | 2,124,970,900 | 18.56 |
| 2 | Guangzhou Metro Group Co., Ltd. | Domestic Shares | Legal person | 722,950,000 | 6.31 |
| 3 | Guangzhou City Renewal Group Co., Ltd. | Domestic Shares | Legal person | 666,735,193 | 5.82 |
| 4 | Guangzhou Finance Holdings Group Co., Ltd. | Domestic Shares | Legal person | 366,099,589 | 3.20 |
| 5 | Guangzhou Vanlead Group Co., Ltd. | Domestic Shares | Legal person | 319,880,672 | 2.79 |
| 6 | Guangzhou Radio Group Co., Ltd. | Domestic Shares | Legal person | 310,728,411 | 2.71 |
| 7 | Guangzhou Lingnan Business Travel Investment Group Co., Ltd. | Domestic Shares | Legal person | 273,889,019 | 2.39 |
| 8 | Shanghai Dazhan Investment Management Co., Ltd. | Domestic Shares | Legal person | 250,000,000 | 2.18 |
| 9 | Guangzhou Industrial Investment Holding Group Co., Ltd. | Domestic Shares | Legal person | 204,360,000 | 1.78 |
| 10 | Nanjing Gaoke Co., Ltd. | Domestic Shares | Legal person | 180,000,000 | 1.57 |
| Total | | | | 5,419,613,784 | 47.33 |

Notes:

- (1) HKSCC Nominees Limited, as a nominee, held 2,124,970,900 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.56% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited promotes registration and custodian business for clients.
- (2) Calculated on the basis of the total share capital of the Bank of 11,451,268,539 shares.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(III) Internal Staff Members' Shareholdings

As of the end of the Reporting Period, the Bank had a total of 5,688 internal staff member shareholders, holding 371 million shares, which accounted for 3.24% of the total share capital of the Bank.

(IV) Explanation on the absence of controlling shareholders and de facto controllers of the Bank

As of the end of the Reporting Period, the Bank did not have any controlling shareholders or de facto controllers.

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

Based on the knowledge of the directors or chief executives of the Bank, as at 30 June 2023, the following persons (other than the directors, chief executives and supervisors of the Bank) had, or were deemed to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO with details as follows:

| Name of shareholder | Nature of interest | Class of shares | Long/short position | Number of shares held directly or indirectly (share) | Approximate percentage of interest in the Bank | Approximate percentage of the relevant class of shares of the Bank |
|--|--------------------------------------|-----------------|---------------------|--|--|--|
| Guangzhou Municipal People's Government ⁽¹⁾ | Interest of a controlled corporation | Domestic Shares | Long | 3,124,589,712 | 27.29% | 33.50% |
| Aeon Life Insurance Company Limited | Beneficial owner | H Shares | Long | 295,229,000 | 2.58% | 13.89% |
| Guangzhou Hong Hui Investment Co., Ltd. ⁽²⁾ | Beneficial owner | H Shares | Long | 200,991,000 | 1.76% | 9.46% |
| Zeng Weipeng ⁽²⁾ | Interest of a controlled corporation | H Shares | Long | 114,558,840 | 1.00% | 5.39% |
| Manureen Investment Limited ⁽³⁾ | Beneficial owner | H Shares | Long | 221,424,797 | 1.93% | 10.42% |
| Lin Xiaohui ⁽³⁾ | Interest of a controlled corporation | H Shares | Long | 221,424,797 | 1.93% | 10.42% |
| Su Jiaohua ⁽³⁾ | Interest of the spouse | H Shares | Long | 221,424,797 | 1.93% | 10.42% |
| Lead Straight Limited ⁽⁴⁾ | Beneficial owner | H Shares | Long | 195,229,000 | 1.70% | 9.19% |

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

| Name of shareholder | Nature of interest | Class of shares | Long/short position | Number of shares held directly or indirectly (share) | Approximate percentage of interest in the Bank | Approximate percentage of the relevant class of shares of the Bank |
|---|--------------------------------------|-----------------|---------------------|--|--|--|
| Grandbuy International Trade(HK) Limited ⁽⁴⁾ | Interest of a controlled corporation | H Shares | Long | 195,229,000 | 1.70% | 9.19% |
| Guangzhou Lingnan Business Travel Investment Group Co., Ltd. ⁽⁴⁾ | Interest of a controlled corporation | H Shares | Long | 195,229,000 | 1.70% | 9.19% |
| Harvest Fund Management Co., Ltd. ⁽⁵⁾ | Beneficial owner | H Shares | Long | 187,000,000 | 1.63% | 8.80% |
| China Credit Trust Co., Ltd. ⁽⁵⁾ | Interest of a controlled corporation | H Shares | Long | 187,000,000 | 1.63% | 8.80% |
| Guangzhou City Construction Investment Development Company Limited ⁽⁶⁾ | Beneficial owner | H Shares | Long | 551,900,000 | 4.82% | 25.97% |
| Guangzhou City Construction Investment Group Co., Ltd. ⁽⁶⁾ | Interest of a controlled corporation | H Shares | Long | 561,249,000 | 4.90% | 26.41% |

Notes:

- (1) These 3,124,589,712 shares include 722,950,000 shares directly held by Guangzhou Metro Group Co., Ltd. (廣州地鐵集團有限公司), 666,735,193 shares directly held by Guangzhou City Renewal Group Co., Ltd. (廣州城市更新集團有限公司), 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 273,889,019 shares directly held by Guangzhou Lingnan Business Travel Investment Group Co., Ltd. (廣州嶺南商旅投資集團有限公司), 204,360,000 shares directly held by Guangzhou Industrial Investment Holding Group Co., Ltd. (廣州工業投資控股集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Gongkong Capital Management Co., Ltd. (廣州工控資本管理有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 9,152,261 shares directly held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司) and 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司).

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

- (2) Guangzhou Hong He Investment Co., Ltd. is owned as to 90% by Zeng Weipeng, and Guangzhou HongHui Investment Co., Ltd. is owned as to 63.33% by Guangzhou Hong He Investment Co., Ltd.. Therefore, Zeng Weipeng is deemed to be interested in the 200,991,000 shares by virtue of the SFO.
- (3) Manureen Investment Limited is owned as to 70% by Lin Xiaohui. Therefore, Lin Xiaohui is deemed to be interested in the 221,424,797 shares by virtue of the SFO. Su Jiaohua is the spouse of Lin Xiaohui. Therefore, Su Jiaohua is deemed to be interested in the 221,424,797 shares by virtue of the SFO.
- (4) Grandbuy International Trade (HK) Limited is wholly owned by Guangzhou Lingnan Business Travel Investment Group Co., Ltd. Lead Straight Limited is wholly owned by Grandbuy International Trade (HK) Limited. Therefore, Guangzhou Lingnan Business Travel Investment Group Co., Ltd. and Grandbuy International Trade (HK) Limited are deemed to be interested in the 195,229,000 shares by virtue of the SFO.
- (5) Harvest Fund Management Co., Ltd. is owned as to 40% by China Credit Trust Co., Ltd.. Therefore, China Credit Trust Co., Ltd. is deemed to be interested in the 187,000,000 shares by virtue of the SFO.
- (6) The 561,249,000 shares comprised 551,900,000 shares directly held by Guangzhou City Construction Investment Development Company Limited and 9,349,000 shares directly held by Guangzhou Xinhua Urban Development Industry Investment Enterprise (Limited Partnership). Therefore, Guangzhou City Construction Investment Group Co., Ltd. is deemed to be interested in the 561,249,000 shares by virtue of the SFO.

Save as disclosed above, the Bank is not aware of any other person (other than the directors, chief executives and supervisors of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 30 June 2023 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(VI) Major Shareholders under “Interim Measures for Equity Management of Commercial Banks” (《商業銀行股權管理暫行辦法》)

Pursuant to the relevant requirements concerning major shareholders under “Interim Measures for Equity Management of Commercial Banks”, the shareholders listed in the table below were the major shareholders of the Bank as at the end of the Reporting Period:

| No. | Name of shareholder | Number of shares held (share) | Reason for being major shareholder | Whether over 50% of the shares held were pledged | Controlling shareholders | De facto controllers | Parties acting in concert | Ultimate beneficial owners | Related parties |
|-----|---|-------------------------------|---|--|--|--|---------------------------|--|---|
| 1 | Guangzhou Metro Group Co., Ltd. (廣州地鐵集團有限公司) | 722,950,000 | Holding more than 5% shares of the Bank | No | Guangzhou Municipal People's Government | Guangzhou Municipal People's Government | - | Guangzhou Metro Group Co., Ltd. | 22 related natural persons, 99 related legal persons |
| 2 | Guangzhou City Renewal Group Co., Ltd. (廣州城市更新集團有限公司) | 666,735,193 | Delegated director Mr. Da Hengcheng | No | Guangzhou Pearl River Enterprises Group Co., Ltd. | Guangzhou Municipal People's Government | - | Guangzhou City Renewal Group Co., Ltd. | 24 related natural persons, 300 related legal persons |
| 3 | Guangzhou Lingnan Business Travel Investment Group Co., Ltd. (廣州嶺南商旅投資集團有限公司) | 273,889,019 | Delegated director Ms. Feng Kaiyun | No | Guangzhou Municipal People's Government | Guangzhou Municipal People's Government | - | Guangzhou Lingnan Business Travel Investment Group Co., Ltd. | 14 related natural persons, 184 related legal persons |
| 4 | Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋樑投資有限公司) | 160,020,000 | Delegated director Mr. Zhang Junzhou | No | Guangdong Pearl River Investment Management Group Co., Ltd. (廣東珠江投資管理集團有限公司) | Mr. Zhu Yihang (朱一航) | - | Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. | 38 related natural persons, 730 related legal persons |
| 5 | Guangdong Yingxin Information Investment Co., Ltd. (廣東盈信信息投資有限公司) | 10,000,000 | Delegated director Mr. Zhang Junzhou | No | Guangdong Zhicheng Weiye Investment Limited (廣東至誠偉業投資有限公司) | Mr. Xue Dingxi (薛定喜) | - | Guangdong Yingxin Information Investment Co., Ltd. | 38 related natural persons, 730 related legal persons |
| 6 | Fengchi Investment Co., Ltd. (豐馳投資有限公司) | 125,010,000 | Delegated director Mr. Zhang Junzhou | No | Linzi Depeng Investment Co., Ltd. (林芝德騰投資有限公司) | Mr. Zhu Weihang (朱偉航) | - | Fengchi Investment Co., Ltd. | 38 related natural persons, 730 related legal persons |
| 7 | Longdong Economic Development Company, Tianhe District, Guangzhou City (廣州市天河區龍洞經濟發展公司) | 121,010,000 | Delegated supervisor Mr. Liang Bingtian | No | Longdong Stock Cooperative Economic Association, Longdong Street, Tianhe District, Guangzhou (廣州市天河區龍洞街龍洞股份合作經濟聯社) | Longdong Stock Cooperative Economic Association, Longdong Street, Tianhe District, Guangzhou | - | Longdong Economic Development Company, Tianhe District, Guangzhou City | 5 related natural persons, 2 related legal persons |
| 8 | Foshan Dongjian Group Co., Ltd. (佛山東建集團有限公司) | 104,000,000 | Delegated supervisor Mr. Feng Jintang | No | Mr. Zhong Liuhan (鍾流漢) | Mr. Zhong Liuhan (鍾流漢) | - | Foshan Dongjian Group Co., Ltd. | 8 related natural persons, 26 related legal persons |

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

| No. | Name of shareholder | Number of shares held (share) | Reason for being major shareholder | Whether over 50% of the shares held were pledged | Controlling shareholders | De facto controllers | Parties acting in concert | Ultimate beneficial owners | Related parties |
|-----|--|-------------------------------|--|--|---|---|---------------------------|---|---|
| 9 | Guangzhou Huaxin Group Co., Ltd. (廣州華新集團有限公司) | 100,010,000 | Delegated director Mr. Feng Yaoliang | No | Mr. Feng Yaoliang (馮耀良) | Mr. Feng Yaoliang (馮耀良) | - | Guangzhou Huaxin Group Co., Ltd. | 6 related natural persons, 126 related legal persons |
| 10 | Aeon Life Insurance Company Ltd. (百年人壽保險股份有限公司) | 65,000,000 ⁽²⁾ | Delegated director during the Reporting Period | No | - | - | - | Aeon Life Insurance Company Ltd. | 20 related natural persons, 60 related legal persons |
| 11 | Guangdong Dongsheng Industrial Co., Ltd. (廣東東升實業有限公司) | 62,500,000 | Delegated director Mr. Lai Zhiguang | No | Guangdong Dongsheng Holding Group Co., Ltd. (廣東東升控股集團有限公司) | Mr. Lai Zhiguang (賴志光) | - | Guangdong Dongsheng Industrial Co., Ltd. | 4 related natural persons, 47 related legal persons |
| 12 | Guangzhou Gongkong Capital Management Co., Ltd. (廣州工控資本管理有限公司) | 45,312,844 | Delegated director Mr. Zuo Liang | No | Guangzhou Industrial Investment Holdings Group Co., Ltd. (廣州工業投資控股集團有限公司) | Guangzhou Municipal People's Government | - | Guangzhou Gongkong Capital Management Co., Ltd. | 21 related natural persons, 301 related legal persons |
| 13 | Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司) | 310,728,411 | Delegated supervisor Mr. Chen Jianliang | No | Guangzhou Municipal People's Government | Guangzhou Municipal People's Government | - | Guangzhou Radio Group Co., Ltd. | 14 related natural persons, 236 related legal persons |
| 14 | Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司) | 250,000,000 | Recognised by regulatory authorities | No | Shanghai Hechuang Real Estate Co., Ltd. (上海合創置業有限公司) | Mr. Chu Mang Yee (朱孟依) | - | Shanghai Dazhan Investment Management Co., Ltd. | 38 related natural persons, 730 related legal persons |
| 15 | Zhongxian International Holdings Co., Ltd. (中先國際控股有限公司) | 100,000,000 | Recognised by regulatory authorities | No | Shanghai Hechuang Real Estate Co., Ltd. | Mr. Chu Mang Yee | - | Zhongxian International Holdings Co., Ltd. | 38 related natural persons, 730 related legal persons |

Notes:

- For the definition of major shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirements of the Interim Measures for Equity Management of Commercial Banks. The major shareholders of the Bank have submitted their lists of related parties, and the Bank will regularly maintain and update the list of related parties to continuously lift the level of management of related party transactions. The report does not provide the list of related parties of major shareholders.
- Only for Domestic Shares.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(VII) Changes and Undertakings by Shareholders Holding 5% or More of Share Capital of the Bank

During the Reporting Period, the shareholders holding more than 5% of the Bank's total issued shares were Guangzhou Metro Group Co., Ltd. and Guangzhou City Renewal Group Co., Ltd., which held 722,950,000 and 666,735,193 shares of the Bank respectively. There was no change in the number of shares held by the above shareholders as compared to the end of 2022. Both shareholders have issued the "Substantial Shareholders Undertaking Letters" to the Bank and undertaken to perform their duties as substantial shareholders in accordance with regulatory requirements.

(VIII) Issuance of Offshore Preference Shares through a Private Offering

1. Issuance and listing of offshore preference shares

To supplement the capital of the Bank in a diversified way, further enhance the capital strength of the Bank and enhance its ability to resist risks, upon the approvals by Guangdong Bureau of the former China Banking and Insurance Regulatory Commission (Guangdong Bureau of CBIRC) (Yue Yin Bao Jian (Chou) Fu [2018] No. 27) and the China Securities Regulatory Commission (CSRC) (Zheng Jian Xu Ke [2019] No. 355), the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,430 million on 20 June 2019. The Offshore Preference Shares (abbreviated as GRCB 19USDPRF with code of 04618) were listed on the Hong Kong Stock Exchange on 21 June 2019 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 71,500,000, all of which were issued and fully paid in US dollars.

Based on the Renminbi central parity rate published by the China Foreign Exchange Trade System on 20 June 2019, the gross proceeds from the offering of the offshore preference shares were approximately RMB9.839 billion. The proceeds raised from the issuance of the offshore preference shares, after deduction of the issuance expenses, as of the end of the Reporting Period, have been fully used to replenish the additional tier 1 capital of the Bank, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure, which is consistent with the specific use disclosed beforehand.

For the issuance terms and relevant details of the offshore preference shares, please refer to the announcements of the Bank published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.grcbank.com).

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. *Number of offshore preference shareholders and shareholdings*

As at the end of the Reporting Period, the Bank had one offshore preference shareholder.

Shareholdings of the offshore preference shareholders (or their nominees) of the Bank are as follows (the following data are based on the register of offshore preference shareholders as at 30 June 2023):

| Name of shareholder | Nature of shareholder | Class of shares | Increase or decrease during the Reporting Period (%) | Shareholding ratio (%) | Number of shares held (share) | Number of shares subject to selling restrictions (share) | Number of shares pledged or frozen (share) |
|--|-----------------------|----------------------------|--|------------------------|-------------------------------|--|--|
| The Bank of New York Depository (Nominees) Limited | Foreign legal person | Offshore preference shares | 0 | 100 | 71,500,000 | - | Unknown |

Notes:

- (1) Shareholdings of offshore preference shareholders are based on the information listed in the register of offshore preference shareholders of the Bank.
- (2) As the offshore preference shares were offered through a private offering, the register of offshore preference shareholders presented the information on nominees of the allotted investors.

3. *Profit distribution of the Offshore Preference Shares*

Dividends will be paid in cash by the Bank to offshore preference shareholders. Each dividend will be payable annually in arrears on the dividend payment date. During the Reporting Period, dividends for the offshore preference shares of USD93,744,444.44 was distributed by the Bank on 20 June 2023, of which USD84,370,000 was paid to the holders of offshore preference shares at a nominal dividend rate of 5.9%, and income tax of USD9,374,444.44 was withheld.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4. Other information on the Offshore Preference Shares

During the Reporting Period, no offshore preference shares have been repurchased, converted into ordinary shares or had their voting rights restored, and there was no experience of any trigger event in which the offshore preference shares need to be coercively converted into H Shares.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments (2017 revised), Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments (2017 revised) and Rules on the Differences between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the People's Republic of China, as well as International Financial Reporting Standards No. 9 – Financial Instruments and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the issued and existing offshore preference shares are eligible to be classified as equity instruments, and will be accounted for as equity instruments.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

(I) Changes in directors of the Bank

As of the Latest Practicable Date, the Board of Directors of the Bank comprised a total of 12 directors, including one executive director, namely Mr. Cai Jian (Secretary of the Party Committee, Chairman); five non-executive directors, namely Mr. Da Hengcheng, Mr. Zuo Liang, Mr. Zhang Junzhou, Mr. Feng Yaoliang and Mr. Lai Zhiguang; and six independent non-executive directors, namely Mr. Liao Wenyi, Mr. Du Jinmin, Mr. Tan Jinsong, Mr. Zhang Weiguo, Mr. Zhang Hua and Mr. Ma Hok Ming.

On 2 February 2023, Mr. Zhuang Yuemin resigned as a non-executive director, a member of the Strategy and Investment Committee (Sannong Committee), a member of the Related Party Transactions and Risk Management Committee, and a member of the Audit Committee of the third session of the Board of Directors of the Bank as he needs to devote more time to other personal commitments. On 20 February 2023, Mr. Yi Xuefei resigned as an executive director, vice chairman, a member of the Strategy and Investment Committee (Sannong Committee), a member and the chairman of the Consumer Rights Protection Committee of the third session of the Board of Directors of the Bank and the President of the Bank, due to the exceeding of his term of office as the President under the regulatory requirements. On 13 July 2023, upon reaching retirement age, Ms. Feng Kaiyun, resigned as a non-executive director, a member of the Strategy and Investment Committee (Sannong Committee), and a member of the Audit Committee of the third session of the Board of Directors of the Bank.

On 20 June 2023, the Bank convened the 2022 annual general meeting, the first domestic shareholders class meeting of 2023, and the first H shareholders class meeting of 2023, of which Mr. Wang Xiaobin, Mr. Liu Wensheng and Mr. Meng Sen were elected as non-executive directors of the third session of the Board of Directors of the Bank in the 2022 annual general meeting. As of the Latest Practicable Date, the qualifications of directors of the abovementioned persons were still to be approved by the regulatory authorities.

(II) Changes in supervisors of the Bank

As of the Latest Practicable Date, the Board of Supervisors of the Bank comprised a total of nine supervisors, including three employee representative supervisors, namely Ms. Wang Xigui, Ms. He Heng, and Mr. Lai Jiexiong; three external supervisors, namely Mr. Han Zhenping, Mr. Shi Shuiping and Mr. Huang Tianshun; and three shareholder representative supervisors, namely Mr. Chen Jianliang, Mr. Liang Bingtian and Mr. Feng Jintang.

During the Reporting Period, there was no adjustment or change in the supervisors of the Bank.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(III) Changes in senior management of the Bank

As of the Latest Practicable Date, the senior management of the Bank comprised a total of 10 members: including Mr. Lin Ripeng (Vice President, performing the duties of President under authorization); Mr. Zhao Wei (Chief of the Discipline Inspection Team of the Commission for Discipline Inspection and the National Supervision Commission of Guangzhou stationed in Guangzhou Rural Commercial Bank); two Vice Presidents, namely Mr. Li Yaguang and Mr. Guo Huahui; three assistants to the president, namely Mr. Tan Bo, Ms. Mao Libing and Mr. Gu Bo; one secretary to the Board, namely Ms. Wu Wenli; and two business directors, namely Ms. Chen Linjun and Ms. Yang Xuan.

During the Reporting Period, there was no adjustment or change in the senior management of the Bank.

II. CHANGES IN DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the Latest Practicable Date, Mr. Liao Wenyi, an independent non-executive director, has resigned as an independent director of Guan hao Biotech Co., Ltd. (冠昊生物科技股份有限公司). Mr. Da Hengcheng, a non-executive director, serves as the chairman and general manager of Guangzhou Pearl Real Estate Co., Ltd. (廣州珠實地產有限公司), and concurrently serves as the general manager of Guangzhou Xinjishan Real Estate Co., Ltd. (廣州新吉山房地產有限公司); and he has resigned as a director of Guangzhou Xinjishan Real Estate Co., Ltd. (廣州新吉山房地產有限公司), director, general manager and deputy secretary of the Party Committee of Guangzhou Pearl River Development Group Co., Ltd. (廣州珠江發展集團股份有限公司) (formerly known as Guangzhou Pearl River Industrial Development Co., Ltd. (廣州珠江實業開發股份有限公司)), director and general manager of Guangzhou Boutique Pearl River City Development and Operation Co., Ltd. (廣州精品珠江城市開發運營有限公司), secretary to the Party general branch and chairman of Guangzhou City Renewal Group Co., Ltd. (廣州城市更新集團有限公司). Mr. Zuo Liang, a non-executive director, has resigned as the director of Guangzhou Tieke Intelligent Control Co., Ltd. (廣州鐵科智控有限公司). Mr. Lai Zhiguang, a non-executive director, has resigned as the president of Guangdong Dongsheng Industrial Co., Ltd. (廣東東升實業有限公司).

As of the Latest Practicable Date, Mr. Shi Shuiping, an external supervisor, also serving as an independent director of Guangzhou KingTeller Technology Co., Ltd. (廣州御銀科技股份有限公司), has resigned as an independent director of Guangdong Dinggu Jichuang Households Co., Ltd. (廣東頂固集創家居股份有限公司). Mr. Chen Jianliang, a shareholder supervisor, serving as a director of GRGBanking I.T. Co., Ltd. (廣州廣電運通信息科技有限公司), has resigned as the chairman of GRGBanking I.T. Co., Ltd. (廣州廣電運通信息科技有限公司) and as a director of Guangzhou Yuntong Shuda Technology Co., Ltd. (廣州運通數達科技有限公司). Mr. Feng Jintang, a shareholder supervisor, has resigned as the shareholder supervisor of Foshan Rural Commercial Bank Co., Ltd. (佛山農村商業銀行股份有限公司).

As of the Latest Practicable Date, there was no change in the position of the senior management of the Bank.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

III. INTERESTS AND SHORT POSITIONS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE BANK

As of the Latest Practicable Date, based on the information available to the Bank and as far as the directors are aware, the interests and short positions of the directors, chief executives and supervisors of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

| Directors', chief executives' and supervisors' interests in the Bank | | | | | | | |
|--|------------|---|-----------------|---------------------|--|---|--|
| Name | Capacity | Nature of Interest | Class of shares | Long/Short position | Number of shares held directly or indirectly (Share) | Approximate percentage of interests in the Bank | Approximate percentage of the relevant class of shares of the Bank |
| Feng Yaoliang | Director | Interest of a controlled corporation ⁽¹⁾ | Domestic Shares | Long | 100,010,000 | 0.873% | 1.072% |
| Lai Zhiguang | Director | Interest of a controlled corporation ⁽²⁾ | Domestic Shares | Long | 62,500,000 | 0.546% | 0.670% |
| Liao Wenyi | Director | Beneficial owner | Domestic Shares | Long | 1,103,000 | 0.010% | 0.012% |
| Lai Jiaxiong | Supervisor | Beneficial owner | Domestic Shares | Long | 452,224 | 0.004% | 0.005% |

Notes:

- (1) These shares were held by Guangzhou Huaxin Group Co., Ltd., which was owned as to 99.54% by Feng Yaoliang. Therefore, by virtue of the SFO, Feng Yaoliang, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Huaxin Group Co., Ltd..
- (2) These shares were held by Guangdong Dongsheng Industrial Co., Ltd., which was owned as to 100% by Guangdong Dongsheng Holding Group Co., Ltd., and Lai Zhiguang owned 80% of the shares of Guangdong Dongsheng Holding Group Co., Ltd.. Therefore, by virtue of the SFO, Lai Zhiguang, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangdong Dongsheng Industrial Co., Ltd..

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

| Directors', chief executives' and supervisors' interests in the Bank's associated corporations | | | | | |
|--|----------|---|--------------------------------------|-------------------------------|---|
| Name | Capacity | Name of associated corporation | Nature of Interest | Number of shares held (Share) | Approximate percentage in the issued Shares in the associated corporation |
| Lai Zhiguang | Director | Dalian Bonded Area Zhujiang County Bank Co., Ltd. | Interest in a controlled corporation | 10,000,000 | 2.86% |

Save as disclosed above, none of the directors, chief executives and supervisors of the Bank had any interests or short positions in any shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO, or otherwise have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

IV. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted a code of conduct regarding securities transactions by the directors, supervisors no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors and supervisors of the Bank, they confirmed that they have complied with the aforesaid code throughout the six months from 1 January 2023 to 30 June 2023.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

V. EMPLOYEES

(I) Basic Information of Employees

As of the end of the Reporting Period, the total number of employees of the Group was 13,605. Among them, 12,995 employees entered into labor contracts with the Group, and 610 employees were dispatched workers.

(II) Training of Employees

The Bank has always attached importance to the enhancement of the professionalism and professional quality of its employees. In the first half of 2023, the Bank thoroughly implemented the spirit of the 20th National Congress of the Communist Party of China and conscientiously implemented the spirit of the series of important speeches and instructions of General Secretary Xi Jinping under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. Under the spirit of the speech given by the leader of the Bank at the 2023 Work Conference and High-quality Development Conference held at the Head Office of the Bank and the key work arrangements of the Bank, combined with the strategic development plan of the "14th Five-Year" Plan, and in accordance with the overall thinking requirements of the Bank's comprehensive marketing reform, "compliance construction year" and digital transformation, the Bank speeded up the construction of key teams and talent cultivation, built organizational development advantages, vigorously promoted education and training in a solid and practical manner, carried out new measures and made new achievements. The Bank has promoted more than 153 projects, covering more than 40,000 trainees, and has carried out 182 online livestream training, with 90 hours of online learning per capita. During the Reporting Period, the Bank carried out in-depth comprehensive marketing training projects throughout the Bank, and used online and offline training methods to carry out hierarchical and classified special training for various positions of outlets, so as to comprehensively improve the comprehensive marketing ability of outlet marketers. The Bank held training courses for improving the comprehensive ability of outlets, training courses for improving the marketing ability of new account managers, and comprehensive marketing training projects for network leaders of LinkedIn Project, so as to support the high-quality development of business. At the same time, the Bank organised special trainings in various ways, including internal training, external training and job-transfer training, covering topics such as Party affairs, disciplinary inspection and supervision, internal audit, human resources management, financial management, performance management, office management and procurement management. Among them, 7 sessions of finance-related training and 5 sessions of internal audit training were conducted, mainly to enhance the quality of the staff team, so as to provide organisational assurance and talent support to promote the quality ultra-convention development of the Bank.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(III) Remuneration Policy of Employees

Following the concept of “performance appraisal leading development” and based on the assessment idea of “undertaking strategy, benchmarking with peers, maintaining true colors and emphasizing core”, the Bank established a performance appraisal system composed of indicators such as core development, business efficiency, compliance risk and business development, highlighted the responsibilities of risk management subjects and high-quality development requirements, and continued to improve the efficiency of resource allocation.

According to the relevant provisions of Supervisory Guidelines on Sound Compensation in Commercial Banks, the Bank has formulated the Measures for the Administration of Salary Deferred Payment of Guangzhou Rural Commercial Bank and the Measures for the Administration of Salary Recourse and Deduction of Guangzhou Rural Commercial Bank, which include the personnel in relevant risk positions required by the regulatory regulations in the scope of salary deferral payment, and implement salary recourse deduction of relevant personnel in accordance with the requirements. For employees who have caused risks and losses to the Bank due to business risk exposure, disciplinary violations or dereliction of duty, the Bank will put forward accountability and punishment plans and implement deferred payment and salary deduction.

The Bank’s remuneration management policy is applicable to all employees who have established a labor contract relationship with the Bank, and there are no exceptions beyond the original remuneration scheme.

I. OVERVIEW OF CORPORATE GOVERNANCE OF THE BANK

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improve its corporate governance in strict compliance with laws and regulations such as the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China as well as the Listing Rules and in line with actual conditions of the Bank. The Bank adheres to the principles of clarity of authority and responsibility, effective checks and balances in building the corporate governance structure, standardizing the governance operation mechanism, and improving the quality and effectiveness of the governance body's ability to perform its duties. The Bank clarifies and promotes the performance of the respective powers and responsibilities of the general meeting, the Board of Directors, the Board of Supervisors and the senior management in accordance with the law, and promotes the operation of each of governance mechanism of the Bank in compliance with the requirements of laws and regulations, regulatory rules, the Articles of the Bank and other rules. The Bank's corporate governance has remained sound and stable.

During the Reporting Period, the Bank has observed and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank has complied with most of the recommended best practices set out in the aforementioned code.

II. DUTIES OF THE GENERAL MEETING OF THE BANK

Pursuant to the Articles of Association, the general meeting shall be an organ of power of the Bank and shall exercise the following powers in accordance with the law: to decide on business policies and investment plans of the Bank; to elect and replace non-employee directors and supervisors and decide the remuneration of relevant directors and supervisors; to examine and approve reports prepared by the Board of Directors; to examine and approve reports prepared by the Board of Supervisors; to examine and approve annual budgets, final accounts, balance sheet, profit and loss and other financial reports; to examine and approve profit distribution plans and plans for making up for losses of the Bank; to adopt resolutions concerning the increase and reduction of the registered capital of the Bank; to adopt resolutions on the issuance of bonds and other securities of the Bank and the listing thereof; to adopt resolutions on the merger, division, dissolution, liquidation and change of the form of the Bank; to amend the Articles of Association; to resolve the appointment, reappointment or removal of accounting firm which conducts regular statutory audits of the Bank's financial reports; to examine the matters of single acquisition and disposal of significant assets (including but not limited to equity, fixed assets and other assets), or the matters of which guaranteed amount exceeds ten percent of the net assets audited by the Bank in the latest period; to examine and approve any proposals submitted by any shareholder who individually or jointly hold more than three percent of the total voting rights shares of the Bank (including holders of preference shares with their voting rights restored); to decide on the issuance of preference shares or authorize the Board of Directors to decide any matters in relation to the preference shares issued by the Bank; to examine and approve the rules of procedure of the shareholders' general meetings, the Board of Directors and the Board of Supervisors; to examine and approve the equity incentive plan scheme; to adopt resolutions on the acquisition of shares of the Bank in accordance with the law; to examine and approve any other matters required by the laws, administrative regulations, regulatory provisions and the Articles of Association to be approved by a general meeting.

CORPORATE GOVERNANCE

III. CONVENING OF THE GENERAL MEETING OF THE BANK

During the Reporting Period, the Bank convened the 2022 annual general meeting, the first domestic shareholders class meeting of 2023 and the first H shareholders class meeting of 2023 on 20 June 2023, a total of 147 shareholders (including proxies) attended the meetings, and the ten then directors of the third session of the Board of Directors of the Bank including executive director, Mr. Cai Jian, independent non-executive directors, Mr. Liao Wenyi, Mr. Du Jinmin, Mr. Tan Jinsong, Mr. Zhang Hua and Mr. Ma Hok Ming, and non-executive directors, Mr. Da Hengcheng, Mr. Zhang Junzhou, Mr. Feng Yaoliang and Mr. Lai Zhiguang attended the above meetings.

The resolutions were considered and approved at the 2022 annual general meeting, including the Resolution on Consideration of the 2022 Work Report of the Third Session of the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2022 Work Report of the Third Session of the Board of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of election of Directors of the Third Session of the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2022 Annual Report of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2022 Annual Financial Accounts of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2022 Profit Distribution Plan of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2022 Report on Sannong Financial Services of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the 2023 Financial Budget Report of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Estimated Caps of Material Related Party Transactions with major shareholders of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Engagement of the Accounting Firm to Undertake the Group's Audit Business in 2023 and the Bank's Interim Review Business in 2023, Resolution on Consideration of Amendments to the Rules of Procedure of the General Meeting of Shareholders of Guangzhou Rural Commercial Bank Co., Ltd. (2023 revised), Resolution on Consideration of the 2023 Work Measures for High-quality Development of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Private Placement of Domestic Shares by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Non-public Issuance of Foreign Overseas Listed Shares (H Shares) by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of Submitting to the General Meeting of Shareholders to Authorize the Board of Directors and its Authorized Persons to Deal with Matters Related to Private Placement of Domestic Shares and Non-public Issuance of Foreign Shares (H Shares), Resolution on the Changing the Registered Capital of Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Issuance of Undated Capital Bonds by Guangzhou Rural Commercial Bank Co., Ltd. and Resolution on Consideration of the Amendments to the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (2023 revised).

The resolutions were considered and approved at the first domestic shareholders class meeting of 2023, including Resolution on Consideration of the Private Placement of Domestic Shares by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Non-public Issuance of Foreign Overseas Listed Shares (H Shares) by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of Submitting to the General Meeting of Shareholders to Authorize the Board of Directors and its Authorized Persons to Deal with Matters Related to Private Placement of Domestic Shares and Non-public Issuance of Foreign Shares (H Shares) and Resolution on Consideration of the Amendments to the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (2023 revised).

The resolutions were considered and approved at the first H shareholders class meeting of 2023, including Resolution on Consideration of the Private Placement of Domestic Shares by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of the Non-public Issuance of Foreign Overseas Listed Shares (H Shares) by Guangzhou Rural Commercial Bank Co., Ltd., Resolution on Consideration of Submitting to the General Meeting of Shareholders to Authorize the Board of Directors and its Authorized Persons to Deal with Matters Related to Private Placement of Domestic Shares and Non-public Issuance of Foreign Shares (H Shares) and Resolution on Consideration of the Amendments to the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (2023 revised).

The Bank's PRC legal adviser, Guang Dong J&J Law Firm, witnessed these general meetings and issued a legal opinion: it is of the view that the convening of these general meetings was in compliance with the corresponding legal procedures. The notice, convening and voting process of the meetings are in line with the relevant provisions of the Company Law of the PRC, the Articles of Association of the Bank and the Listing Rules; the qualifications of the attendants and the convener are lawful and valid; and the voting procedure and results are lawful and valid. For relevant details of the resolutions, please refer to the announcement of the poll results of the 2022 annual general meeting, the first domestic shareholders class meeting of 2023 and the first H shareholders class meeting of 2023 dated 20 June 2023 on the Hong Kong Stock Exchange and the website of the Bank.

IV. DUTIES OF THE BOARD OF DIRECTORS OF THE BANK

The Board of Directors of the Bank is responsible for formulating the corporate governance system and monitoring the Group's business and financial strategy decisions and performance and reporting to the shareholders at the general meeting. The Board of Directors has conferred the rights and duties of the Group's governance to the management. In addition, the Board of Directors has assigned the respective responsibilities to the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee, and Consumer Protection Committee.

The Board of Directors of the Bank is also responsible for performing corporate governance functions. As of the end of the Reporting Period, the Board of Directors of the Bank has fulfilled its corporate governance functions as set out in Code A.2.1 of the Corporate Governance Code.

CORPORATE GOVERNANCE

Pursuant to the Articles of Association, the Board of Directors of the Bank assumes the ultimate responsibility for the Bank's operations and management and exercises the following duties and powers according to law: to convene shareholders' general meetings and report its work to the shareholders' general meetings; to implement the resolutions of the shareholders' general meetings; to formulate the development strategy of the Bank, and supervise the implementation of the strategy; to decide on the business plans and investment plans of the Bank; to prepare the annual financial budgets and final accounts of the Bank; to prepare the venture capital distribution plan, profit distribution plan and the plan for making up the losses of the Bank; to formulate the capital planning of the Bank and take ultimate responsibility for capital and solvency management, and formulate plans for increase or reduction of the registered capital, issue of corporate bonds or other securities and listing and assume primary responsibility for the Bank's capital management; to prepare plans for the Bank's material acquisitions, acquisitions of the Bank's shares, or merger, division, dissolution and alteration of corporate form of the Bank; to consider and approve the Bank's external investments, purchase of assets, disposal and write-off of assets, pledge of assets, related party transactions, data governance, external donations, external guarantees, entrustments of others to manage the Bank's funds or other assets of the Bank in accordance with laws, regulations, regulatory provisions and the Articles of Association, except for material matters regulated in the Articles of Association of the Bank, which shall be decided by the shareholders' general meeting; to take ultimate responsibility for the management of related party transactions; the Board of Directors shall make a special report on the overall situation of related party transactions to the shareholders' general meeting every year and submit it to CBIRC or its dispatched offices; to decide on the establishment of internal management structure of the Bank; As proposed by the Nomination and Remuneration Committee, to decide on the appointment or removal of the President, the secretary to the Board of Directors, the auditor and their remuneration, rewards and punishments based on the proposals of the Chairman; to decide on the appointment or removal of the vice president, the assistant to the president, the business director and other senior management personnel as determined by the Board of Directors and the supervision and management institutions, and their remuneration, rewards and punishments based on the proposals of the President; to formulate the basic management system of the Bank; to formulate the Bank's risk tolerance, risk management and internal control policies, and assume ultimate responsibility for overall risk management; to take the ultimate responsibility for the compliance of the Bank's business activities; to prepare any amendment proposals to the Articles of Association of the Bank; to formulate the rules of procedure of the shareholders' general meeting, the rules of procedure of the Board of Directors and the modification plan, and examine and approve the working rules of the special committees of the Board of Directors; be responsible for information disclosure of the Bank and take the ultimate responsibilities for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports of the Bank; to determine the job responsibilities for management, including the President, the Vice President, the assistant to president, the secretary to the Board of Directors, the auditors and the business directors; to monitor the performance of senior management; to listen the work report from the President and inspect the work of the President; the Board of Directors shall establish a supervisory system for the management to formulate the code of conduct and terms of reference for the management and business officers and that the normative documents shall specifically require employees at all levels to report any potential conflict of interests in a timely manner, provide particular rules, establish corresponding measures; the Board of Directors shall establish an information reporting system, requiring the senior management to report regularly to the Board of Directors and the Directors on the operation and management of the Bank; and evaluate and refine the corporate governance of the Bank on a regular basis; to protect the legitimate interests of financial consumers and other interested parties; to assume the management responsibilities

of shareholders' affairs; to establish the mechanism for identification, verification and management of the conflict of interest between the Bank and shareholders, in particular Substantial Shareholders; to assume the management responsibilities promised by the substantial shareholders; to take the ultimate responsibility for the formulation and updating of recovery plan and disposal plan proposals; to take the ultimate responsibility for management of business continuity, response management of emergency, risk management of reputation, risk management of internet loan, anti-money laundering and anti-terrorist financing, consumer rights protection, data governance, etc.; to assume the responsibility for determining the green credit development strategy; to take the ultimate responsibility for remuneration management; to propose to the shareholders' general meeting the appointment, reappointment or removal of accounting firm that conduct regular statutory audits of the Bank's financial reports; to assume the responsibility for establishing and improving the Directors' performance records; to take the responsibility for formulating the professional norms and value standards to be followed by the Board of Directors and the senior management; to draw up an equity incentive plan; to take the responsibility for ensuring that the Bank has established and implemented an adequate and effective internal control system and that the Bank operates prudently within the legal and policy framework; to take ultimate responsibility for the establishment, operation and maintenance of the internal audit system, as well as the independence and effectiveness of the internal audit; to take the responsibility for fulfilling corporate governance responsibilities, making strategic decisions related to the environment, and effectively governing and overseeing ESG issues; and to exercise any other duties and power conferred by laws, regulations, regulatory requirements and the Articles of Association of the Bank.

V. CONVENING OF THE BOARD MEETING OF THE BANK

During the Reporting Period, the Board of Directors of the Bank convened a total of 5 meetings, considering and approving 57 resolutions and listening to 22 notifications; the Strategy and Investment Committee (Sannong Committee) of the Board convened a total of 3 meetings, considering and approving 19 resolutions and listening to 3 notifications; the Audit Committee of the Board convened a total of 1 meeting, considering and approving 8 resolutions and listening to 2 notifications; the Related Party Transactions and Risk Management Committee of the Board convened a total of 5 meetings, considering and approving 23 resolutions and listening to 4 notifications; the Consumer Rights Protection Committee of the Board convened a total of 2 meetings, considering and approving 4 resolutions; the Nomination and Remuneration Committee of the Board convened 4 meetings, considering and approving 9 resolutions and listening to 2 notifications.

CORPORATE GOVERNANCE

VI. PERFORMANCE OF INDEPENDENT DIRECTORS OF THE BANK

During the Reporting Period, the Bank has a total of 6 independent non-executive directors. The independent non-executive directors have rich qualifications and outstanding professional abilities, and are prudent in performing their duties and exercising their powers. The Related Party Transactions and Risk Management Committee, Audit Committee and Nomination and Remuneration Committee of the Bank are all presided over by independent non-executive directors. In their daily work, the independent non-executive directors of the Bank actively participated in the Board meetings and meetings of the respective special committees, actively provided advice and suggestions, played their due role effectively, and continued to effectively communicate with the Bank through various ways such as participating in field trips, special investigations and attending training.

During the Reporting Period, the independent non-executive directors issued written independent opinions on major issues of the Bank such as the profit distribution plan, directors and senior management appointments, engagement of auditors, and major related party transactions. In addition, the independent non-executive directors of the Bank also took full advantages of their professional advantages in the special committees of the Board of Directors and provided professional and independent opinions on the corporate governance and operation management of the Bank which has provided a powerful guarantee for the scientific decision-making process of the Board of Directors.

VII. DUTIES OF BOARD OF SUPERVISORS OF THE BANK

According to the Articles of Association of the Bank, the Board of Supervisors assumes supervisory responsibility and exercises the following duties and powers according to law: To examine and provide comments in writing on the periodical reports of the Bank prepared by the Board of Directors; To examine and supervise the Bank's financial affairs; To monitor the directors and senior management in the performance of their duties; to propose to remove the directors or senior management who is in breach of the laws, regulations, the provisions of the Articles of Association or the resolutions of the general meeting; To demand rectification from a director or senior management when the acts of such person injure the interests of the Bank; To assume ultimate responsibility for the evaluation of the performance of directors and supervisors of the Bank; To be responsible for the establishment and improvement of the file on the performance of supervisors and the file on the evaluation of the performance of directors and supervisors; To assess and question the performance and conduct of Director, Supervisors and Senior Management, report assessment results to the Shareholders' General Meeting and submit to supervisory authorities in accordance with regulations; To conduct special and off-office audit in respect to any Directors and senior officers as required; To conduct supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key responsibilities including strategic management, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity risk management, reputational risk management, compliance management, fraud prevention, Sannong financial services, related party transactions, information disclosure, data governance, consumer rights protection and anti-money laundering and to report the same to the general meetings in accordance with the requirements; To review relevant audit reports in accordance with regulations and provide guidance and supervise the internal audit work of the Bank, and have the right to request relevant information from the Board of Directors and senior management in relation to the audit; To review the financial reports, operation reports, profit distribution plan and other financial documents submitted by the Board of Directors to general meetings; if any query arises, to engage such professionals as certified public accountants or practicing auditors to assist re-examine the work for the

Bank; To propose the convening of extraordinary general meetings; to host the general meetings under the circumstances that the Board of Directors cannot perform its duties of convening and presiding over the general meeting as required under the "Company Law"; To make the proposals to the shareholders' general meetings; To represent the Bank to negotiate with the directors or senior management or bring the lawsuits against the directors or senior management according to the provisions of the Company Law; If any abnormality is found in operations of the Bank, to conduct investigations; and when necessary, to engage such professionals as accountants or auditors to assist the work for the account of the Bank at the expense of the Bank; To supervise the Board of Directors on the establishment of stable business ideas and valuation standard and formulate the developing strategies in line with the situation of the Bank; To make periodical assessments on the rationality, reasonability and robustness of the developing strategies of the Bank and make the reports; To supervise and inspect the operating decision, risk management, internal control, etc. of the Bank, and supervise the rectification; To supervise the procedure of the election and appointment of the directors; To supervise the implementation of the system of the remuneration management of the Bank and the rationality and reasonability on the salary plan of the senior management and propose any remuneration (or allowance) arrangement of a supervisor; To be responsible for the supervision of money laundering risk management, and shall be responsible for supervising the performance of due diligence of the Board and senior management in money laundering risk management and supervising rectification, and making recommendations and opinions on the Bank's money laundering risk management; To communicate with the banking regulatory authorities of the State Council about the condition of the Bank on a regular basis; Other duties and powers as provided in the laws, regulations, regulatory requirements and the provisions of the Articles of Association.

VIII. CONVENING OF THE MEETING OF THE BOARD OF SUPERVISORS OF THE BANK

During the Reporting Period, the Board of Supervisors of the Bank convened a total of 3 meetings, at which 22 resolutions were considered and approved and 15 notifications were listened. The Nomination Committee of the Board of Supervisors convened a total of 1 meeting, at which 5 resolutions were considered and approved. The Audit and Supervision Committee of the Board of Supervisors convened a total of 2 meetings, at which 9 resolutions were considered and approved and 4 notifications were listened.

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IX. WORK OF EXTERNAL SUPERVISORS OF THE BANK

During the Reporting Period, the external Supervisors of the Bank in strict accordance with the provisions of relevant laws, regulations, the Bank's Articles of Association performed their duties diligently and discussed at meetings in due course by fully studying and reviewing every proposal and earnestly attending meetings of the Board of Supervisors and the respective special committees participating in the general meetings on time, attending the meetings of the Board of Directors and its special committees, actively participating various supervisory and research activities organized by the Board of Supervisors, expressing their professional and rigorous opinions independently and impartially, and enhancing supervisory efficiency effectively, which played a proactive role in improving the corporate governance and the management of the Bank. During the closure period, the Board of Supervisors carefully reviewed the documents such as the Monthly Information Report of the Board of Supervisors (《監事會信息月報》), the Quarterly Information Report of the Board of Supervisors (《監事會信息季報》) and the Work Brief of Board of Supervisors (《監事會工作簡訊》) to actively keep abreast of the Bank's business management, dedicate sufficient time and effort to perform duties and practically enhance its performance ability, and lay a solid foundation for scientific supervision.

X. DUTIES OF SENIOR MANAGEMENT OF THE BANK

The duties of senior management of the Bank mainly include: to carry out operation and management in accordance with the Articles of Association of the Bank and the authorization of the Board of Directors, and actively implement the resolutions of the general meeting and the Board of Directors; to be accountable to the Board of Directors and supervised by the Board of Supervisors, and to report the management of the Bank in a timely, accurate and complete manner, and provide relevant materials in accordance with the requirements of the Board of Directors and the Board of Supervisors; to establish a system for information reporting to the Board of Directors and its special committees, and the Board of Supervisors and its special committees, and clarify the types, content, time and forms of information for reporting to ensure that directors and supervisors can obtain various types of information promptly, and accurately and completely; to set up and optimise various meeting systems and draw up corresponding rules of procedure; to undertake the responsibility for the implementation of comprehensive risk management, and to be responsible for the following duties: to establish a management structure based on comprehensive risk management, define risk management responsibilities among the functional departments, business units and other departments of comprehensive risk management, and develop a coordinated checks-and-balances mechanism among departments; to formulate clear execution and inquiry mechanisms for the effective communication and implementation of risk management strategies, risk appetites and limits; to set risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; to formulate risk management policies and procedures, and conduct periodic assessments and make adjustments when necessary; to evaluate the management for comprehensive risks and various key risks and report to the Board of Directors; to establish a sound management information system and data quality control mechanism; to supervise the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handle such cases according to the authorization of the Board of Directors; and other risk management responsibilities; to be responsible for formulating systematic systems, procedures and methods according to the acceptable risk level determined by the Board of Directors, and taking corresponding risk control measures; responsible for establishing and improving internal organizational structures to ensure that various responsibilities of internal control are effectively performed;

responsible for organizing the monitoring and evaluation of the adequacy and effectiveness of the internal control system; to be responsible for organizing and implementing capital management pursuant to the business strategy and risk appetite, ensuring that capital is compatible with business development and risk levels, and implementing various monitoring measures; specifically performing the following duties: to formulate and organize the implementation of rules and regulations of capital management; to formulate and organize the implementation of the internal capital adequacy assessment procedure, clarify the division of responsibilities of relevant departments, and establish and improve the evaluation framework, procedures and management systems; to formulate and organize the implementation of capital planning and capital adequacy management plans; to evaluate the capital adequacy ratio regularly and irregularly, and report the level of capital adequacy ratio, the management of capital adequacy ratio and the results of internal capital adequacy assessment to the Board of Directors; to organize stress testing, participate in the determination of stress testing objectives, plans and important assumptions, promote the application of stress testing results in risk assessment and capital planning; to develop and maintain the internal capital adequacy assessment information management system; to assume management responsibilities for the formulation and update of the recovery plan and disposal plan; to be responsible for implementing the business continuity management policies approved by the Board of Directors. The main responsibilities include: formulating and regularly reviewing and supervising the implementation of business continuity management policies and procedures; clarifying the business continuity management responsibilities of each department, clarifying reporting routes, and approving important business recovery goals and strategy, supervising the performance of management responsibilities of each department, and ensuring the normal operation of the business continuity management system; and ensuring that sufficient resources are allocated to guarantee the implementation of business continuity management; to undertake the responsibility for the implementation of the emergency management policy approved by the Board of Directors; to undertake the management responsibility for reputation risk management of the Bank; to establish and improve the reputation risk management system, improve the working mechanism, formulate reputation risk response plans and handle plans for major events, and arrange and promote the handling of reputation incidents. Reputation risk management assessment shall be conducted at least once a year; to undertake the responsibility for the implementation of risk management of money laundering and terrorism financing; be responsible for promoting the construction of money laundering risk management culture; establishing and timely adjusting the money laundering risk management organizational structure, clarifying the division of responsibilities and coordination mechanisms of anti-money laundering management departments, business units and other departments in money laundering risk management; formulating and adjusting money laundering risk management strategies and implementation mechanism; reviewing money laundering risk management policies and procedures; regularly reporting anti-money laundering work to the Board of Directors, and reporting major money laundering risk events to the Board of Directors and the Board of Supervisors in a timely manner; organizing the implementation of the anti-money laundering information system and data governance; organizing the implementing the anti-money laundering performance evaluation and reward and punishment mechanism; handling violations of anti-money laundering risk management policies and procedures as authorized by the Board of Directors; and other related responsibilities; to be responsible for determining the operation and management structure of Internet loans, and clarifying the division of responsibilities among various departments; formulating, evaluating and supervising the implementation of Internet loan business plans, risk management policies and procedures, management policies and procedures of cooperative institutions, and cross-regional operation and management policies; formulating risk control indicators for Internet loan business, including but not limited to Internet loan limit, the limit and capital contribution ratio of jointly funded and issued

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loans with cooperative institutions, the concentration of cooperative institutions, non-performing loan ratio, etc.; establishing a risk management mechanism for Internet loan business, continuously and effectively monitoring, controlling and reporting various types of risks, and responding to risk events in a timely manner; fully understanding and regularly evaluating the development of Internet loan business, risk level and management status, consumer protection condition, keeping abreast of major changes, and regularly reporting to the Board of Directors; and other relevant responsibilities; to formulate green credit targets, establish mechanism and procedures, define duties and authorities, carry out internal control inspection and assessment, report the development situation of green credit to the Board of Directors every year, and report the relevant situation to the regulatory authorities in a timely manner; to ensure that the strategic objectives and policies for consumer rights protection are effectively implemented; to review and publish significant information disclosures on consumer rights protection; to establish a data governance system, ensure the allocation of data governance resources, formulate and implement accountability and incentive mechanisms, establish a data quality control mechanism, ensure the authenticity, accuracy, continuity, completeness and timeliness of data, organize and evaluate the effectiveness and implementation of data governance, and regularly report to the Board of Directors; to undertake the responsibility for organizing the implementation of resolutions on remuneration management of the Board; to support the internal audit departments to perform its duties independently to ensure that internal audit resources are in place; to report to the audit committee on the latest developments and changes in business development, product innovation, operation procedures, risk management and internal control compliance in a timely manner; to carry out effective rectification based on the problems identified by the internal audit and audit recommendation; other functions and powers that shall be exercised by senior management as stipulated by laws, regulations, regulatory provisions and these Articles of Association of the Bank.

XI. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE BANK

During the Reporting Period, in accordance with the adjustments and changes in, relevant laws and regulations and normative documents, the Bank, in combination with its actual condition, made amendments to certain articles of the Articles of Association. The amendment was considered and approved at the 2022 annual general meeting, the first domestic shareholders class meeting of 2023 and the first H shareholders class meeting of 2023 held by the Bank dated 20 June 2023, and will take effect from the date of obtaining the approval of the regulatory authorities. Among them, as the Bank intends to conduct an issuance of new shares (for details, please refer to the Bank's announcement dated 26 April 2023 in relation to the the issuance of shares and the Bank's circular dated 31 May 2023), the amendments to the articles of the Articles of Association in relation to the change of registered capital and the total number of shares (i.e. Articles 26 and 29) will take effect from the date of approval of the aforesaid issuance of shares by the relevant regulatory authorities and the completion of the issuance. For details of the amendment, please refer to the announcement dated 26 April 2023, the circular dated 31 May 2023, the announcement on the poll results of the 2022 annual general meeting, the first domestic shareholders class meeting of 2023 and the first H shareholders class meeting of 2023 dated 20 June 2023 published by the Bank.

I. IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon the approval of the 2022 annual general meeting of the Bank, the Bank distributed a final dividend in cash for 2022 on 20 July 2023 of RMB1.05 per 10 shares (tax inclusive) and RMB1,202 million (tax inclusive) in aggregate to holders of Domestic Shares and holders of H Shares whose names appeared on the register of members of the Bank on 2 July 2023. The Bank did not declare any interim dividend for 2023 (2022: nil).

II. MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

On 26 April 2023, the Board of Directors of the Bank approved the conditional agree of transfer of relevant assets of the Bank, i.e., certain credit assets, investments asset management products, bonds held by the Bank, assets formed by conducting of business such as bank acceptance bills, commercial acceptance bills and other assets, which was considered and approved by 2022 annual general meeting of the Bank. For details, please refer to the Bank's announcement dated 26 April 2023.

III. USE OF PROCEEDS

The Bank issued the non-cumulative perpetual offshore preference shares with a size of USD1.43 billion on 20 June 2019. The proceeds from the issuance of the offshore preference shares, after deducting the issuance expenses, have all been used to replenish other tier-one capital of the Bank.

The Bank completed the issuance of 305 million H shares and 1,338 million Domestic Shares on 1 December and 21 December 2021, respectively, and the total number of shares of the Bank increased to 11,451,268,539 shares. The net proceeds from the issuance, after deducting the related issuance expenses, amounted to approximately RMB9,663 million, which was fully utilized to replenish the core tier-one capital of the Bank.

On 3 April 2023, the Bank completed the issuance and listing of the tier-two capital bonds with a total amount of RMB15 billion in the national interbank bond market. The proceeds raised from the issuance of the tier-two capital bonds, after deducting the issuance expense, have all been used to replenish the tier-two capital of the Bank.

All of the proceeds received by the Bank in the past issues have been used in accordance with the purposes disclosed in the relevant documents such as their respective prospectuses, which was to replenish the capital of the Bank for supporting its business development.

MAJOR EVENTS

IV. RELATED PARTY (CONNECTED) TRANSACTIONS

(I) Related Party Transactions under the Relevant Regulatory Standards

As at the end of the Reporting Period, the Bank's total credit balance with related parties amounted to RMB32.83 billion. Transactions between the Bank and a single related party that amount to 1% or more of the net capital of the Bank at the end of the previous quarter or 5% in aggregate or more of the net capital of the Bank at the end of the previous quarter shall be designated as significant related party transactions. After the aggregate amount of transactions between the Bank and a single related party reaches the aforementioned standard, the subsequent related party transactions shall be re-designated as significant related party transactions for each aggregate amount of more than 1% of the net capital at the end of the previous quarter.

(II) Connected Transactions under the Listing Rules

The transactions entered into among the Bank and its connected persons (as defined in the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules. During the Reporting Period, the connected transactions of the Bank were entered into in the ordinary course of business on normal commercial or better terms, and were in compliance with the disclosure exemption requirement under the Hong Kong Listing Rules.

V. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

As of the end of the Reporting Period, there were a total of 6 pending litigations with an amount exceeding RMB10 million each in which the Bank was a defendant or third party, involving a total amount of approximately RMB969 million. The Bank believes that the above litigations and arbitrations would have no significant impact on its business activities.

VI. PENALTIES IMPOSED ON DIRECTORS AND SUPERVISORS OF THE BANK

During the Reporting Period, the Bank's directors and supervisors were not subject to penalties by relevant authorities that would have a significant impact on its business activities.

VII. SUBSEQUENT EVENTS

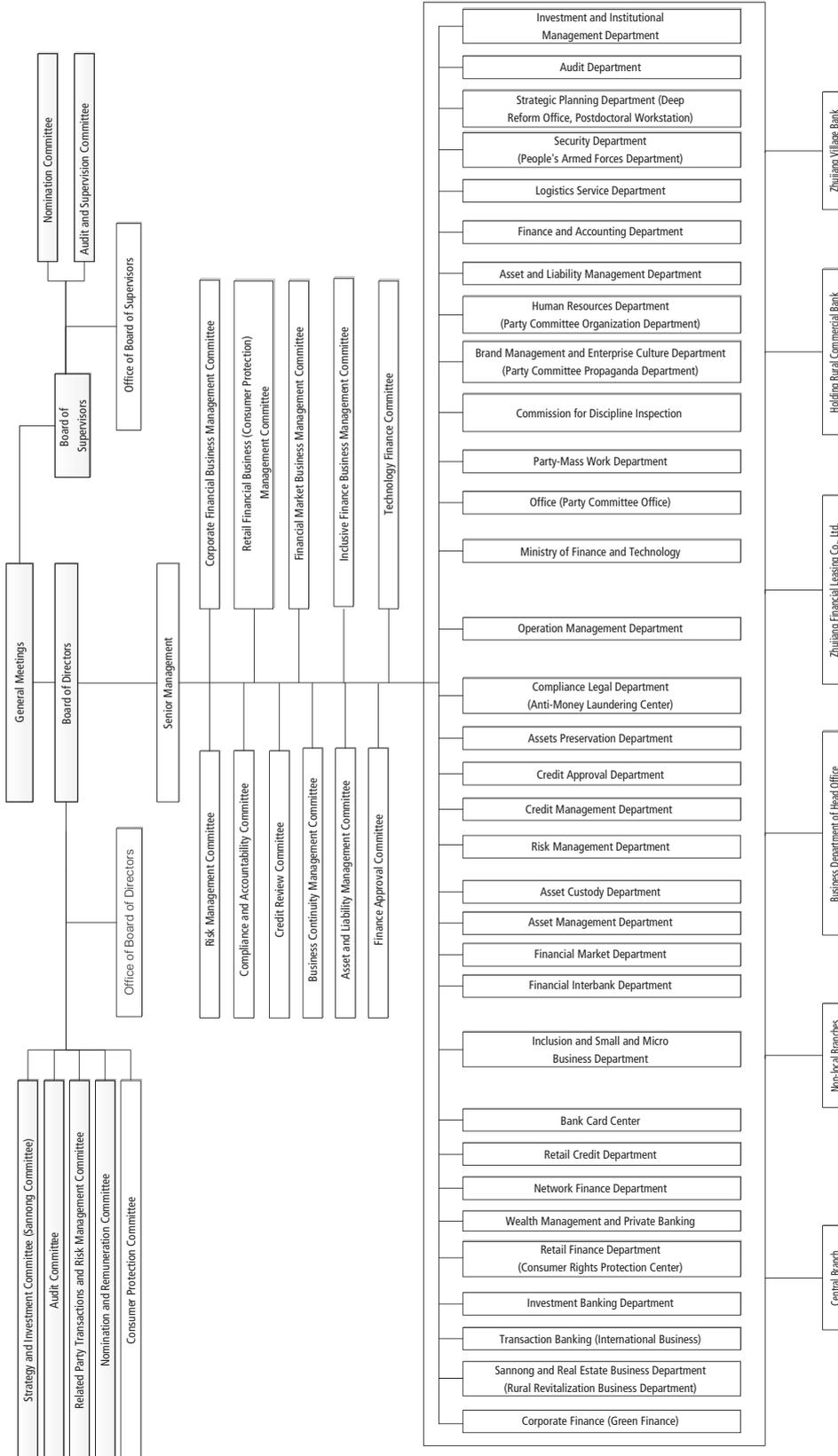
Pursuant to the resolutions at the annual general meeting and class meetings on 20 June 2023, the Bank will simultaneously conduct a private placement of not more than 2,964 million Domestic Shares and a non-public issuance of not more than 676 million H Shares with a par value of RMB1.00 per share.

VIII. REVIEW AND RELEASE OF INTERIM RESULTS

The interim financial report for the six months ended 30 June 2023 prepared by the Bank in accordance with the IFRS has been reviewed by PricewaterhouseCoopers and the Audit Committee under the Board of Directors and the Board of Directors of the Bank have reviewed and approved the Bank's interim results and financial report for the six months ended 30 June 2023.

Please refer to the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Bank (www.grcbank.com) for both the English and Chinese versions of the Bank's reports prepared in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules.

As of the Latest Practicable Date, the corporate structure of the Group is as follows:



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 85 to 185, which comprises the interim condensed consolidated statement of financial position of Guangzhou Rural Commercial Bank Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2023 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 31 August 2023

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-------------------|
| | | 2023 | 2022 |
| Interest income | 5 | 20,811,543 | 21,757,669 |
| Interest expense | 5 | (12,251,006) | (12,656,458) |
| Net interest income | | 8,560,537 | 9,101,211 |
| Fee and commission income | 6 | 685,690 | 684,569 |
| Fee and commission expense | 6 | (165,110) | (120,441) |
| Net fee and commission income | | 520,580 | 564,128 |
| Net trading gains | 7 | 63,980 | 972,084 |
| Net gains on disposal of financial assets at fair value through other comprehensive income | | 143,836 | 94,318 |
| Net gains on disposal of financial assets measured at amortized cost | | 7,923 | 3,218 |
| Other income, gains or losses | 8 | 104,544 | 475,598 |
| Operating income | | 9,401,400 | 11,210,557 |
| Operating expenses | 9 | (3,062,651) | (3,225,500) |
| Credit impairment losses | 10 | (3,934,740) | (4,779,226) |
| Impairment losses on other assets | | – | (33,431) |
| Profit before income tax | | 2,404,009 | 3,172,400 |
| Income tax expense | 11 | (15,278) | (207,677) |
| Net Profit for the period | | 2,388,731 | 2,964,723 |
| Attributable to: | | | |
| Shareholders of the Bank | | 2,103,176 | 2,526,576 |
| Non-controlling interests | | 285,555 | 438,147 |
| | | 2,388,731 | 2,964,723 |
| Earnings per share (RMB yuan) | | | |
| – basic and diluted | 13 | 0.13 | 0.17 |

The accompanying notes form an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | Six months ended 30 June | |
|--|------|--------------------------|-----------|
| | | 2023 | 2022 |
| Net Profit for the period | | 2,388,731 | 2,964,723 |
| Other comprehensive income (after tax, net): | 34 | | |
| Items that may be reclassified to profit or loss | | | |
| Changes in the fair value of financial assets at fair value through other comprehensive income | | 695,309 | (172,472) |
| Changes in the expected credit losses of financial assets at fair value through other comprehensive income | | 12,948 | (155,825) |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement losses on defined benefit plans | | (223) | (263) |
| Sub-total of other comprehensive income for the period | | 708,034 | (328,560) |
| Total comprehensive income for the period | | 3,096,765 | 2,636,163 |
| Total comprehensive income attributable to: | | | |
| Shareholders of the Bank | | 2,762,166 | 2,220,927 |
| Non-controlling interests | | 334,599 | 415,236 |
| | | 3,096,765 | 2,636,163 |

The accompanying notes form an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | As at 30 June 2023 | As at 31 December 2022 |
|---|------|-----------------------|---------------------------|
| ASSETS | | | |
| Cash and deposits with central bank | 14 | 78,410,483 | 87,256,135 |
| Deposits with banks and other financial institutions | 15 | 10,765,774 | 7,764,638 |
| Placements with banks and other financial institutions | 16 | 56,064,412 | 43,468,970 |
| Financial assets held under resale agreements | 17 | 12,972,997 | 57,474,333 |
| Loans and advances to customers | 18 | 687,928,224 | 669,117,866 |
| Financial investments | | | |
| – Financial assets at fair value through profit or loss | 19 | 69,486,526 | 81,974,528 |
| – Financial assets at fair value through other comprehensive income | 20 | 105,281,919 | 70,945,255 |
| – Financial assets at amortized cost | 21 | 223,323,657 | 196,517,323 |
| Property and equipment | 22 | 2,832,379 | 2,934,546 |
| Goodwill | 23 | 734,237 | 734,237 |
| Deferred tax assets | 24 | 10,830,238 | 10,424,635 |
| Other assets | 25 | 5,219,501 | 4,841,985 |
| Total assets | | 1,263,850,347 | 1,233,454,451 |
| LIABILITIES | | | |
| Due to central bank | | 24,189,784 | 20,462,293 |
| Deposits from banks and other financial institutions | 26 | 37,264,067 | 29,324,940 |
| Placements from banks and other financial institutions | 27 | 952,892 | 3,342,939 |
| Financial liabilities at fair value through profit or loss | | 5,972 | 4,005 |
| Financial assets sold under repurchase agreements | 28 | 38,261,576 | 38,717,319 |
| Customer deposits | 29 | 923,032,211 | 910,485,032 |
| Income tax payable | | 1,079,232 | 2,231,408 |
| Debt securities issued | 30 | 132,545,932 | 124,580,525 |
| Other liabilities | 31 | 17,221,342 | 16,056,888 |
| Total liabilities | | 1,174,553,008 | 1,145,205,349 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | As at 30 June 2023 | As at 31 December 2022 |
|---|------|-----------------------|---------------------------|
| EQUITY | | | |
| Share capital | 32 | 11,451,269 | 11,451,269 |
| Preference shares | | 9,820,734 | 9,820,734 |
| Reserves | 33 | 40,471,040 | 39,812,050 |
| Retained earnings | | 20,249,913 | 19,994,521 |
| Equity attributable to shareholders of the Bank | | 81,992,956 | 81,078,574 |
| Non-controlling interests | | 7,304,383 | 7,170,528 |
| Total equity | | 89,297,339 | 88,249,102 |
| Total liabilities and equity | | 1,263,850,347 | 1,233,454,451 |

The accompanying notes form an integral part of these interim condensed consolidated financial information.

The interim condensed consolidated financial information was approved and authorized for issue by the Board of Directors on 31 August 2023 and was signed on its behalf by:

Cai Jian
Chairman

Mao Libing
Chief Financial Officer

Huang Sunan
Head of Financial Department

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Attributable to shareholders of the Bank | | | | | | | | | | |
|--|--|-------------------|-----------------|-----------------|-----------------|----------------------------|------------|-------------|-------------------|---------------------------|-------------|
| | Share capital | Preference shares | Capital reserve | Surplus reserve | General reserve | Reserves | | | Retained earnings | Non-Controlling interests | Total |
| | | | | | | Other comprehensive income | Subtotal | Total | | | |
| Balance at 1 January 2023 | 11,451,269 | 9,820,734 | 18,951,196 | 5,650,358 | 15,770,294 | (559,798) | 39,812,050 | 19,994,521 | 81,078,574 | 7,170,528 | 88,249,102 |
| Net profit for the period | - | - | - | - | - | - | - | 2,103,176 | 2,103,176 | 285,555 | 2,388,731 |
| Other comprehensive income for the period | - | - | - | - | - | 658,990 | 658,990 | - | 658,990 | 49,044 | 708,034 |
| Total comprehensive income | - | - | - | - | - | 658,990 | 658,990 | 2,103,176 | 2,762,166 | 334,599 | 3,096,765 |
| Dividends declared to ordinary shareholders | - | - | - | - | - | - | - | (1,202,382) | (1,202,382) | (200,744) | (1,403,126) |
| Dividends declared and paid to preference shareholders | - | - | - | - | - | - | - | (645,402) | (645,402) | - | (645,402) |
| Balance at 30 June 2023 | 11,451,269 | 9,820,734 | 18,951,196 | 5,650,358 | 15,770,294 | 99,192 | 40,471,040 | 20,249,913 | 81,992,956 | 7,304,383 | 89,297,339 |

Note 33

Note 32

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Attributable to shareholders of the Bank | | | | | | | Total | | | |
|--|--|-------------------|-----------------|-----------------|-----------------|----------------------------|-------------------|-------------|---------------------------|-----------|-------------|
| | Share capital Note 32 | Preference shares | Capital reserve | Surplus reserve | General reserve | Reserves | | | Non-Controlling interests | | |
| | | | | | | Other comprehensive income | Retained earnings | | | | |
| Balance at 1 January 2022 | 11,451,269 | 9,820,734 | 18,957,883 | 5,350,061 | 14,618,358 | 51,648 | 38,977,950 | 19,777,351 | 80,027,304 | 6,857,962 | 86,885,266 |
| Net profit for the period | - | - | - | - | - | - | - | 2,526,576 | 2,526,576 | 438,147 | 2,964,723 |
| Other comprehensive income for the period | - | - | - | - | - | (305,649) | (305,649) | - | (305,649) | (22,911) | (328,560) |
| Total comprehensive income | - | - | - | - | - | (305,649) | (305,649) | 2,526,576 | 2,220,927 | 415,236 | 2,636,163 |
| Transactions with non-controlling interests | - | - | (6,252) | - | - | - | (6,252) | - | (6,252) | 6,252 | - |
| Shareholders' donation | - | - | 1,127 | - | - | - | 1,127 | - | 1,127 | 831 | 1,958 |
| Dividends declared to ordinary shareholders | - | - | - | - | - | - | - | (1,202,382) | (1,202,382) | (165,777) | (1,368,159) |
| Dividends declared and paid to preference shareholders | - | - | - | - | - | - | - | (620,373) | (620,373) | - | (620,373) |
| Balance at 30 June 2022 | 11,451,269 | 9,820,734 | 18,952,758 | 5,350,061 | 14,618,358 | (254,001) | 38,667,176 | 20,481,172 | 80,420,351 | 7,114,504 | 87,534,855 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Attributable to shareholders of the Bank | | | | | | | Non-Controlling interests | Total | | |
|--|--|-------------------|-----------------|-----------------|-----------------|----------------------------|-------------------|---------------------------|-------------|---------------------|-------------|
| | Share capital Note 32 | Preference shares | Capital reserve | Surplus reserve | Reserves | | Retained earnings | | | | |
| | | | | | General reserve | Other comprehensive income | | | | Subtotal Note 33 | Total |
| Balance at 1 January 2022 | 11,451,269 | 9,820,734 | 18,957,883 | 5,350,061 | 14,618,358 | 51,648 | 38,977,950 | 19,777,351 | 80,027,304 | 6,857,962 | 86,885,266 |
| Net profit for the year | - | - | - | - | - | - | - | 3,492,159 | 3,492,159 | 545,617 | 4,037,776 |
| Other comprehensive income for the year | - | - | - | - | - | (611,446) | (611,446) | - | (611,446) | (62,567) | (674,013) |
| Total comprehensive income | - | - | - | - | - | (611,446) | (611,446) | 3,492,159 | 2,880,713 | 483,050 | 3,363,763 |
| Transactions with non-controlling interests | - | - | (13,658) | - | - | - | (13,658) | - | (13,658) | 13,658 | - |
| Shareholders' donation | - | - | 6,971 | - | - | - | 6,971 | - | 6,971 | 3,221 | 10,192 |
| Appropriation to surplus reserve | - | - | - | 300,297 | - | - | 300,297 | (300,297) | - | - | - |
| Dividends declared and paid to ordinary shareholders | - | - | - | - | - | - | - | (1,202,383) | (1,202,383) | (187,363) | (1,389,746) |
| Dividends declared and paid to preference shareholders | - | - | - | - | - | - | - | (620,373) | (620,373) | - | (620,373) |
| Appropriation to general reserve | - | - | - | - | 1,151,936 | - | 1,151,936 | (1,151,936) | - | - | - |
| Balance at 31 December 2022 | 11,451,269 | 9,820,734 | 18,951,196 | 5,650,358 | 15,770,294 | (559,798) | 39,812,050 | 19,994,521 | 81,078,574 | 7,170,528 | 88,249,102 |

The accompanying notes form an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | Six months ended 30 June | |
|--|------|--------------------------|---------------------|
| | | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 2,404,009 | 3,172,400 |
| Adjustments for: | | | |
| Interest income on financial investments | 5 | (4,203,074) | (3,816,152) |
| Interest income accrued on impaired financial assets | 5 | (108,362) | (128,258) |
| Interest expense on debt securities | 5 | 1,583,868 | 1,886,729 |
| Net trading losses/(gains) | | 107,924 | (371,508) |
| Net gains on disposal of financial assets at fair value through other comprehensive income | | (143,836) | (94,318) |
| Net gains on disposal of financial assets measured at amortized cost | | (7,923) | (3,218) |
| Net foreign exchange gains | 8 | (33,567) | (274,997) |
| Net gains on disposal of property and equipment and foreclosed assets | 8 | (9,644) | (55,659) |
| Depreciation and amortization | 9 | 321,969 | 352,278 |
| Depreciation of investment properties | | 3,944 | 3,970 |
| Interest expense on lease liabilities | 5 | 22,220 | 23,567 |
| Impairment losses | | 3,981,037 | 4,862,518 |
| Other | | – | 1,212 |
| | | 3,918,565 | 5,558,564 |
| Net decrease/(increase) in operating assets | | | |
| Deposits with central bank | | 1,290,891 | 592,445 |
| Deposits with banks and other financial institutions | | (87,597) | 1,316,585 |
| Placements with banks and other financial institutions | | (12,899,896) | (6,593,983) |
| Financial assets held under resale agreements | | (8,556,601) | 1,899,509 |
| Loans and advances to customers | | (22,180,194) | (36,221,687) |
| Financial assets at fair value through profit or loss | | (3,817,175) | (24,762,034) |
| Other assets | | (560,733) | (565,538) |
| | | (46,811,305) | (64,334,703) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | Six months ended 30 June | |
|---|------|--------------------------|---------------------|
| | | 2023 | 2022 |
| Net increase/(decrease) in operating liabilities | | | |
| Due to central bank | | 3,727,491 | 9,464,440 |
| Deposits from banks and other financial institutions | | 7,939,127 | 8,062,221 |
| Placements from banks and other financial institutions | | (2,390,047) | 1,851,798 |
| Financial liabilities at fair value through profit or loss | | 1,967 | (1,727) |
| Financial assets sold under repurchase agreements | | (455,743) | (22,256,869) |
| Customer deposits | | 12,524,591 | 36,060,926 |
| Other liabilities | | 143,659 | (312,592) |
| | | 21,491,045 | 32,868,197 |
| Net cash flows used in operating activities before tax | | (21,401,695) | (25,907,942) |
| Income tax paid | | (1,809,146) | (1,847,073) |
| Net cash flows used in operating activities | | (23,210,841) | (27,755,015) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property and equipment and other long-term assets | | (178,541) | (336,997) |
| Proceeds from disposal of property and equipment and other long-term assets | | 14,871 | 73,706 |
| Cash paid for investments | | (105,596,719) | (127,072,730) |
| Proceeds from sale and redemption of investments | | 61,336,198 | 69,832,585 |
| Return on investments | | 4,202,660 | 3,826,658 |
| Net cash flows used in investing activities | | (40,221,531) | (53,676,778) |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

| | Note | Six months ended 30 June | |
|--|------|--------------------------|---------------------|
| | | 2023 | 2022 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Shareholders' donation | | – | 1,958 |
| Proceeds from issuance of debt securities | | 123,208,027 | 126,302,032 |
| Repayment of debt securities issued | | (114,248,063) | (86,804,871) |
| Interest paid on debt securities | | (2,578,425) | (1,748,024) |
| Dividends paid to preference shares | 12 | (645,402) | (620,373) |
| Payment for lease contracts | | (140,977) | (147,989) |
| Dividends paid to non-controlling shareholders | | (180,374) | (143,511) |
| Net cash flows from financing activities | | 5,414,786 | 36,839,222 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | (58,017,586) | (44,592,571) |
| Cash and cash equivalents at the beginning of the period | | 95,744,368 | 99,541,275 |
| Effect of exchange rate changes on cash and cash equivalents | | 46,617 | 303,751 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 35 | 37,773,399 | 55,252,455 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE: | | | |
| Interest received | | 16,944,263 | 18,745,035 |
| Interest paid | | (10,071,463) | (12,733,191) |

The accompanying notes form an integral part of these interim condensed consolidated financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

1 CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the “Bank”), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. Under the “Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd.” (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission (the “CBRC”, which was renamed to the National Administration of Financial Regulation in 2023), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No.B1048H244010001 from the Guangdong Bureau of CBIRC and its business license of Unified Social Credit code No.914401017083429628 from Guangzhou Market Supervision and Administration Bureau. The registered office is located at No.9 Yingri Road, Huangpu District, Guangzhou, China.

On 20 June 2017, the Bank was listed on The Stock Exchange of Hong Kong Limited.

The Bank and its subsidiaries (the “Group”) conducts its operating activities in China.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currencies), granting short, medium and long-term loans (including domestic and foreign currencies), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government bonds, trading government bonds, trading and issuing financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, settlement and sale of foreign exchange, foreign credit investigations, advisory and attestation service, securities investment fund and insurance assets trusteeship, financing services, securities investment fund sales business, e-bank services, securitization of credit assets, and other financial business activities approved by the CBIRC or other relevant regulators.

The interim condensed consolidated financial information was authorized for issue by the Board of Directors of the Bank on 31 August 2023.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

1 CORPORATE INFORMATION AND STRUCTURE (Continued)

The Bank and its subsidiaries are collectively referred to as the “Group”. As at 30 June 2023, the Bank had a total of 30 subsidiaries, including 25 county banks, a financial leasing company and 4 rural commercial banks across China. All subsidiaries are limited companies. The details of the Bank’s subsidiaries as at 30 June 2023 are as follows:

| Name | Place of registration | Registered capital (in thousands) | | Percentage of equity interests held by the Bank | | Percentage of voting rights held by the Bank | | Principal activities |
|---|----------------------------|--------------------------------------|---------------------|--|---------------------|---|---------------------|-------------------------|
| | | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | |
| Laiwu Zhujiang County Bank Company Limited | Jinan, Shandong Province | 60,000 | 60,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Jiangsu Xuyi Zhujiang County Bank Company Limited | Huai'an, Jiangsu Province | 100,000 | 100,000 | 75.50% | 75.50% | 75.50% | 75.50% | Banking |
| Jiangsu Qidong Zhujiang County Bank Company Limited | Qidong, Jiangsu Province | 100,000 | 100,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Changning Zhujiang County Bank Company Limited | Changning, Hunan Province | 50,000 | 50,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Laizhou Zhujiang County Bank Company Limited | Laizhou, Shandong Province | 80,000 | 80,000 | 51.00% | 51.00% | 56.00% | 56.00% | Banking |
| Haiyang Zhujiang County Bank Company Limited | Haiyang, Shandong Province | 70,000 | 70,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Huixian Zhujiang County Bank Company Limited (a) | Huixian, Henan Province | 100,000 | 100,000 | 35.00% | 35.00% | 53.57% | 53.57% | Banking |
| Pengshan Zhujiang County Bank Company Limited | Meishan, Sichuan Province | 100,000 | 100,000 | 62.50% | 62.50% | 70.50% | 70.50% | Banking |
| Xinjin Zhujiang County Bank Company Limited (a) | Chengdu, Sichuan Province | 100,000 | 100,000 | 35.00% | 35.00% | 54.00% | 54.00% | Banking |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

1 CORPORATE INFORMATION AND STRUCTURE (Continued)

| Name | Place of registration | Registered capital (in thousands) | | Percentage of equity interests held by the Bank | | Percentage of voting rights held by the Bank | | Principal activities |
|---|-------------------------------|--------------------------------------|---------------------|--|---------------------|---|---------------------|-------------------------|
| | | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | |
| Guanghan Zhujiang County Bank Company Limited (a) | Guanghan, Sichuan Province | 100,000 | 100,000 | 35.00% | 35.00% | 51.00% | 51.00% | Banking |
| Dalian Baoshuiqu Zhujiang County Bank Company Limited | Dalian, Liaoning Province | 350,000 | 350,000 | 81.43% | 81.43% | 87.44% | 87.44% | Banking |
| Jizhou Zhujiang County Bank Company Limited (a) | Jian, Jiangxi Province | 87,820 | 87,820 | 33.79% | 33.79% | 57.19% | 57.19% | Banking |
| Heshan Zhujiang County Bank Company Limited (a) | Heshan, Guangdong Province | 150,000 | 150,000 | 34.00% | 34.00% | 71.00% | 71.00% | Banking |
| Beijing Mentougou Zhujiang County Bank Company Limited | Mentougou District, Beijing | 565,000 | 565,000 | 91.33% | 91.33% | 91.33% | 91.33% | Banking |
| Xinyang Zhujiang County Bank Company Limited (a) | Xinyang, Henan Province | 414,200 | 414,200 | 39.60% | 39.60% | 54.13% | 54.13% | Banking |
| Yantai Fushan Zhujiang County Bank Company Limited | Yantai, Shandong Province | 100,000 | 100,000 | 93.00% | 93.00% | 100.00% | 100.00% | Banking |
| Anyang Zhujiang County Bank Company Limited (a) | Anyang, Henan Province | 60,000 | 60,000 | 35.00% | 35.00% | 55.50% | 55.50% | Banking |
| Qingdao Chengyang Zhujiang County Bank Company Limited (a) | Qingdao, Shandong Province | 100,000 | 100,000 | 35.00% | 35.00% | 61.00% | 51.00% | Banking |
| Suzhou Wuzhong Zhujiang County Bank Company Limited | Suzhou, Jiangsu Province | 150,000 | 150,000 | 51.00% | 51.00% | 51.00% | 51.00% | Banking |
| Sanshui Zhujiang County Bank Company Limited (a) | Foshan, Guangdong Province | 200,000 | 200,000 | 33.40% | 33.40% | 50.50% | 50.50% | Banking |
| Zhongshan Dongfeng Zhujiang County Bank Company Limited (a) | Zhongshan, Guangdong Province | 150,000 | 150,000 | 35.00% | 35.00% | 55.00% | 55.00% | Banking |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

1 CORPORATE INFORMATION AND STRUCTURE (Continued)

| Name | Place of registration | Registered capital (in thousands) | | Percentage of equity interests held by the Bank | | Percentage of voting rights held by the Bank | | Principal activities |
|--|---|--------------------------------------|---------------------|--|---------------------|---|---------------------|-------------------------|
| | | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | 30 June 2023 | 31 December 2022 | |
| Xingning Zhujiang County Bank Company Limited (a) | Xingning, Guangdong Province | 50,000 | 50,000 | 34.00% | 34.00% | 100.00% | 100.00% | Banking |
| Shenzhen Pingshan Zhujiang County Bank Company Limited (a) | Shenzhen, Guangdong Province | 300,000 | 300,000 | 35.00% | 35.00% | 83.00% | 83.00% | Banking |
| Dongguan Huangjiang Zhujiang County Bank Company Limited (a) | Dongguan, Guangdong Province | 150,000 | 150,000 | 35.00% | 35.00% | 100.00% | 100.00% | Banking |
| Zhengzhou Zhujiang County Bank Company Limited (a) | Zhengzhou Area of Henan Pilot Free Trade Zone | 200,000 | 200,000 | 35.00% | 35.00% | 90.00% | 90.00% | Banking |
| Hunan Zhuzhou Zhujiang Rural Commercial Bank Company Limited ("ZZRCB") | Zhuzhou, Hunan Province | 600,000 | 600,000 | 51.00% | 51.00% | 61.00% | 61.00% | Banking |
| Chaozhou Rural Commercial Bank Company Limited (the "CZRCB") | Chaozhou, Guangdong Province | 2,633,342 | 2,633,342 | 57.72% | 57.72% | 74.38% | 74.38% | Banking |
| Guangdong Nanxiong Rural Commercial Bank Company Limited | Nanxiong, Guangdong Province | 431,800 | 431,800 | 51.00% | 51.00% | 53.39% | 53.39% | Banking |
| Shaoguan Rural Commercial Bank Company Limited | Shaoguan, Guangdong Province | 1,373,718 | 1,373,718 | 50.10% | 50.10% | 50.10% | 50.10% | Banking |
| Zhujiang Financial Leasing Co., Ltd. | Guangzhou, Guangdong Province | 1,500,000 | 1,500,000 | 100.00% | 100.00% | 100.00% | 100.00% | Financial leasing |

- (a) The Bank holds less than majority equity interests in these subsidiaries. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank has controls over these subsidiaries.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICY INFORMATION

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting issued by the International Accounting Standard Board (“IASB”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information has been prepared on an accrual basis and under the historical cost convention except for certain financial instruments that have been measured at fair value. This condensed consolidated interim financial information is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

This condensed consolidated interim financial information of the Group should be read in conjunction with the 2022 annual consolidated financial statements.

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

2.1 Standards, amendments and interpretations effective in 2023

On 1 January 2023, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

| | |
|---|--|
| IFRS 17 | Insurance Contracts |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to IAS 8 | Definition of Accounting Estimates |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |

The adoption of the above amendments does not have a significant impact on the operation results, comprehensive income and financial position of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICY INFORMATION (Continued)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2023

| | | Effective for annual periods beginning on or after |
|----------------------------------|---|---|
| Amendments to IAS 1 | Classification of Liabilities as current or non-current | 1 January 2024 |
| Amendments to IAS 1 | Non-current liabilities with covenants | 1 January 2024 |
| Amendments to IFRS 16 | Lease liability in sale and leaseback | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 | Supplier finance arrangements | 1 January 2024 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

The Group is assessing the impact of adopting the above standards and amendments. Currently the adoption of the above is expected not to have a material impact on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this interim condensed consolidated financial information, the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

4 OPERATING SEGMENT INFORMATION

4.1 Operating segments

For management purposes, the Group is organized into four different operating segments as follows:

Corporate banking

The corporate banking segment covers financial products and services for corporate customers including deposits, loans, settlement, clearing and other trade-related services.

Retail banking

The retail banking segment covers financial products and services for individual customers including deposits, debit and credit cards, personal and collateral loans and personal wealth management services.

Financial market business

The financial market business segment covers proprietary tradings and agent services including money market placements, investments, repurchases and foreign exchange transactions.

Others

This segment covers businesses other than corporate banking, retail banking and financial market business, of which the assets, liabilities, income and expenses cannot be directly attributable or allocated to certain segment on a reasonable basis.

Inter-segment transfer pricing is made in accordance with the sources, funding periods and interest rates announced by the People's Bank of China (the "PBOC") and market rates, such as the interbank market rates and so forth. The allocation of expenses between segments above is based on the benefits received.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

4 OPERATING SEGMENT INFORMATION (Continued)

4.1 Operating segments (Continued)

| | Corporate banking | Retail banking | Financial market business | Others | Total |
|--|----------------------|-------------------|---------------------------------|-----------------|------------------|
| Six months ended 30 June 2023 (Unaudited) | | | | | |
| Interest income | 11,257,600 | 4,483,194 | 5,070,749 | – | 20,811,543 |
| Interest expense | (3,752,279) | (5,566,723) | (2,932,004) | – | (12,251,006) |
| Inter-segments interest (expense)/ income | (3,009,664) | 4,408,607 | (1,398,943) | – | – |
| Net interest income | 4,495,657 | 3,325,078 | 739,802 | – | 8,560,537 |
| Fee and commission income | 380,412 | 225,003 | 80,275 | – | 685,690 |
| Fee and commission expense | (69,783) | (79,594) | (15,733) | – | (165,110) |
| Net fee and commission income | 310,629 | 145,409 | 64,542 | – | 520,580 |
| Net trading gains | – | – | 63,980 | – | 63,980 |
| Net gains on disposal of financial assets at fair value through other comprehensive income | – | – | 143,836 | – | 143,836 |
| Net gains on disposal of financial assets measured at amortized cost | – | – | 7,923 | – | 7,923 |
| Other income, gains or losses | 9,607 | 20,321 | 2,259 | 72,357 | 104,544 |
| Operating income | 4,815,893 | 3,490,808 | 1,022,342 | 72,357 | 9,401,400 |
| Operating expenses | (1,006,983) | (1,743,907) | (222,308) | (89,453) | (3,062,651) |
| Credit impairment losses | (3,073,697) | (835,838) | 28,238 | (53,443) | (3,934,740) |
| Profit before tax | 735,213 | 911,063 | 828,272 | (70,539) | 2,404,009 |
| Income tax expense | | | | | (15,278) |
| Net profit for the period | | | | | 2,388,731 |
| Other segment information | | | | | |
| Depreciation and amortization | 104,570 | 189,992 | 20,695 | 6,712 | 321,969 |
| Capital expenditure | 58,334 | 105,836 | 10,518 | 3,853 | 178,541 |
| As at 30 June 2023 (Unaudited) | | | | | |
| Segment assets | 425,305,746 | 169,942,219 | 648,950,593 | 8,821,551 | 1,253,020,109 |
| Segment liabilities | (377,214,246) | (569,064,128) | (222,207,422) | (6,067,212) | (1,174,553,008) |
| Other segment information | | | | | |
| Credit commitments | 161,190,067 | 47,947,134 | – | – | 209,137,201 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

4 OPERATING SEGMENT INFORMATION (Continued)

4.1 Operating segments (Continued)

| | Corporate banking | Retail banking | Financial market business | Others | Total |
|--|----------------------|-------------------|---------------------------------|----------------|-------------------|
| Six months ended 30 June 2022 | | | | | |
| (Unaudited) | | | | | |
| Interest income | 11,454,908 | 5,167,039 | 5,135,722 | – | 21,757,669 |
| Interest expense | (4,040,516) | (5,082,976) | (3,532,966) | – | (12,656,458) |
| Inter-segments interest (expense)/ income | (2,039,348) | 3,337,821 | (1,298,473) | – | – |
| Net interest income | 5,375,044 | 3,421,884 | 304,283 | – | 9,101,211 |
| Fee and commission income | 340,983 | 235,745 | 107,841 | – | 684,569 |
| Fee and commission expense | (61,496) | (52,056) | (6,889) | – | (120,441) |
| Net fee and commission income | 279,487 | 183,689 | 100,952 | – | 564,128 |
| Net trading gains | – | – | 972,084 | – | 972,084 |
| Net gains on disposal of financial assets at fair value through other comprehensive income | – | – | 94,318 | – | 94,318 |
| Net gains on disposal of financial assets measured at amortized cost | – | – | 3,218 | – | 3,218 |
| Other income, gains or losses | 97,933 | 153,415 | 17,391 | 206,859 | 475,598 |
| Operating income | 5,752,464 | 3,758,988 | 1,492,246 | 206,859 | 11,210,557 |
| Operating expenses | (1,070,024) | (1,852,664) | (222,717) | (80,095) | (3,225,500) |
| Credit impairment losses | (3,715,646) | (641,339) | (358,806) | (63,435) | (4,779,226) |
| Impairment losses on other assets | (25,385) | (4,288) | (2,499) | (1,259) | (33,431) |
| Profit before tax | 941,409 | 1,260,697 | 908,224 | 62,070 | 3,172,400 |
| Income tax expense | | | | | (207,677) |
| Net profit for the period | | | | | 2,964,723 |
| Other segment information | | | | | |
| Depreciation and amortization | 116,101 | 205,604 | 23,212 | 7,361 | 352,278 |
| Capital expenditure | 110,573 | 196,664 | 22,397 | 7,363 | 336,997 |
| As at 31 December 2022 | | | | | |
| Segment assets | 416,687,961 | 171,806,554 | 625,878,049 | 8,657,252 | 1,223,029,816 |
| Segment liabilities | (400,846,845) | (542,128,185) | (201,765,197) | (465,122) | (1,145,205,349) |
| Other segment information | | | | | |
| Credit commitments | 200,496,618 | 34,870,599 | – | – | 235,367,217 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

4 OPERATING SEGMENT INFORMATION (Continued)

4.2 Geographical information

The Bank mainly operates in Guangdong Province, China. The major customers and non-current assets are located in Guangdong Province, China.

5 NET INTEREST INCOME

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2023 | 2022 |
| Interest income | | |
| Loans and advances to customers | 15,028,370 | 16,391,406 |
| Financial investments | | |
| – Financial assets at amortized cost | 3,209,830 | 2,915,135 |
| – Financial assets at fair value through other comprehensive income | 993,244 | 901,017 |
| Financial assets held under resale agreements | 358,890 | 433,868 |
| Due from central bank | 426,960 | 462,587 |
| Deposits with banks and other financial institutions | 794,249 | 653,656 |
| Subtotal | 20,811,543 | 21,757,669 |
| Interest expense | | |
| Customer deposits | (9,594,966) | (9,403,946) |
| Debt securities issued | (1,583,868) | (1,886,729) |
| Deposits from banks and other financial institutions | (339,279) | (553,547) |
| Due to central bank | (260,531) | (375,727) |
| Borrowings from other banks (a) | (195,495) | (249,039) |
| Financial assets sold under repurchase agreements | (254,647) | (163,903) |
| Lease liabilities | (22,220) | (23,567) |
| Subtotal | (12,251,006) | (12,656,458) |
| Net interest income | 8,560,537 | 9,101,211 |
| Including | | |
| Interest income accrued on impaired financial assets | 108,362 | 128,258 |

(a) The interest expenses for the long-term and short-term borrowings from other banks were incurred by Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

6 NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2023 | 2022 |
| Fee and commission income: | | |
| Agency and custodian service fees | 195,700 | 145,393 |
| Syndicate loan fees | 152,595 | 117,674 |
| Bank card fees | 100,360 | 98,086 |
| Wealth management product related fees | 79,862 | 107,801 |
| Settlement and electronic channel business fees | 72,410 | 86,708 |
| Guarantee and commitment service fees | 37,039 | 22,220 |
| Bond lending arrangement fees | 29,984 | 33,099 |
| Financial lease business fees | – | 47,928 |
| Others | 17,740 | 25,660 |
| Subtotal | 685,690 | 684,569 |
| Fee and commission expense: | | |
| Settlement and electronic channel business fees | (26,339) | (10,944) |
| Bank card fees | (29,222) | (26,104) |
| Others | (109,549) | (83,393) |
| Subtotal | (165,110) | (120,441) |
| Net fee and commission income: | 520,580 | 564,128 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

7 NET TRADING GAINS

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2023 | 2022 |
| Equity instruments | | |
| Unrealised losses from equity instruments | (475,512) | (35,717) |
| Subtotal | (475,512) | (35,717) |
| Debt securities | | |
| Unrealised losses from debt securities | (2,410) | (81,854) |
| Realised gains from debt securities | 59,501 | 614,692 |
| Subtotal | 57,091 | 532,838 |
| Funds | | |
| Unrealised gains/(losses) from funds | 42,680 | (20,448) |
| Realised gains from funds | 437,299 | 495,395 |
| Subtotal | 479,979 | 474,947 |
| Others | 2,422 | 16 |
| Total | 63,980 | 972,084 |

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

8 OTHER INCOME, GAINS OR LOSSES

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2023 | 2022 |
| Net foreign exchange gains | 33,567 | 274,997 |
| Government grants and subsidies | 38,525 | 108,658 |
| Net gains on disposal of property and equipment | 8,435 | 56,028 |
| Net gains /(losses) on disposal of foreclosed assets | 1,209 | (369) |
| Others | 22,808 | 36,284 |
| Total | 104,544 | 475,598 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

9 OPERATING EXPENSES

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|------------------|
| | 2023 | 2022 |
| Staff costs (a) | 2,032,517 | 2,098,614 |
| Depreciation and amortization | 321,969 | 352,278 |
| Tax and surcharges | 114,779 | 132,490 |
| Currency delivery fees | 74,607 | 72,177 |
| Advertising and promotional expenses | 67,799 | 88,052 |
| Labor dispatch fee | 29,527 | 31,824 |
| Professional service fees | 6,396 | 3,118 |
| Others | 415,057 | 446,947 |
| Total | 3,062,651 | 3,225,500 |

(a) Staff costs

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2023 | 2022 |
| Salaries, bonuses and allowances (include early retirement) | 1,346,200 | 1,442,486 |
| Social insurance, employee benefits and others | 686,317 | 656,128 |
| Total | 2,032,517 | 2,098,614 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

10 CREDIT IMPAIRMENT LOSSES

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2023 | 2022 |
| Loans and advances to customers | | |
| – Loans and advances to customers at amortized cost | 3,825,805 | 4,304,751 |
| – Impairment gains on assets (a) | (46,297) | (49,861) |
| – Loans and advances to customers at fair value through other comprehensive income | (34,272) | (1,330) |
| Financial investments | 73,792 | 176,574 |
| Off-balance sheet activities | (87,124) | 201,606 |
| Placements with banks and other financial institutions | 63,321 | 46,218 |
| Deposits with banks and other financial institutions | (1,868) | (851) |
| Financial assets held under resale agreements | 4,897 | – |
| Others | 136,486 | 102,119 |
| Total | 3,934,740 | 4,779,226 |

- (a) The Group recognized the excess of the collection amount of the purchased loans over the fair value on the purchase date as asset impairment gains.

11 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---------------------|--------------------------|----------------|
| | 2023 | 2022 |
| Current income tax | 656,971 | 2,269,925 |
| Deferred income tax | (641,693) | (2,062,248) |
| Total | 15,278 | 207,677 |

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

11 INCOME TAX EXPENSE (Continued)

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

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2023 | 2022 |
| Profit before income tax | 2,404,009 | 3,172,400 |
| Tax calculated at a tax rate of 25% | 601,002 | 793,100 |
| Tax effect arising from income not subject to tax (a) | (649,628) | (639,457) |
| Tax effect of expenses that are not deductible for tax purposes (b) | 42,616 | 44,151 |
| Adjustments on income tax for prior years which affect current profit or loss | 21,288 | 9,883 |
| Income tax expense | 15,278 | 207,677 |

- (a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (b) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

12 DIVIDENDS

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2023 | 2022 |
| Dividends on ordinary shares declared and paid (a) | 1,202,382 | 1,202,382 |
| Dividend per share (in RMB yuan) (a) | 0.105 | 0.105 |
| Dividends on preference shares declared (b) | 645,402 | 620,373 |

(a) Distribution of final dividend for 2022

A cash dividend of RMB0.105 per ordinary share related to 2022, amounting to RMB1,202,382 thousand in total was approved in the annual general meeting held on 20 June 2023.

The above dividend was recognized as distribution but not paid during the six months ended 30 June 2023.

(b) Distribution of preference dividend

A cash dividend for preference share, amounting to RMB645,402 thousand in total was approved by the board of directors on 25 April 2023.

The above dividend was recognized as distribution and paid during the six months ended 30 June 2023.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

13 EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|--------------------------|------------|
| | 2023 | 2022 |
| Profit for the period attributable to ordinary shareholders of the Bank | 2,103,176 | 2,526,576 |
| Less: distribution for the period attributable to preference shareholders of the Bank | (645,402) | (620,373) |
| Net profit for the period attributable to ordinary shareholders of the Bank | 1,457,774 | 1,906,203 |
| Divided: Weighted average number of ordinary shares in issue (in thousands) | 11,451,269 | 11,451,269 |
| Basic and diluted earnings per share (in RMB yuan) | 0.13 | 0.17 |

During the six months ended 30 June 2023, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The conversion feature of preference shares is considered to fall within contingently issuable ordinary shares. The triggering events of conversion did not occur in the period ended 30 June 2023, and therefore the conversion feature of preference shares has no dilutive effect on earnings per share calculation.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

14 CASH AND DEPOSITS WITH CENTRAL BANK

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Cash on hand | 2,226,993 | 3,319,321 |
| Mandatory reserves with central bank (a) | 49,150,657 | 50,461,796 |
| Surplus reserves with central bank (b) | 26,850,902 | 33,313,335 |
| Fiscal deposits with central bank | 181,931 | 161,683 |
| Total | 78,410,483 | 87,256,135 |

(a) The Group is required to place mandatory reserve deposits with the PBOC, and these mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 30 June 2023, the ratio of the Bank for RMB deposits statutory reserve was 5.50% (31 December 2022: 5.75%), and different ratios are applicable to the subsidiaries based on their respective locations. The ratio for foreign currency deposits was 6% (31 December 2022: 6%). The reserve for RMB is interest bearing based on the rules of the PBOC.

(b) Surplus reserves are mainly for settlement purpose.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Deposits with banks operating in Mainland China | 8,807,553 | 5,770,750 |
| Deposits with banks operating outside Mainland China | 1,185,674 | 880,322 |
| Deposits with other financial institutions operating in Mainland China | 743,790 | 1,113,874 |
| Interest receivable | 29,024 | 23,197 |
| Subtotal | 10,766,041 | 7,788,143 |
| Less: | | |
| ECL allowance (a) | (267) | (23,505) |
| Total | 10,765,774 | 7,764,638 |

- (a) During the period ended 30 June 2023, the deposits with banks and other financial institutions included in Stage III were written off by the Group. As at 30 June 2023, all the deposits with banks and other financial institutions were in Stage I.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Placements with banks operating in Mainland China | 36,129 | 69,646 |
| Placements with other financial institutions operating in Mainland China | 55,703,720 | 42,713,170 |
| Placements with banks operating outside Mainland China | 704,645 | 1,097,980 |
| Interest receivable | 72,569 | 50,954 |
| Subtotal | 56,517,063 | 43,931,750 |
| Less: ECL allowance | (452,651) | (462,780) |
| Total | 56,064,412 | 43,468,970 |

17 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Securities purchased under resale agreements | 12,973,042 | 57,422,440 |
| Interest receivable | 4,852 | 51,893 |
| Subtotal | 12,977,894 | 57,474,333 |
| Less: ECL allowance | (4,897) | - |
| Total | 12,972,997 | 57,474,333 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS

18.1 Loans and advances to customers:

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Loans and advances at amortized cost | | |
| Corporate loans and advances | | |
| Corporate loans | 449,701,723 | 440,584,663 |
| Discounted bills | 82,285 | 135,146 |
| | 449,784,008 | 440,719,809 |
| Personal loans and advances | | |
| Personal residential mortgages | 72,572,171 | 73,570,722 |
| Personal business loans | 74,503,916 | 71,236,817 |
| Personal consumption loans | 12,469,977 | 10,999,736 |
| Credit cards overdraft | 10,959,997 | 10,151,434 |
| | 170,506,061 | 165,958,709 |
| Gross amount of loans and advances at amortized cost | 620,290,069 | 606,678,518 |
| Less: ECL allowance of loans and advances at amortized cost | (25,322,990) | (22,854,050) |
| Net amount of loans and advances at amortized cost | 594,967,079 | 583,824,468 |
| Loans and advances at fair value through other comprehensive income | | |
| Corporate loans and advances | | |
| Discounted bills | 92,961,145 | 85,293,398 |
| Net amount of loans and advance to customers | 687,928,224 | 669,117,866 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.2 Loans listed by assessment method for allowance

| | As at 30 June 2023 | | | | |
|---|--------------------|-------------|--------------|---|--------------|
| | Stage I | Stage II | Stage III | Purchased or originated credit-impaired | Total |
| Gross amount of loans and advances to customers at amortized cost | | | | | |
| Corporate loans | 356,130,330 | 53,531,825 | 40,101,922 | 19,931 | 449,784,008 |
| Personal loans | 164,437,061 | 2,692,905 | 3,317,523 | 58,572 | 170,506,061 |
| | 520,567,391 | 56,224,730 | 43,419,445 | 78,503 | 620,290,069 |
| Less: ECL allowance | | | | | |
| – Corporate loans | (3,181,817) | (3,949,031) | (13,853,347) | (1,075) | (20,985,270) |
| – Personal loans | (1,392,461) | (563,435) | (2,381,368) | (456) | (4,337,720) |
| | (4,574,278) | (4,512,466) | (16,234,715) | (1,531) | (25,322,990) |
| Net amount of loans and advances to customers at amortized cost | 515,993,113 | 51,712,264 | 27,184,730 | 76,972 | 594,967,079 |
| Gross amount of loans and advances at fair value through other comprehensive income | 92,961,145 | – | – | – | 92,961,145 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.2 Loans listed by assessment method for allowance (Continued)

| | As at 31 December 2022 | | | | |
|---|------------------------|-------------|--------------|---|--------------|
| | Stage I | Stage II | Stage III | Purchased or originated credit- impaired | Total |
| Gross amount of loans and advances to customers at amortized cost | | | | | |
| Corporate loans | 350,516,713 | 56,777,954 | 33,397,720 | 27,422 | 440,719,809 |
| Personal loans | 160,772,179 | 2,463,720 | 2,660,938 | 61,872 | 165,958,709 |
| | 511,288,892 | 59,241,674 | 36,058,658 | 89,294 | 606,678,518 |
| Less: ECL allowance | | | | | |
| – Corporate loans | (3,259,927) | (4,160,147) | (11,612,443) | (1,131) | (19,033,648) |
| – Personal loans | (1,445,468) | (536,168) | (1,838,282) | (484) | (3,820,402) |
| | (4,705,395) | (4,696,315) | (13,450,725) | (1,615) | (22,854,050) |
| Net amount of loans and advances to customers | 506,583,497 | 54,545,359 | 22,607,933 | 87,679 | 583,824,468 |
| Gross amount of loans and advances at fair value through other comprehensive income | 85,293,398 | – | – | – | 85,293,398 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance

Movements in ECL allowance on corporate loans and advances to customers at amortized cost

| | Six months ended 30 June 2023 | | | | |
|-------------------------------------|-------------------------------|-----------|-------------|-----------------|-------------|
| | Stage I | Stage II | Stage III | Purchased or | Total |
| | 12-month | Lifetime | Lifetime | originated | |
| Corporate loans and advances | ECL | ECL | ECL | credit-impaired | |
| ECL allowance as at 1 January 2023 | 3,259,927 | 4,160,147 | 11,612,443 | 1,131 | 19,033,648 |
| Originated or purchased | 793,041 | – | – | – | 793,041 |
| Derecognition or settlements | (479,282) | (49,329) | (47,733) | – | (576,344) |
| Remeasurement | | | | | |
| – Parameter changes | (267,641) | 71,844 | 1,042,272 | (56) | 846,419 |
| – Stage transfer | (152,344) | 638,270 | 1,924,720 | – | 2,410,646 |
| Write-offs or disposals | – | – | (1,421,020) | – | (1,421,020) |
| Transfers | 28,116 | (871,901) | 843,785 | – | – |
| Transfer from Stage I to Stage II | (136,072) | 136,072 | – | – | – |
| Transfer from Stage I to Stage III | (12,691) | – | 12,691 | – | – |
| Transfer from Stage II to Stage I | 176,879 | (176,879) | – | – | – |
| Transfer from Stage II to Stage III | – | (831,094) | 831,094 | – | – |
| Transfer from Stage III to Stage II | – | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – | – |
| Others | – | – | (101,120) | – | (101,120) |
| ECL allowance as at 30 June 2023 | 3,181,817 | 3,949,031 | 13,853,347 | 1,075 | 20,985,270 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance (Continued)

Movements in ECL allowance on corporate loans and advances to customers at amortized cost (Continued)

| | Year ended 31 December 2022 | | | | Total |
|--------------------------------------|-----------------------------|-----------------------------|------------------------------|---|-------------|
| | Stage I 12-month ECL | Stage II Lifetime ECL | Stage III Lifetime ECL | Purchased or originated credit- impaired | |
| Corporate loans and advances | | | | | |
| ECL allowance as at 1 January 2022 | 2,845,586 | 3,644,029 | 10,057,799 | 914 | 16,548,328 |
| Originated or purchased | 1,652,874 | – | – | – | 1,652,874 |
| Derecognition or settlements | (980,478) | (321,837) | (140,134) | – | (1,442,449) |
| Remeasurement | | | | | |
| – Parameter changes | 405,264 | 114,098 | 3,425,090 | 217 | 3,944,669 |
| – Stage transfer | (89) | 1,350,110 | 3,585,683 | – | 4,935,704 |
| Write-offs or disposals | – | – | (6,352,287) | – | (6,352,287) |
| Transfers | (663,230) | (626,253) | 1,289,483 | – | – |
| Transfer from Stage I to Stage II | (495,053) | 495,053 | – | – | – |
| Transfer from Stage I to Stage III | (168,281) | – | 168,281 | – | – |
| Transfer from Stage II to Stage I | 104 | (104) | – | – | – |
| Transfer from Stage II to Stage III | – | (1,121,202) | 1,121,202 | – | – |
| Transfer from Stage III to Stage II | – | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – | – |
| Others | – | – | (253,191) | – | (253,191) |
| ECL allowance as at 31 December 2022 | 3,259,927 | 4,160,147 | 11,612,443 | 1,131 | 19,033,648 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance (Continued)

Movements in ECL allowance on corporate loans and advances to customers at amortized cost
(Continued)

| | Six months ended 30 June 2023 | | | | Total |
|-------------------------------------|-------------------------------|-----------------------------|------------------------------|---|-----------|
| | Stage I 12-month ECL | Stage II Lifetime ECL | Stage III Lifetime ECL | Purchased or originated credit- impaired | |
| Personal loans and advances | | | | | |
| ECL allowance as at 1 January 2023 | 1,445,468 | 536,168 | 1,838,282 | 484 | 3,820,402 |
| Originated or purchased | 348,926 | – | – | – | 348,926 |
| Derecognition or settlements | (274,350) | (122,316) | (131,219) | – | (527,885) |
| Remeasurement | | | | | |
| – Parameter changes | (50,834) | 8,714 | 55,874 | (28) | 13,726 |
| – Stage transfer | (78,694) | 286,412 | 657,717 | – | 865,435 |
| Write-offs or disposals | – | – | (175,642) | – | (175,642) |
| Transfers | 1,945 | (145,543) | 143,598 | – | – |
| Transfer from Stage I to Stage II | (51,356) | 51,356 | – | – | – |
| Transfer from Stage I to Stage III | (40,685) | – | 40,685 | – | – |
| Transfer from Stage II to Stage I | 93,986 | (93,986) | – | – | – |
| Transfer from Stage II to Stage III | – | (178,675) | 178,675 | – | – |
| Transfer from Stage III to Stage II | – | 75,762 | (75,762) | – | – |
| Transfer from Stage III to Stage I | – | – | – | – | – |
| Others | – | – | (7,242) | – | (7,242) |
| ECL allowance as at 30 June 2023 | 1,392,461 | 563,435 | 2,381,368 | 456 | 4,337,720 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance (Continued)

Movements in ECL allowance on corporate loans and advances to customers at amortized cost
(Continued)

| | Year ended 31 December 2022 | | | | Total |
|---|-----------------------------|-----------------------------|------------------------------|---|-----------|
| | Stage I 12-month ECL | Stage II Lifetime ECL | Stage III Lifetime ECL | Purchased or originated credit- impaired | |
| Personal loans and advances | | | | | |
| ECL allowance as at 1 January 2022 | 1,702,298 | 613,434 | 1,244,546 | 513 | 3,560,791 |
| Originated or purchased | 700,272 | – | – | – | 700,272 |
| Derecognition or settlements | (587,108) | (201,646) | (210,814) | – | (999,568) |
| Remeasurement | | | | | |
| – Parameter changes | (254,094) | (56,154) | 133,759 | (29) | (176,518) |
| – Stage transfer | (132,004) | 399,019 | 1,037,524 | – | 1,304,539 |
| Write-offs or disposals | – | – | (562,252) | – | (562,252) |
| Transfers | 16,104 | (218,485) | 202,381 | – | – |
| Transfer from Stage I to Stage II | (45,131) | 45,131 | – | – | – |
| Transfer from Stage I to Stage III | (80,417) | – | 80,417 | – | – |
| Transfer from Stage II to Stage I | 112,851 | (112,851) | – | – | – |
| Transfer from Stage II to Stage III | – | (178,189) | 178,189 | – | – |
| Transfer from Stage III to Stage II | – | 27,424 | (27,424) | – | – |
| Transfer from Stage III to Stage I | 28,801 | – | (28,801) | – | – |
| Others | – | – | (6,862) | – | (6,862) |
| ECL allowance as at 31 December 2022 | 1,445,468 | 536,168 | 1,838,282 | 484 | 3,820,402 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance (Continued)

Movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income

| | Six months ended 30 June 2023 | | | |
|-------------------------------------|-------------------------------|-----------------|-----------------|----------|
| | Stage I | Stage II | Stage III | Total |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| Discounted bills | | | | |
| ECL allowance as at 1 January 2023 | 52,729 | – | – | 52,729 |
| Originated or purchased | 12,195 | – | – | 12,195 |
| Derecognition or settlements | (25,771) | – | – | (25,771) |
| Remeasurement | | | | |
| – Parameter changes | (20,696) | – | – | (20,696) |
| Write-offs or disposals | – | – | – | – |
| Transfers | – | – | – | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | – | – | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 30 June 2023 | 18,457 | – | – | 18,457 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

18 LOANS AND ADVANCES TO CUSTOMERS (Continued)

18.3 Movements in ECL allowance (Continued)

Movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income (Continued)

| | Year ended 31 December 2022 | | | |
|--------------------------------------|-----------------------------|-----------------|-----------------|----------|
| | Stage I | Stage II | Stage III | Total |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| Discounted bills | | | | |
| ECL allowance as at 1 January 2022 | 19,601 | – | – | 19,601 |
| Originated or purchased | 52,729 | – | – | 52,729 |
| Derecognition or settlements | (19,601) | – | – | (19,601) |
| Remeasurement | | | | |
| – Parameter changes | – | – | – | – |
| Write-offs or disposals | – | – | – | – |
| Transfers | – | – | – | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | – | – | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 31 December 2022 | 52,729 | – | – | 52,729 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Government bonds | 1,457,801 | 7,069,111 |
| Bonds issued by policy banks | 5,751,186 | 6,257,656 |
| Bonds issued by financial institutions | 3,771,699 | 1,038,337 |
| Certificates of deposit issued by other financial institutions | 8,208,105 | 1,548,552 |
| Assets backed securities issued by other banks and non-bank financial institutions | 38,786 | 38,874 |
| Corporate bonds | 5,276,397 | 4,796,312 |
| Trust and asset management plans | 5,101,150 | 5,263,008 |
| Fund and other investments | 39,488,621 | 55,647,343 |
| Interest receivable | 392,781 | 315,335 |
| Total | 69,486,526 | 81,974,528 |

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Government bonds | 18,893,739 | 23,900,300 |
| Bonds issued by policy banks | 57,177,798 | 35,726,694 |
| Bonds issued by financial institutions | 18,370,855 | 1,186,940 |
| Assets backed securities issued by other banks and non-bank financial institutions | 22,932 | 81,257 |
| Corporate bonds | 2,606,093 | 2,013,825 |
| Certificates of deposit issued by other financial institutions | 2,147,744 | 1,791,148 |
| Trust and asset management plans (a) | 4,653,332 | 5,010,522 |
| Interest receivable | 1,409,426 | 1,234,569 |
| Total | 105,281,919 | 70,945,255 |

(a) Trust and asset management plans as at 30 June 2023 were invested in credit assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Movements in ECL allowance are summarised as follows:

| | Six months ended 30 June 2023 | | | |
|-------------------------------------|-------------------------------|-----------------|-----------------|-----------|
| | Stage I | Stage II | Stage III | Total |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| ECL allowance as at 1 January 2023 | 2,444 | 72,607 | 2,158,479 | 2,233,530 |
| Originated or purchased | 3,029 | – | – | 3,029 |
| Derecognition or settlements | (956) | – | – | (956) |
| Remeasurement | | | | |
| – Parameter changes | (159) | 49,593 | 28 | 49,462 |
| – Stage transfer | – | – | – | – |
| Write-offs or disposals | – | – | – | – |
| Transfers: | – | – | – | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | – | – | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 30 June 2023 | 4,358 | 122,200 | 2,158,507 | 2,285,065 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Movements in ECL allowance are summarised as follows: (Continued)

| | Year ended 31 December 2022 | | | |
|--------------------------------------|-----------------------------|-----------------|-----------------|-----------|
| | Stage I | Stage II | Stage III | Total |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| ECL allowance as at 1 January 2022 | 39,706 | 233,485 | 2,047,836 | 2,321,027 |
| Originated or purchased | 1,803 | – | – | 1,803 |
| Derecognition or settlements | (24,974) | (217) | (70,947) | (96,138) |
| Remeasurement | | | | |
| – Parameter changes | (14,091) | (160,661) | 295,279 | 120,527 |
| – Stage transfer | – | – | – | – |
| Write-offs or disposals | – | – | (113,689) | (113,689) |
| Transfers: | – | – | – | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | – | – | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 31 December 2022 | 2,444 | 72,607 | 2,158,479 | 2,233,530 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

21 FINANCIAL ASSETS AT AMORTIZED COST

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Government bonds | 112,496,203 | 101,447,523 |
| Bonds issued by policy banks | 88,603,446 | 71,015,625 |
| Bonds issued by financial institutions | 6,768,031 | 6,288,235 |
| Certificates of deposit issued by other financial institutions | 2,631,365 | 3,563,947 |
| Assets backed securities issued by other banks and non-bank financial institutions | 873,770 | 2,667,965 |
| Corporate bonds | 1,653,514 | 1,571,587 |
| Trust and asset management plans (a) | 8,842,849 | 8,853,590 |
| Interest receivable | 3,339,711 | 2,971,826 |
| Subtotal | 225,208,889 | 198,380,298 |
| Less: | | |
| ECL allowance | (1,885,232) | (1,862,975) |
| Total | 223,323,657 | 196,517,323 |

(a) Trust and asset management plans as at 30 June 2023 were invested in credit assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

21 FINANCIAL ASSETS AT AMORTIZED COST (Continued)

Movements in ECL allowance are summarised as follows:

| | Six months ended 30 June 2023 | | | |
|-------------------------------------|-------------------------------|-----------------|-----------------|-----------|
| | Stage I | Stage II | Stage III | Total |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| ECL allowance as at 1 January 2023 | 11,106 | 10,040 | 1,841,829 | 1,862,975 |
| Originated or purchased | 1,672 | – | – | 1,672 |
| Derecognition or settlements | (1,785) | (346) | – | (2,131) |
| Remeasurement | | | | |
| – Parameter changes | (267) | (671) | 23,654 | 22,716 |
| – Stage transfer | – | – | – | – |
| Write-offs or disposals | – | – | – | – |
| Transfers: | – | – | – | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | – | – | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 30 June 2023 | 10,726 | 9,023 | 1,865,483 | 1,885,232 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

21 FINANCIAL ASSETS AT AMORTIZED COST (Continued)

Movements in ECL allowance are summarised as follows (continued):

| | Year ended 31 December 2022 | | | Total |
|--------------------------------------|-----------------------------|-----------------|-----------------|-----------|
| | Stage I | Stage II | Stage III | |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | |
| ECL allowance as at 1 January 2022 | 19,638 | 177,881 | 1,374,825 | 1,572,344 |
| Originated or purchased | 5,569 | – | – | 5,569 |
| Derecognition or settlements | (9,130) | (3,573) | (8,114) | (20,817) |
| Remeasurement | | | | |
| – Parameter changes | (4,971) | (32,155) | 454,258 | 417,132 |
| – Stage transfer | – | – | 489,496 | 489,496 |
| Write-offs or disposals | – | – | (600,749) | (600,749) |
| Transfers: | – | (132,113) | 132,113 | – |
| Transfer from Stage I to Stage II | – | – | – | – |
| Transfer from Stage I to Stage III | – | – | – | – |
| Transfer from Stage II to Stage I | – | – | – | – |
| Transfer from Stage II to Stage III | – | (132,113) | 132,113 | – |
| Transfer from Stage III to Stage II | – | – | – | – |
| Transfer from Stage III to Stage I | – | – | – | – |
| ECL allowance as at 31 December 2022 | 11,106 | 10,040 | 1,841,829 | 1,862,975 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

22 PROPERTY AND EQUIPMENT

| | Properties and buildings | Construction in progress | Leasehold improvements | Office equipments | Motor vehicles | Total |
|--|--------------------------|--------------------------|------------------------|-------------------|----------------|-----------|
| Cost | | | | | | |
| As at 1 January 2023 | 6,049,940 | 631,486 | 610,999 | 1,418,519 | 38,149 | 8,749,093 |
| Additions | 2,001 | 51,843 | 2,555 | 14,583 | - | 70,982 |
| Transfer from construction in progress | 9,083 | (31,876) | - | 22,793 | - | - |
| Disposals | (4,043) | (659) | - | (53,944) | (1,747) | (60,393) |
| Other transfer-out | (18,906) | (20,953) | - | - | - | (39,859) |
| As at 30 June 2023 | 6,038,075 | 629,841 | 613,554 | 1,401,951 | 36,402 | 8,719,823 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2023 | 4,116,138 | - | 569,900 | 1,103,650 | 24,859 | 5,814,547 |
| Charge for the period | 63,482 | - | 7,856 | 66,508 | 1,637 | 139,483 |
| Disposals | (3,843) | - | - | (50,809) | (1,671) | (56,323) |
| Other transfer-out | (10,263) | - | - | - | - | (10,263) |
| As at 30 June 2023 | 4,165,514 | - | 577,756 | 1,119,349 | 24,825 | 5,887,444 |
| Net book value | | | | | | |
| As at 30 June 2023 | 1,872,561 | 629,841 | 35,798 | 282,602 | 11,577 | 2,832,379 |
| As at 1 January 2023 | 1,933,802 | 631,486 | 41,099 | 314,869 | 13,290 | 2,934,546 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

22 PROPERTY AND EQUIPMENT (Continued)

| | Properties and buildings | Construction in progress | Leasehold improvements | Office equipments | Motor vehicles | Total |
|---|-----------------------------|-----------------------------|---------------------------|----------------------|----------------|-----------|
| Cost | | | | | | |
| At 1 January 2022 | 6,070,646 | 295,908 | 609,905 | 1,367,197 | 41,634 | 8,385,290 |
| Additions | 6,269 | 455,038 | 1,591 | 83,897 | 3,867 | 550,662 |
| Transfer from construction in progress | 17,270 | (119,460) | 5 | 42,402 | 253 | (59,530) |
| Transfer from investment properties | - | - | - | - | - | - |
| Disposals | (43,337) | - | (502) | (74,977) | (7,605) | (126,421) |
| Other transfer-out | (908) | - | - | - | - | (908) |
| At 31 December 2022 | 6,049,940 | 631,486 | 610,999 | 1,418,519 | 38,149 | 8,749,093 |
| Accumulated depreciation | | | | | | |
| At 1 January 2022 | 4,016,478 | - | 553,165 | 1,035,272 | 29,476 | 5,634,391 |
| Charge for the year | 139,412 | - | 17,237 | 140,548 | 2,764 | 299,961 |
| Transfer from investment properties | - | - | - | - | - | - |
| Disposals | (39,639) | - | (502) | (72,170) | (7,381) | (119,692) |
| Other transfer-out | (113) | - | - | - | - | (113) |
| At 31 December 2022 | 4,116,138 | - | 569,900 | 1,103,650 | 24,859 | 5,814,547 |
| Net book value | | | | | | |
| At 31 December 2022 | 1,933,802 | 631,486 | 41,099 | 314,869 | 13,290 | 2,934,546 |
| At 1 January 2022 | 2,054,168 | 295,908 | 56,740 | 331,925 | 12,158 | 2,750,899 |

The original value and net value of the property and equipment that have been used but are in the process of applying for the right certificates and that have been used but have not yet applied for the right certificates are listed as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|----------------|--------------------------|------------------------------|
| Original value | 1,554,146 | 1,563,354 |
| Net value | 639,034 | 664,428 |

Management expects that the aforesaid matter would not affect the rights of the Group to these assets or have any significant impact on the business operation of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

23 GOODWILL

| | As at 1 January 2023 | Additions | As at 30 June 2023 |
|----------------------|----------------------------|-----------|--------------------------|
| ZZRCB | 382,216 | – | 382,216 |
| CZRCB | 476,181 | – | 476,181 |
| Impairment allowance | (124,160) | – | (124,160) |
| | 734,237 | – | 734,237 |

| | At 1 January 2022 | Additions | At 31 December 2022 |
|----------------------|-------------------------|-----------|---------------------------|
| ZZRCB | 382,216 | – | 382,216 |
| CZRCB | 476,181 | – | 476,181 |
| Impairment allowance | (124,160) | – | (124,160) |
| | 734,237 | – | 734,237 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

24 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognised are as follows:

| | 30 June 2023 | | 31 December 2022 | |
|---|---------------------------------------|---|---------------------------------------|---|
| | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary difference | Deferred tax assets/ (liabilities) | Deductible/ (taxable) temporary difference |
| Deferred income tax assets: | | | | |
| Impairment allowances for assets | 8,055,172 | 32,220,688 | 7,483,853 | 29,935,415 |
| Provisions | 1,059,796 | 4,239,182 | 1,081,569 | 4,326,278 |
| Changes in the expected credit losses of financial assets at FVOCI | 571,266 | 2,285,066 | 558,382 | 2,233,530 |
| Changes in fair value of financial assets at FVOCI | 487,727 | 1,950,910 | 626,555 | 2,506,216 |
| Changes in the expected credit losses of loans and advances to customers at FVOCI | 4,614 | 18,457 | 13,182 | 52,729 |
| Changes in fair value of loans and advances to customers at FVOCI | 37,706 | 150,829 | 130,652 | 522,602 |
| Changes in fair value of financial assets at FVPL | 810,666 | 3,242,663 | 701,598 | 2,806,392 |
| Staff salary and welfare payable | 350,472 | 1,401,886 | 345,991 | 1,383,964 |
| Others | 138,218 | 552,872 | 160,532 | 642,123 |
| Subtotal | 11,515,637 | 46,062,553 | 11,102,314 | 44,409,249 |
| Deferred income tax liabilities: | | | | |
| Changes in the expected credit losses of financial assets at FVOCI | (571,266) | (2,285,066) | (558,382) | (2,233,530) |
| Changes in the expected credit losses of loans and advances to customers at FVOCI | (4,614) | (18,457) | (13,182) | (52,729) |
| Changes in fair value of financial assets at FVPL | (2,212) | (8,847) | (1,955) | (7,818) |
| Adjustment of book value of assets and liabilities on the date of acquisition | (107,231) | (428,924) | (104,084) | (416,333) |
| Unrealized gains of foreclosed assets | (76) | (303) | (76) | (303) |
| Subtotal | (685,399) | (2,741,597) | (677,679) | (2,710,713) |
| Net deferred income tax | 10,830,238 | 43,320,956 | 10,424,635 | 41,698,536 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

24 DEFERRED INCOME TAXES (Continued)

The movements for deferred tax assets and liabilities recognised are as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------------------------------|--------------------------|------------------------------|
| Balance at the end of the last year | 10,424,635 | 7,665,004 |
| Charged to profit or loss | 641,693 | 2,541,551 |
| Charged to other comprehensive income | (236,090) | 218,080 |
| At the end of the period/year | 10,830,238 | 10,424,635 |

25 OTHER ASSETS

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------------------------------|--------------------------|------------------------------|
| Right-of-use assets (a) | 1,689,178 | 1,717,861 |
| Receivables and payments | 1,108,834 | 1,065,243 |
| Settlement and clearing accounts | 635,319 | 769,597 |
| Interest receivable | 1,639,168 | 1,093,367 |
| Foreclosed assets (b) | 469,160 | 422,767 |
| Assets to be settled | 297,231 | 297,366 |
| Intangible assets (c) | 304,619 | 284,118 |
| Long-term deferred expenses | 81,621 | 85,717 |
| Investment properties | 35,560 | 32,017 |
| Others | 60,277 | 52,932 |
| Total | 6,320,967 | 5,820,985 |
| Less: Allowance for impairment losses | (1,101,466) | (979,000) |
| Total | 5,219,501 | 4,841,985 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

25 OTHER ASSETS (Continued)

(a) Right-of-use assets

| | Properties and equipments | Land use rights | Total |
|---------------------------------|------------------------------|-----------------|-----------|
| Cost | | | |
| As at 1 January 2023 | 1,358,511 | 1,125,367 | 2,483,878 |
| Additions | 101,514 | – | 101,514 |
| Disposals | (59,790) | – | (59,790) |
| As at 30 June 2023 | 1,400,235 | 1,125,367 | 2,525,602 |
| Accumulated depreciation | | | |
| As at 1 January 2023 | 645,570 | 120,447 | 766,017 |
| Charge for the period | 110,899 | 12,976 | 123,875 |
| Disposals | (53,468) | – | (53,468) |
| As at 30 June 2023 | 703,001 | 133,423 | 836,424 |
| Net book value | | | |
| As at 30 June 2023 | 697,234 | 991,944 | 1,689,178 |
| As at 1 January 2023 | 712,941 | 1,004,920 | 1,717,861 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

25 OTHER ASSETS (Continued)

(a) Right-of-use assets (Continued)

| | Properties and equipment | Land use rights | Total |
|---------------------------------|-----------------------------|-----------------|-----------|
| Cost | | | |
| As at 1 January 2022 | 1,431,215 | 1,085,031 | 2,516,246 |
| Additions | 121,856 | 45,202 | 167,058 |
| Disposals | (194,560) | (4,866) | (199,426) |
| As at 31 December 2022 | 1,358,511 | 1,125,367 | 2,483,878 |
| Accumulated depreciation | | | |
| As at 1 January 2022 | 551,127 | 94,090 | 645,217 |
| Charge for the year | 253,641 | 26,357 | 279,998 |
| Disposals | (159,198) | – | (159,198) |
| As at 31 December 2022 | 645,570 | 120,447 | 766,017 |
| Net book value | | | |
| As at 31 December 2022 | 712,941 | 1,004,920 | 1,717,861 |
| As at 1 January 2022 | 880,088 | 990,941 | 1,871,029 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

25 OTHER ASSETS (Continued)

(b) Foreclosed assets

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------------------------------|--------------------------|------------------------------|
| Houses and buildings | 454,184 | 407,791 |
| Others | 14,976 | 14,976 |
| Total | 469,160 | 422,767 |
| Less: Allowance for impairment losses | (122,674) | (136,694) |
| Total | 346,486 | 286,073 |

Movements of allowance for foreclosed assets are as follows:

| | Houses and buildings | Others | Total |
|--------------------------|-------------------------|--------|----------|
| At 1 January 2023 | 136,666 | 28 | 136,694 |
| Disposals for the period | (14,020) | – | (14,020) |
| At 30 June 2023 | 122,646 | 28 | 122,674 |
| At 1 January 2022 | 132,091 | 28 | 132,119 |
| Charge for the year | 4,575 | – | 4,575 |
| At 31 December 2022 | 136,666 | 28 | 136,694 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

25 OTHER ASSETS (Continued)

(c) Intangible assets

| | Software | Total |
|--|-----------|-----------|
| Cost | | |
| At 1 January 2023 | 1,047,013 | 1,047,013 |
| Additions | 41,551 | 41,551 |
| Transfer from construction in progress | 16,127 | 16,127 |
| Disposals | (53,479) | (53,479) |
| As at 30 June 2023 | 1,051,212 | 1,051,212 |
| Accumulated amortization | | |
| At 1 January 2023 | 762,895 | 762,895 |
| Amortization | 37,177 | 37,177 |
| Disposals | (53,479) | (53,479) |
| As at 30 June 2023 | 746,593 | 746,593 |
| Net book value | | |
| As at 30 June 2023 | 304,619 | 304,619 |
| At 1 January 2023 | 284,118 | 284,118 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

25 OTHER ASSETS (Continued)

(c) Intangible assets (Continued)

| | Software | Total |
|--|-----------|-----------|
| Cost | | |
| At 1 January 2022 | 871,370 | 871,370 |
| Additions | 137,573 | 137,573 |
| Transfer from construction in progress | 38,070 | 38,070 |
| Disposals | – | – |
| At 31 December 2022 | 1,047,013 | 1,047,013 |
| Accumulated amortization | | |
| At 1 January 2022 | 671,205 | 671,205 |
| Amortization | 91,690 | 91,690 |
| Disposals | – | – |
| At 31 December 2022 | 762,895 | 762,895 |
| Net book value | | |
| At 31 December 2022 | 284,118 | 284,118 |
| At 1 January 2022 | 200,165 | 200,165 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Deposits from banks operating in Mainland China | 4,254,546 | 8,132,863 |
| Deposits from other financial institutions operating in Mainland China | 32,768,246 | 20,891,581 |
| Interest payable | 241,275 | 300,496 |
| Total | 37,264,067 | 29,324,940 |

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Placements from banks operating in Mainland China | 950,000 | 3,340,000 |
| Interest payable | 2,892 | 2,939 |
| Total | 952,892 | 3,342,939 |

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | As at 30 June 2023 | As at 31 December 2022 |
|------------------|--------------------------|------------------------------|
| Securities | 38,256,791 | 38,701,065 |
| Interest payable | 4,785 | 16,254 |
| Total | 38,261,576 | 38,717,319 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

29 CUSTOMER DEPOSITS

| | As at 30 June 2023 | As at 31 December 2022 |
|-----------------------|--------------------------|------------------------------|
| Demand deposits | | |
| – Corporate customers | 148,481,442 | 168,622,668 |
| – Personal customers | 130,955,728 | 131,603,206 |
| | 279,437,170 | 300,225,874 |
| Time deposits | | |
| – Corporate customers | 197,018,614 | 189,613,483 |
| – Personal customers | 419,165,127 | 385,050,632 |
| | 616,183,741 | 574,664,115 |
| Pledged deposits | 24,795,460 | 33,083,266 |
| Other deposits | 2,615,840 | 2,511,777 |
| Total | 923,032,211 | 910,485,032 |

30 DEBT SECURITIES ISSUED

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| 2023 tier 2 capital bonds (a) | 15,175,257 | – |
| 2018 tier 2 capital bonds (a) | – | 10,377,180 |
| Interbank certificates of deposit issued (b) | 114,356,755 | 111,146,215 |
| Financial bonds (c) | 3,013,920 | 3,057,130 |
| Total | 132,545,932 | 124,580,525 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

30 DEBT SECURITIES ISSUED (Continued)

(a) Tier 2 capital bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier 2 capital bonds in an amount of RMB15 billion in the domestic interbank bond market on 31 March 2023. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.70% and annual interest payment on 31 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier 2 capital bonds in an amount of RMB10 billion in the domestic interbank bond market on 23 March 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.90% and annual interest payment on 23 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid. The Bank redeemed all the 2018 tier 2 capital bonds in 23 March 2023.

(b) Interbank certificates of deposit issued

As at 30 June 2023 and 31 December 2022, the interest rates of outstanding balance were ranging from 2.06% to 2.83% and 1.81% to 2.75% respectively. The outstanding balance in 30 June 2023 will mature in 2023 and 2024, and the outstanding balance in 31 December 2022 would mature in 2023.

(c) Financial bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued financial bonds in an amount of RMB3 billion in the domestic interbank bond market on 5 May 2022. The bonds have a maturity of 3 years, with a fixed coupon rate of 2.89% and annual interest payment on 5 May every year from 2023 to 2025.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

31 OTHER LIABILITIES

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Borrowings from other banks (a) | 9,207,010 | 7,601,142 |
| Salaries, bonuses, allowances and subsidies payable (b) | 1,771,869 | 1,894,525 |
| Dividend payable | 1,227,087 | 4,335 |
| Guarantee deposits from lessees (c) | 810,066 | 949,918 |
| Settlement and clearing accounts | 787,498 | 2,367,829 |
| Lease liabilities | 772,901 | 783,156 |
| Sundry tax payables | 609,252 | 591,306 |
| Provisions (d) | 545,406 | 632,530 |
| Deposit insurance premium payable | 189,414 | 194,685 |
| Deferred revenue | 92,605 | 93,604 |
| Deposits and guarantees received | 89,942 | 48,368 |
| Collection of foreclosed assets | 16,389 | 16,428 |
| Others | 1,101,903 | 879,062 |
| Total | 17,221,342 | 16,056,888 |

(a) Borrowings from other banks

As at 30 June 2023, the wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 1 to 60 months (31 December 2022: from 3 to 60 months) and fixed interest rates ranging from 2.42% to 3.61% (31 December 2022: from 2.55% to 3.75%).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

31 OTHER LIABILITIES (Continued)

(b) Salaries, bonuses, allowances and subsidies payable

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Salaries, bonuses and allowances | 892,630 | 1,027,280 |
| Social insurance | 8,527 | 4,753 |
| Housing fund | 570 | 441 |
| Employee benefits, etc. | 118,250 | 118,085 |
| Defined contribution plans | 1,373 | 1,292 |
| Defined benefit plans | | |
| – Supplemental retirement benefits (i) | 662,446 | 674,029 |
| Early retirement benefits | 88,073 | 68,645 |
| Total | 1,771,869 | 1,894,525 |

(i) Supplemental retirement benefits

During the period ended 30 June 2023, no forfeited contributions were utilised by the Group to reduce its contributions for the current period (31 December 2022: Nil).

The movement of supplementary retirement benefits of the Group are as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| At the beginning of the period/year | 674,029 | 587,577 |
| Benefits paid during the period/year | (17,058) | (54,577) |
| Defined benefit cost recognised in profit or loss | 5,252 | 121,983 |
| Defined benefit cost recognised in other comprehensive income | 223 | 19,046 |
| At the end of the period/year | 662,446 | 674,029 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

31 OTHER LIABILITIES (Continued)

(b) Salaries, bonuses, allowances and subsidies payable (Continued)

(i) Supplemental retirement benefits (Continued)

The principal actuarial assumptions adopted at the end of 30 June 2023 and 31 December 2022 are as follows:

| | As at 30 June 2023 | As at 31 December 2022 |
|----------------------------------|--------------------------|------------------------------|
| Discount rate | | |
| – Normal retirees | 2.13%-3.10% | 2.31%-3.10% |
| – Early retirees | 3.10% | 3.10% |
| Expected growth rate of benefits | 0-5% | 0-5% |
| Age of retirement | | |
| – Male | 60 | 60 |
| – Female | 50/55 | 50/55 |

Assumptions regarding future mortality are based on the China Life Insurance Mortality table, published in Mainland China.

The sensitivity of the present value of supplemental retirement benefit obligations to changes in the principal assumption is:

| | Discount rate | |
|------------------------|--------------------------|------------------------------|
| | As at 30 June 2023 | As at 31 December 2022 |
| Change in basis points | | |
| +50 basis points | (49,055) | (49,085) |
| -50 basis points | 55,559 | 55,590 |

| | Growth rate | |
|------------------------|--------------------------|------------------------------|
| | As at 30 June 2023 | As at 31 December 2022 |
| Change in basis points | | |
| +50 basis points | 50,949 | 50,949 |
| -50 basis points | (45,249) | (45,249) |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

31 OTHER LIABILITIES (Continued)

(c) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

(d) Provisions

As at 30 June 2023, the allowance of off-balance sheet credit commitments including bank acceptances, letters of credit and guarantees and litigation losses are RMB519,336 thousand and RMB26,070 thousand respectively (31 December 2022: RMB606,460 thousand and RMB26,070 thousand).

32 SHARE CAPITAL

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

| | 30 June 2023 | | 31 December 2022 | |
|-------------------------------------|--------------------------|---------------|--------------------------|---------------|
| | Number of shares '000 | Nominal value | Number of shares '000 | Nominal value |
| Opening balance | 11,451,269 | 11,451,269 | 11,451,269 | 11,451,269 |
| As at 30 June 2023/31 December 2022 | 11,451,269 | 11,451,269 | 11,451,269 | 11,451,269 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

33 RESERVES

33.1 Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

33.2 Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the six months ended 30 June 2023, no appropriation was made to the statutory surplus reserve. (For the year ended 31 December 2022: RMB300,297 thousand).

33.3 General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, starting from 1 July 2012, which should not be less than 1.5% of the year-end balance of their respective risk assets as defined by the regulations.

For the six months ended 30 June 2023, no appropriation was made to the general reserve (For the year ended 31 December 2022: RMB1,151,936 thousand) and the reserve has reached 1.5% of the year ended balance of its risk assets as required on 30 June 2023 and 31 December 2022.

33.4 Other comprehensive income

Other comprehensive income included financial assets revaluation reserve and remeasurement losses on defined benefit plans. The financial assets revaluation reserve records the fair value changes and expected credit losses of financial assets at fair value through other comprehensive income. Remeasurement losses on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

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34 COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | Other comprehensive income in statement of financial position | | | | Other comprehensive income in income statement | | Attributable to the non- controlling interests after tax | |
|--|--|--|-----------------------|----------------------|---|------------------|--|--|
| | As at 31 December 2022 | Attributable to the shareholders of the Bank after tax | As at 30 June 2023 | Amount before tax | Net amount transferred to the income statement | Tax expense | | Attributable to the shareholders of the Bank after tax |
| Other comprehensive income to be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Fair value changes on financial assets at fair value through other comprehensive income | (2,222,480) | 646,611 | (1,575,869) | 1,070,919 | (143,836) | (231,774) | 646,611 | 48,698 |
| Loss allowance on financial assets at fair value through other comprehensive income | 1,717,328 | 12,505 | 1,729,833 | 17,264 | - | (4,316) | 12,505 | 443 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Remeasurement losses on defined benefit plans | (54,646) | (126) | (54,772) | (223) | - | - | (126) | (97) |
| Total | (559,798) | 658,990 | 99,192 | 1,087,960 | (143,836) | (236,090) | 658,990 | 49,044 |

| | Other comprehensive income in statement of financial position | | | | Other comprehensive income in income statement | | Attributable to the non- controlling interests after tax | |
|--|--|--|------------------------------|----------------------|---|----------------|--|--|
| | As at 31 December 2021 | Attributable to the shareholders of the Bank after tax | As at 31 December 2022 | Amount before tax | Net amount transferred to the income statement | Tax expense | | Attributable to the shareholders of the Bank after tax |
| Other comprehensive income to be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Fair value changes on financial assets at fair value through other comprehensive income | (1,670,371) | (552,109) | (2,222,480) | (531,338) | (287,340) | 204,488 | (552,109) | (62,081) |
| Loss allowance on financial assets at fair value through other comprehensive income | 1,757,735 | (40,407) | 1,717,328 | (54,369) | - | 13,592 | (40,407) | (370) |
| Other comprehensive income not to be reclassified to profit or loss in subsequent years: | | | | | | | | |
| Remeasurement losses on defined benefit plans | (35,716) | (18,930) | (54,646) | (19,046) | - | - | (18,930) | (116) |
| Total | 51,648 | (611,446) | (559,798) | (604,753) | (287,340) | 218,080 | (611,446) | (62,567) |

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35 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Cash on hand | 2,226,993 | 3,319,321 |
| Surplus reserves with central bank | 26,850,902 | 33,313,335 |
| Deposits with banks and other financial institutions | 7,670,343 | 4,758,672 |
| Placements with banks and other financial institutions | 625,161 | 900,000 |
| Financial assets held under resale agreements | 400,000 | 53,453,040 |
| Total | 37,773,399 | 95,744,368 |

36 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 special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the 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 continues to recognise the transferred assets in the consolidated statement of financial position.

Bond lending arrangements

As at 30 June 2023, the carrying amount of the bond lending agreements the Group entered into with securities borrowers to lend out its bond securities classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost totalled RMB149,745 thousand, RMB7,066,697 thousand and RMB14,661,149 thousand respectively (31 December 2022: nil, RMB6,480,897 thousand and RMB4,623,873 thousand). The counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have 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 derecognized them in the condensed consolidated interim financial information.

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37 STRUCTURED ENTITIES

The Group is principally involved with structured entities through wealth management products, financial investments in asset management plans, trust plans and securitisation transactions. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

37.1 Consolidated structured entities

Structured entities consolidated by the Group include certain asset management plans, trust plans and wealth management products 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.

As at 30 June 2023, the balance of these consolidated structured entities were RMB50,136,802 thousand (31 December 2022: RMB38,860,252 thousand).

37.2 Unconsolidated structured entities

37.2.1 Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group mainly include non-principal guaranteed wealth management products issued and managed by the Group as an agent. Based on the analysis and research of potential target customer groups, the Group designs and sells wealth management products to specific target customers. The Group invests the funds raised in the assets and distributes investment income to investors in accordance with the contracts.

During the six months ended 30 June 2023, the Group recorded commission income as the manager of these wealth management products amounting to RMB79,862 thousand (For the six months ended 30 June 2022: RMB107,801 thousand). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss in such business. The Group considers its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 30 June 2023, there was no balance of the above repurchase and placement transactions (31 December 2022: same).

As at 30 June 2023, the balance of the unconsolidated non-guaranteed wealth management products managed by the Group amounted to RMB51,732,593 thousand (31 December 2022: RMB69,945,801 thousand).

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37 STRUCTURED ENTITIES (Continued)

37.2 Unconsolidated structured entities (Continued)

37.2.2 Unconsolidated structured entities invested by the Group

As at 30 June 2023, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

The table below sets out the carrying value and the Group's maximum exposure to these unconsolidated structured entities.

| As at 30 June 2023 | Carrying value | Maximum exposure to loss |
|--|----------------|--------------------------|
| <u>Financial assets at fair value through profit or loss</u> | | |
| Trust plans and asset management plans | 5,101,150 | 5,101,150 |
| Fund investments | 34,995,318 | 34,995,318 |
| Other investments | 2,503,462 | 2,503,462 |
| Subtotal | 42,599,930 | 42,599,930 |
| <u>Financial assets at fair value through other comprehensive income</u> | | |
| Trust plans and asset management plans | 5,028,712 | 5,028,712 |
| Other investments | 23,010 | 23,010 |
| Subtotal | 5,051,722 | 5,051,722 |
| <u>Financial assets at amortized cost</u> | | |
| Trust plans and asset management plans | 7,653,568 | 7,653,568 |
| Other investments | 875,313 | 875,313 |
| Subtotal | 8,528,881 | 8,528,881 |

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37 STRUCTURED ENTITIES (Continued)

37.2 Unconsolidated structured entities (Continued)

37.2.2 Unconsolidated structured entities invested by the Group (Continued)

| As at 31 December 2022 | Carrying value | Maximum exposure to loss |
|--|----------------|--------------------------|
| <u>Financial assets at fair value through profit or loss</u> | | |
| Trust plans and asset management plans | 5,263,008 | 5,263,008 |
| Fund investments | 49,309,910 | 49,309,910 |
| Other investments | 3,874,869 | 3,874,869 |
| Subtotal | 58,447,787 | 58,447,787 |
| <u>Financial assets at fair value through other comprehensive income</u> | | |
| Trust plans and asset management plans | 5,385,839 | 5,385,839 |
| Other investments | 81,346 | 81,346 |
| Subtotal | 5,467,185 | 5,467,185 |
| <u>Financial assets at amortised cost</u> | | |
| Trust plans and asset management plans | 7,333,742 | 7,333,742 |
| Other investments | 2,678,977 | 2,678,977 |
| Subtotal | 10,012,719 | 10,012,719 |

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38 COMMITMENTS AND CONTINGENT LIABILITIES

38.1 Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan and credit card commitments are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the period if the counterparties had failed to perform as contracted.

| | As at 30 June 2023 | As at 31 December 2022 |
|--------------------------------------|--------------------------|------------------------------|
| Bank acceptances | 39,485,199 | 51,148,909 |
| Letters of credit issued | 2,945,577 | 1,337,568 |
| Guarantees issued | 29,580,773 | 32,555,656 |
| Loan and credit card commitments (a) | 137,125,652 | 150,325,084 |
| Total | 209,137,201 | 235,367,217 |

(a) Loan commitments of the Group are the unconditionally revocable loan commitments.

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38 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

38.2 Operating lease commitments

During the period, the Group leased certain of their office properties under lease arrangements, and the total future minimum lease payments in respect of leases not yet commenced to which the lessee is committed amounted to RMB12,234 thousand (31 December 2022: RMB1,284 thousand).

38.3 Capital commitments

| | As at 30 June 2023 | As at 31 December 2022 |
|----------------------------------|--------------------------|------------------------------|
| Contracted, but not provided for | 127,100 | 412,532 |

38.4 Credit risk-weighted amount of financial guarantees and credit related commitments

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Financial guarantees and credit related commitments | 24,982,915 | 27,745,080 |

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBIRC and depends on the credit worthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

38.5 Legal proceedings

As at 30 June 2023, the expected total losses of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB26,070 thousand (31 December 2022: RMB26,070 thousand). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Group's business, financial condition and performance.

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39 FIDUCIARY ACTIVITIES

39.1 Entrusted lending business

The Group operates entrusted loans. The entrusted loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group only acts on behalf of trustors and assists them to administer the loans. Risks remain to trustors while the Group charges commission fee for the business. Entrusted loans are not included in the Group's consolidated balance sheet.

The Group manages assets for customers as an agent, which does not include in the Group's consolidated balance sheet. The Group only charges fees according to agent agreement and bears no risk and takes no benefit of these assets.

| | As at 30 June 2023 | As at 31 December 2022 |
|--------------------|--------------------------|------------------------------|
| Entrusted deposits | (5,509,221) | (5,559,851) |
| Entrusted loans | 5,509,221 | 5,559,851 |

39.2 Wealth management services

The funds raised by non-principal guaranteed wealth management products from investors are invested in various investments, including debt securities and money market instruments, credit assets and other debt instruments, equity instruments etc. Credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers. The Group only earns commission which represents the charges on customers in relation to the provision of custodian, sale and management services. Income is recognized in the consolidated statement of profit or loss as commission income.

As at 30 June 2023 and 31 December 2022, the total investment of non-principal guaranteed wealth management products managed by the Group that was not included in the Group's consolidated financial statements was disclosed in Note 37.2.1.

40 ASSETS PLEDGED AS SECURITY

40.1 Financial assets which have been pledged

As at 30 June 2023 and 31 December 2022, financial assets of the Group, which refer to debt securities, have been pledged as security for liabilities or contingent liabilities, mainly arising from financial assets sold under repurchase agreements, time deposits and borrowings from the Central Bank. As at 30 June 2023 and 31 December 2022, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB63,206,816 thousand and RMB53,212,146 thousand respectively.

40.2 Collateral received

The Group received debt securities and bills as collateral in connection with the terms of the financial assets held under resale agreements. The Group did not hold any collateral that can be resold or reused as at 30 June 2023 and 31 December 2022.

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41 RELATED PARTY DISCLOSURES

41.1 Related party relationships

As at 30 June 2023 and 31 December 2022, there are 2 shareholders directly holding 5% or above shares of the Bank.

| | Number of shares '000 | Percentage of shares holding of the Bank % | Main business |
|---------------------------------------|-----------------------------|---|-------------------------|
| Guangzhou Metro Group Co., Ltd | 722,950 | 6.31 | Infrastructure industry |
| Guangzhou City Renewal Group Co., Ltd | 666,735 | 5.82 | Real estate industry |
| Total | <u>1,389,685</u> | <u>12.13</u> | |

41.2 Related party transactions

Related party transactions of the Bank mainly include loans and deposits. Transactions between the Bank and its related parties follow general business terms and normal procedures and their pricing principle is the same as with independent third parties.

41.2.1 Transactions between the Bank and major shareholders and the companies controlled or jointly controlled by major shareholders

Major shareholders consist of shareholders of the bank with more than 5% (inclusive 5%) shares, and shareholders who hold less than 5% of the total shares but have the power to appoint a director in the Bank.

| Balances at the end of the period/year | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Loans and advances to customers | 9,921,184 | 9,935,929 |
| Financial assets at fair value through profit or loss | – | 800,422 |
| Financial assets at fair value through other comprehensive income | 498,614 | – |
| Financial assets at amortized cost | 103,251 | 100,000 |
| Deposits from banks and other financial institutions | 644 | 8,071 |
| Customer deposits | 8,736,951 | 8,383,595 |
| Bank acceptance bills | 41,900 | 50,000 |
| Credit commitments | <u>1,761,956</u> | <u>1,116,046</u> |

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41 RELATED PARTY DISCLOSURES (Continued)

41.2 Related party transactions (Continued)

41.2.1 Transactions between the Bank and major shareholders and the companies controlled or jointly controlled by major shareholders (Continued)

| Transactions during the period | Six months ended 30 June | |
|--------------------------------|--------------------------|----------|
| | 2023 | 2022 |
| Interest income | 171,503 | 203,531 |
| Interest expense | (65,441) | (68,705) |
| Fee and commission income | 99 | 3,414 |
| Fee and commission expense | (726) | (529) |
| Net trading gains | 7,205 | 19,734 |

41.2.2 Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the condensed consolidated interim financial information. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

41.2.3 Other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members, and the companies of which key management personnel and their close family members were appointed as directors and key management personnel. During the period/year, the Bank entered into transactions with other related parties in the ordinary course of business. Details are as follows:

| Balances at the end of the period/year | As at | As at |
|---|-----------|-------------|
| | 30 June | 31 December |
| | 2023 | 2022 |
| Loans and advances to customers | 3,198,716 | 2,427,485 |
| Financial assets at fair value through profit or loss | – | 60,484 |
| Financial assets at amortized cost | 285,899 | 304,252 |
| Customer deposits | 4,185,505 | 1,965,499 |
| Deposits from banks and other financial institutions | 47,690 | 259,087 |
| Credit commitments | 564,584 | 707,797 |

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41 RELATED PARTY DISCLOSURES (Continued)

41.2 Related party transactions (Continued)

41.2.3 Other related parties (Continued)

| Transactions during the period | Six months ended 30 June | |
|--------------------------------|--------------------------|----------|
| | 2023 | 2022 |
| Interest income | 57,858 | 138,887 |
| Interest expense | (54,928) | (67,495) |
| Fee and commission income | 59 | 148 |
| Fee and commission expense | (5) | – |
| Net trading gains | 317 | 9,717 |

41.3 Key management personnel

Key management personnel refer to those have power and directly or indirectly are responsible for planning, instruction and control of the Group.

Total amount of remuneration of key management personnel is listed below:

| | Six months ended 30 June | |
|-----------------------------------|--------------------------|-------|
| | 2023 | 2022 |
| Salary, remuneration and benefits | 9,312 | 9,320 |

Transactions with key management personnel and their closed family members are listed below:

| Balances at the end of the period/year | As at | As at |
|--|---------|-------------|
| | 30 June | 31 December |
| | 2023 | 2022 |
| Loans and advances to customers | – | 4,471 |
| Customer deposits | 80,453 | 86,286 |

| Transactions during the period | Six months ended 30 June | |
|--------------------------------|--------------------------|------|
| | 2023 | 2022 |
| Interest income | 27 | 105 |
| Interest expense | (245) | (98) |
| Fee and commission income | 428 | 375 |

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42 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

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

A description and an analysis of the major risks faced by the Group are as follows:

The major types of risks are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and price risk.

The Board of Directors of the Group is responsible for determining the Group's overall risk preference. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for their implementation.

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, evaluating the Group's situation of risk management, risk tolerance ability and level regularly, and taking case precautions, reviewing and controlling the related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors and developing the specific rules and regulations of risk management. The Group has a Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of risk management.

The Risk Management Department is the leading department of overall risk management, and is responsible for overall planning and coordination of risk management. The Risk Management Department, Legal and Compliance Department (Anti-Money Laundering Center) and Asset and Liability Management Department take the lead in managing credit risk, market risk, operation risk and liquidity risk. The Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management activities' effect independently and objectively.

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present different credit risks.

42.1.1 Credit Risk Management

Loans

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets, reviewing periodically and updating risk classification of credit assets, and carrying out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularising various risk management tools.

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimises losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) write off according to relevant regulations.

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.1 Credit Risk Management (Continued)

Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and based on issuer's credit rating and establishing post lending management standards.

Other financial assets carrying at amortized cost

Other financial assets carrying at amortized cost, include wealth management products, trust plans and asset management plans issued and managed by other banks and other financial institutions. The Group establishes a risk evaluation system on the trust companies, security companies and fund management companies, sets up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

Inter-bank transactions

The Group reviews and monitors the credit risk of financial institutions. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters of guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.2 Risk limit control and mitigation policies

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent reviews where necessary.

The Group manages the exposure to credit risk through analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.2 Risk limit control and mitigation policies (Continued)

Fair value of collateral is usually required to be assessed by professional valuers permitted by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented major loan-to-value ratio requirement based on type of collateral as follows:

| <u>Item</u> | <u>Main loan-to-value ratio</u> |
|---|---------------------------------|
| Residential properties | 70% |
| Villas | 60% |
| Apartments, office buildings, shops, factories, self-builds, carports, warehouses | 50% |
| Land use rights | 50% |

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

42.1.3 Credit risk impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage I (not credit-impaired on initial recognition): 12-month expected credit losses (ECL);

Stage II (significant increase in credit risk since initial recognition): lifetime expected credit losses;

Stage III (credit-impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of macroeconomic indicators and risk parameters.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Stage division

The assessment of significant increase in credit risk consider a number of factors such as five-category classification, overdue days, and credit rating changes. The stages are transferable.

Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Quantitative criteria

At the reporting date, the Group assesses the significant increase in credit risk through the relative change of the probability of default. The thresholds was set based on different product type, such as corporate loans, personal loans, securities investments, etc. For the financial instrument without overdue, the Group assesses changes of probability of default over the lifetime to identify increment of the default risk.

If the borrower fails to pay more than 30 days after the contractual payment date, the credit risk of the financial instrument is considered to be increased significantly.

Qualitative criteria

For corporate loans and bond investment portfolio, the credit risk is considered to be increased significantly, if borrowers were on the watch list or met one or more criteria as follows:

- Significant negative impact appears in business, financing or economic position for borrower;
- Actual or expected extension or restructuring;
- Actual or expected significant adverse change on borrower's operations;
- Collateral's valuation changes which expected to lead the increase of default probability (only for collateralized and pledged loans);
- Indicator for cash flow or liquidity problems, e.g. extension for account payable or loan repayment.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Stage division (Continued)

Qualitative criteria (Continued)

For corporate loans, the Group uses a credit risk early warning monitoring system to assess whether there has been a significant increase in its credit risk. For bond investment, the Group strengthens the management of bond investment and assesses it periodically. For individual loans, the Group assesses at the portfolio level on a quarterly basis whether there has been a significant increase in credit risk. The criteria used to identify significant increases in credit risk are monitored and reviewed by risk management departments on timely basis.

In the first half of 2023, the Group did not determine any financial instruments as having low credit risk, the credit risk of which did not need to be evaluated on the reporting date, comparing with its initial recognition date.

Definition of default and credit impairment

When a financial instrument meets one or more of the following conditions, the Group defines the financial asset as default which is consistent with the definition of credit impairment:

Quantitative criteria

The borrower is more than 90 days overdue.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Stage division (Continued)

Qualitative criteria

The borrower meets the “difficulty to repay” criteria, indicating significant financial difficulties experienced by the borrower. Examples include:

- Significant financial difficulty of the issuer or the debtor;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor’s financial difficulty, granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- Debtors are in breach of contract;
- The disappearance of an active market for some financial assets due to the borrower’s financial difficulties;
- A purchased or originated credit-impaired financial asset.

These criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the calculation of expected credit losses of the Group.

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FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Explanation of inputs, assumptions and estimation techniques in the ECL models

The Expected Credit Losses (ECL) are measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

Forward-looking information should be considered in determining the 12-month and lifetime PD, EAD and LGD. This varies by product types.

The Group quarterly monitors and reviews the ECL calculation related assumptions, including the changes of PD and LGD for different terms.

The Group has updated the PD and EAD in the ECL models based on the latest historical information and risk condition.

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Forward-looking information in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. Through the analysis of historical data, the Group identifies the macroeconomic indicators that affect the credit risk and ECL of various portfolio. Macroeconomic indicators include Gross Domestic Product (GDP), Consumer Price Index (CPI), Money Supply (M2) and Completed Investment in Real Estate Development, etc. The Group obtained the key macroeconomic factors from the Wind Economic to perform historical analysis on the intertemporal endogenous relationship of the macroeconomic factors. The Group integrates statistical analysis and expert judgments to determine economic forecasts and weighting scheme under various economic scenarios.

The impact of these economic indicators on the PDs and the LGDs varies from one portfolio to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the correlation between these economic indicators and the PDs and LGDs. The Group assesses and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews and assesses the results.

The values of the core macroeconomic indicators used to evaluate expected credit losses on 30 June 2023 are as follows:

| <u>Item</u> | <u>Range</u> |
|---|--------------|
| GDP Annual Percentage Change | 2.33%~7.13% |
| Growth rate of Consumer Price Index (YTD) | 0.91%~2.99% |

In the first half of 2023, the Group has taken into account the impact of changes in different economic scenarios to the ECL model. The Group has adopted three economic scenarios (Base, Pessimistic and Optimistic) on the basis of the macroeconomic information analysis and expert judgment. The weightings for the three scenarios remain 80%, 10% and 10% respectively.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group updates the expected values of macroeconomic indicators periodically. The Group believes that these projections reflect the Group's best estimate of possible outcomes to determine that the scenarios selected are appropriate to represent possible scenarios.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.3 Credit risk impairment (Continued)

Sensitivity analysis

The expected credit losses are sensitive to the parameters used in the model, macroeconomic variables for forward-looking prediction, scenarios weightings and other factors considered in the application of expert judgments. The changes in these parameters, assumptions, models and judgments will have an impact on the significant increase in credit risk and the measurement of expected credit losses.

Grouping for ECL allowance

The Group classified the exposures with similar characteristics when collectively assessing the ECL allowance.

The characteristics for grouping are as follows:

Personal loans

- Product types (for instance, personal business loans, personal consumption loans, personal residential mortgages, credit cards overdraft)

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage III

Credit risk team monitors and reviews the grouping appropriateness regularly.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.4 Maximum exposure to credit risk

Financial instruments and commitment and guarantee subject to impairment

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

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Cash and deposits with central bank | 76,183,490 | 83,936,814 |
| Deposits with banks and other financial institutions | 10,765,774 | 7,764,638 |
| Placements with banks and other financial institutions | 56,064,412 | 43,468,970 |
| Financial assets held under resale agreements | 12,972,997 | 57,474,333 |
| Loans and advances to customers | | |
| – at amortized cost | 594,967,079 | 583,824,468 |
| – at fair value through other comprehensive income | 92,961,145 | 85,293,398 |
| Financial assets at amortized cost | 223,323,657 | 196,517,323 |
| Financial assets at fair value through other comprehensive income | 105,281,919 | 70,945,255 |
| Other financial assets | 2,616,323 | 2,312,517 |
| Total | 1,175,136,796 | 1,131,537,716 |
| Credit commitments | 208,617,865 | 234,760,757 |

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.5 Loans and advances to customers

| By industry | 30 June 2023 | | 31 December 2022 | |
|---|--------------------|----------------|--------------------|----------------|
| | Amount | (%) | Amount | (%) |
| Corporate loans | | | | |
| Lease and commercial service | 126,070,391 | 17.67% | 124,902,639 | 18.06% |
| Wholesale and retail | 58,023,708 | 8.13% | 58,404,138 | 8.44% |
| Real estate | 55,460,025 | 7.77% | 56,756,708 | 8.20% |
| Manufacturing | 50,768,180 | 7.12% | 48,220,920 | 6.97% |
| Construction | 37,131,614 | 5.21% | 37,123,198 | 5.36% |
| Resident services, repairing and other services | 19,258,319 | 2.70% | 20,926,021 | 3.02% |
| Transportation, warehouse and postal services | 17,384,671 | 2.44% | 17,204,006 | 2.49% |
| Hotel and catering | 12,849,042 | 1.80% | 13,181,560 | 1.90% |
| Education | 12,751,749 | 1.79% | 12,504,828 | 1.81% |
| Agriculture, forestry, farming and fishery | 11,630,034 | 1.63% | 10,971,137 | 1.59% |
| Water, environment and public facilities management | 11,503,055 | 1.61% | 9,178,737 | 1.33% |
| Financial services | 9,063,032 | 1.27% | 6,633,569 | 0.96% |
| Information transmission, software and IT services | 7,617,656 | 1.07% | 7,112,736 | 1.03% |
| Energy and utilities | 6,673,930 | 0.94% | 4,629,569 | 0.67% |
| Culture, sports and entertainment | 4,726,272 | 0.66% | 4,469,689 | 0.65% |
| Healthcare and social welfare | 2,178,158 | 0.31% | 2,407,471 | 0.35% |
| Others | 6,611,887 | 0.93% | 5,957,737 | 0.84% |
| Subtotal | 449,701,723 | 63.05% | 440,584,663 | 63.67% |
| Discounted bills | 93,043,430 | 13.04% | 85,428,544 | 12.35% |
| Personal loans | 170,506,061 | 23.91% | 165,958,709 | 23.98% |
| Total | 713,251,214 | 100.00% | 691,971,916 | 100.00% |

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.5 Loans and advances to customers (Continued)

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| By geography^(a) | | |
| Guangzhou | 594,920,058 | 577,551,252 |
| Pearl River Delta (except Guangzhou) | 46,329,182 | 42,975,618 |
| Guangdong Province (except Pearl River Delta) | 42,777,606 | 42,137,968 |
| Central China | 20,133,424 | 19,923,704 |
| Western China | 2,308,467 | 2,340,816 |
| Yangtze River Delta | 2,102,304 | 2,207,287 |
| North-east China | 555,737 | 535,214 |
| Bohai Rim | 502,511 | 703,127 |
| Others | 3,621,925 | 3,596,930 |
| Total | 713,251,214 | 691,971,916 |

(a) The bank lists the distribution by geography according to the location of the loan granting institution.

| | As at 30 June 2023 | As at 31 December 2022 |
|---------------------------|--------------------------|------------------------------|
| By collateral type | | |
| Unsecured loans | 184,024,252 | 159,839,446 |
| Guaranteed loans | 162,252,816 | 163,524,687 |
| Collateralised loans | 329,649,594 | 331,676,968 |
| Pledged loans | 37,324,552 | 36,930,815 |
| Total | 713,251,214 | 691,971,916 |

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.5 Loans and advances to customers (Continued)

| 30 June 2023 | Overdue loans and advances to customers | | | | Total |
|----------------------|--|---|--|-----------------------|-------------------|
| | Past due up to 90 days (including 90 days) | Past due 90 days to 1 year (including 1 year) | Past due 1 year to 3 years (including 3 years) | Past due over 3 years | |
| Unsecured loans | 328,079 | 742,263 | 566,713 | 63,422 | 1,700,477 |
| Guaranteed loans | 8,141,788 | 1,637,203 | 2,347,236 | 2,632,206 | 14,758,433 |
| Collateralised loans | 8,803,018 | 4,044,236 | 1,339,323 | 146,574 | 14,333,151 |
| Pledged loans | 2,521,856 | 1,089,356 | 369,039 | 2,308 | 3,982,559 |
| Total | 19,794,741 | 7,513,058 | 4,622,311 | 2,844,510 | 34,774,620 |

| 31 December 2022 | Overdue loans and advances to customers | | | | Total |
|----------------------|--|---|--|-----------------------|-------------------|
| | Past due up to 90 days (including 90 days) | Past due 90 days to 1 year (including 1 year) | Past due 1 year to 3 years (including 3 years) | Past due over 3 years | |
| Unsecured loans | 422,577 | 615,607 | 422,683 | 41,448 | 1,502,315 |
| Guaranteed loans | 4,276,886 | 2,881,272 | 3,115,741 | 2,625,975 | 12,899,874 |
| Collateralised loans | 7,065,497 | 3,211,487 | 1,519,233 | 128,319 | 11,924,536 |
| Pledged loans | 195,063 | 379,153 | 32,362 | 2,319 | 608,897 |
| Total | 11,960,023 | 7,087,519 | 5,090,019 | 2,798,061 | 26,935,622 |

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.1 Credit risk (Continued)

42.1.6 Restructuring loans and advances to customers

As at 30 June 2023 and 31 December 2022, the original value of the Group's restructuring loans and advances were RMB25,234,295 thousand and RMB23,003,540 thousand respectively.

As at 30 June 2023 and 31 December 2022, the original value of the Group's restructuring loans and advances in stage I were RMB1,531,025 thousand and RMB1,215,066 thousand respectively.

42.2 Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

The Group's expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.2 Liquidity risk (Continued)

42.2.1 Analysis of the remaining maturity of the assets and liabilities is set out below:

| 30 June 2023 | Overdue | Repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|-------------------|----------------------|---------------------|---------------------|--------------------------|--------------------|----------------------|-------------------|----------------------|
| Financial assets: | | | | | | | | | |
| Cash and deposits with central bank | - | 29,259,826 | - | - | - | - | - | 49,150,657 | 78,410,483 |
| Deposits with banks and other financial institutions (a) | 105,000 | 9,359,254 | 22,848,628 | 16,674,354 | 29,168,445 | 1,647,502 | - | - | 79,803,183 |
| Loans and advances to customers | 24,132,050 | - | 44,562,266 | 75,455,269 | 230,530,558 | 212,107,021 | 101,141,060 | - | 687,928,224 |
| Financial assets at fair value through profit or loss | 5,651,201 | 35,001,290 | 991,863 | 4,734,516 | 12,265,209 | 4,994,303 | 3,825,489 | 2,022,655 | 69,486,526 |
| Financial assets at amortized cost | 3,091,999 | - | 2,160,755 | 6,369,165 | 22,465,929 | 88,686,928 | 100,548,881 | - | 223,323,657 |
| Financial assets at fair value through other comprehensive income | 3,082,645 | 326 | 1,231,696 | 1,493,573 | 5,011,317 | 74,323,104 | 20,139,258 | - | 105,281,919 |
| Other financial assets | 1,227,068 | - | 109,132 | 47,467 | 35,392 | 554,871 | 642,393 | - | 2,616,323 |
| Total financial assets | 37,289,963 | 73,620,696 | 71,904,340 | 104,774,344 | 299,476,850 | 382,313,729 | 226,297,081 | 51,173,312 | 1,246,850,315 |
| Financial liabilities: | | | | | | | | | |
| Due to the central bank | - | - | 1,298,066 | 1,985,292 | 20,906,426 | - | - | - | 24,189,784 |
| Deposits from banks and other financial institutions (b) | - | 17,110,809 | 26,260,465 | 20,420,825 | 11,804,119 | 882,317 | - | - | 76,478,535 |
| Financial liabilities at fair value through profit or loss | - | 5,972 | - | - | - | - | - | - | 5,972 |
| Customer deposits (c) | - | 302,323,157 | 26,708,668 | 65,233,786 | 264,399,368 | 244,592,012 | 120,625 | 19,654,595 | 923,032,211 |
| Lease liabilities | - | - | 23,772 | 47,543 | 163,855 | 438,309 | 99,422 | - | 772,901 |
| Debt securities issued | - | - | 13,933,642 | 38,844,440 | 61,769,373 | 2,999,470 | 14,999,007 | - | 132,545,932 |
| Other financial liabilities | - | 485,247 | 1,513,262 | 3,604,574 | 5,891,049 | 352,162 | 93,528 | 664,620 | 12,604,442 |
| Total financial liabilities | - | 319,925,185 | 69,737,875 | 130,136,460 | 364,934,190 | 249,264,270 | 15,312,582 | 20,319,215 | 1,169,629,777 |
| Net liquidity gap | 37,289,963 | (246,304,489) | 2,166,465 | (25,362,116) | (65,457,340) | 133,049,459 | 210,984,499 | 30,854,097 | 77,220,538 |

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42 FINANCIAL RISK MANAGEMENT (Continued)

42.2 Liquidity risk (Continued)

42.2.1 Analysis of the remaining maturity of the assets and liabilities is set out below (continued):

| 31 December 2022 | Overdue | Repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|-------------------|----------------------|---------------------|---------------------|--------------------------|--------------------|----------------------|-------------------|----------------------|
| Financial assets: | | | | | | | | | |
| Cash and deposits with central bank | - | 36,794,339 | - | - | - | - | - | 50,461,796 | 87,256,135 |
| Deposits with banks and other financial institutions (a) | 150,000 | 5,689,700 | 64,800,335 | 9,427,612 | 28,640,294 | - | - | - | 108,707,941 |
| Loans and advances to customers | 17,934,471 | - | 35,546,177 | 48,966,985 | 269,100,539 | 195,887,631 | 101,682,063 | - | 669,117,866 |
| Financial assets at fair value through profit or loss | 7,244,651 | 49,293,907 | 3,319,701 | 2,648,542 | 9,025,868 | 6,942,301 | 1,002,583 | 2,496,975 | 81,974,528 |
| Financial assets at amortized cost | 3,093,045 | - | 1,298,908 | 3,656,839 | 16,401,938 | 96,347,626 | 75,718,967 | - | 196,517,323 |
| Financial assets at fair value through other comprehensive income | 3,365,920 | - | 614,206 | 1,105,007 | 4,081,098 | 40,347,063 | 21,431,961 | - | 70,945,255 |
| Other financial assets | 780,631 | - | 916,803 | 31,233 | 141,738 | 361,857 | 80,255 | - | 2,312,517 |
| Total financial assets | 32,568,718 | 91,777,946 | 106,496,130 | 65,836,218 | 327,391,475 | 339,886,478 | 199,915,829 | 52,958,771 | 1,216,831,565 |
| Financial liabilities: | | | | | | | | | |
| Due to central bank | - | - | 2,358,964 | 7,230,898 | 10,872,431 | - | - | - | 20,462,293 |
| Deposits from banks and other financial institutions (b) | - | 4,087,332 | 38,814,529 | 15,834,827 | 11,157,510 | 1,491,000 | - | - | 71,385,198 |
| Financial liabilities at fair value through profit or loss | - | 4,005 | - | - | - | - | - | - | 4,005 |
| Customer deposits (c) | - | 323,835,844 | 26,173,882 | 75,243,369 | 209,072,726 | 256,899,493 | 199,991 | 19,059,727 | 910,485,032 |
| Lease liabilities | - | - | 18,307 | 36,614 | 165,742 | 503,890 | 58,603 | - | 783,156 |
| Debt securities issued | - | - | 11,137,663 | 42,904,627 | 57,539,763 | 2,999,330 | 9,999,142 | - | 124,580,525 |
| Other financial liabilities | - | 13,203 | 2,348,381 | 1,094,680 | 6,683,488 | 422,088 | 116,947 | 410,183 | 11,088,970 |
| Total financial liabilities | - | 327,940,384 | 80,851,726 | 142,345,015 | 295,491,660 | 262,315,801 | 10,374,683 | 19,469,910 | 1,138,789,179 |
| Net liquidity gap | 32,568,718 | (236,162,438) | 25,644,404 | (76,508,797) | 31,899,815 | 77,570,677 | 189,541,146 | 33,488,861 | 78,042,386 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.2 Liquidity risk (Continued)

42.2.1 Analysis of the remaining maturity of the assets and liabilities is set out below (continued):

- (a) Includes placements with banks and other financial institutions, financial assets held under resale agreements.
- (b) Includes placements from banks and other financial institutions, financial assets sold under repurchase agreements.
- (c) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

42.2.2 Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.3 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, commodity prices and stock prices.

Market risk arises from both the Group's trading and non-trading businesses. The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group.

The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.3 Market risk (Continued)

42.3.1 Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business.

42.3.2 Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

42.4 Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet capital regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by National Administration of Financial Regulation (國家金融監督管理總局), for supervisory purposes. The required information is filed with National Administration of Financial Regulation (國家金融監督管理總局) on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

42 FINANCIAL RISK MANAGEMENT (Continued)

42.4 Capital management (Continued)

The Group's regulatory capital is managed by its financial department and consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss allowances and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

| | As at 30 June 2023 | As at 31 December 2022 |
|---|--------------------------|------------------------------|
| Net common equity tier 1 capital | 70,640,207 | 69,847,686 |
| Net tier 1 capital | 80,884,664 | 80,065,872 |
| Net capital | 103,003,483 | 95,407,076 |
| Risk-weighted assets | 779,472,387 | 758,009,735 |
| Common equity tier 1 capital adequacy ratio | 9.06% | 9.21% |
| Tier 1 capital adequacy ratio | 10.38% | 10.56% |
| Capital adequacy ratio | 13.21% | 12.59% |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

43.1 Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

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: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

| 30 June 2023 | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|--------------------|-------------------|--------------------|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Debt securities | – | 24,505,382 | 156,983 | 24,662,365 |
| – Funds and other investments | 36,555,226 | – | 8,268,935 | 44,824,161 |
| Financial assets at fair value through other comprehensive income | | | | |
| – Debt securities | – | 100,027,961 | 225,246 | 100,253,207 |
| – Other investments | – | – | 5,028,712 | 5,028,712 |
| Loans and advances at fair value through other comprehensive income | – | 92,961,145 | – | 92,961,145 |
| Total | 36,555,226 | 217,494,488 | 13,679,876 | 267,729,590 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.1 Financial instruments measured at fair value (Continued)

Determination of fair value and fair value hierarchy (Continued)

| 31 December 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|------------|-------------|------------|-------------|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Debt securities | – | 20,663,021 | 155,411 | 20,818,432 |
| – Funds and other investments | 51,314,331 | – | 9,841,765 | 61,156,096 |
| Financial assets at fair value through other comprehensive income | | | | |
| – Debt securities | – | 65,294,800 | 264,616 | 65,559,416 |
| – Other investments | – | – | 5,385,839 | 5,385,839 |
| Loans and advances at fair value through other comprehensive income | | | | |
| | – | 85,293,398 | – | 85,293,398 |
| Total | 51,314,331 | 171,251,219 | 15,647,631 | 238,213,181 |

The following tables present the changes in Level 3 assets for the period ended 30 June 2023 and the year ended 31 December 2022:

| | Financial assets at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | | Total |
|------------------------------|---|-----------------------------|---|-------------------|-------------|
| | Debt securities | Funds and other investments | Debt securities | Other investments | |
| | | | | | |
| At 1 January 2023 | 155,411 | 9,841,765 | 264,616 | 5,385,839 | 15,647,631 |
| Total gains and losses | | | | | |
| – Profit or loss | 1,572 | (1,299,598) | – | 62 | (1,297,964) |
| – Other comprehensive income | – | – | (33,236) | (294,717) | (327,953) |
| Settlement | – | (273,232) | (6,134) | (62,472) | (341,838) |
| At 30 June 2023 | 156,983 | 8,268,935 | 225,246 | 5,028,712 | 13,679,876 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.1 Financial instruments measured at fair value (Continued)

Determination of fair value and fair value hierarchy (Continued)

| | Financial assets at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | | Total |
|------------------------------|--|-----------------------------------|---|----------------------|-------------|
| | Debt securities | Funds and other investments | Debt securities | Other investments | |
| At 1 January 2022 | 60,175 | 10,198,103 | 470,973 | 6,080,934 | 16,810,185 |
| Purchase | 50,045 | 1,189,658 | – | – | 1,239,703 |
| Transfer to Level 3 | 90,769 | – | – | – | 90,769 |
| Total gains and losses | | | | | |
| – Profit or loss | (45,578) | (951,000) | 20 | 84,015 | (912,543) |
| – Other comprehensive income | – | – | (24,119) | (140,514) | (164,633) |
| Settlement | – | (594,996) | (182,258) | (638,596) | (1,415,850) |
| At 31 December 2022 | 155,411 | 9,841,765 | 264,616 | 5,385,839 | 15,647,631 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.1 Financial instruments measured at fair value (Continued)

Determination of fair value and fair value hierarchy (Continued)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 fair value measurement is as below:

| | Fair value | | Valuation techniques | Unobservable input |
|---|--------------------|------------------------|----------------------|--|
| | As at 30 June 2023 | As at 31 December 2022 | | |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| – Debt securities | 156,983 | 155,411 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – Funds and other investments | 8,268,935 | 9,841,765 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| Financial assets at fair value through other comprehensive income | | | | |
| – Debt securities | 225,246 | 264,616 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| – Other investments | 5,028,712 | 5,385,839 | Discounted cash flow | Risk-adjusted discount rate, cash flow |
| Total | 13,679,876 | 15,647,631 | | |

During the six months ended 30 June 2023 and the year ended 31 December 2022, there were no significant changes in the valuation techniques.

As at 30 June 2023 and 31 December 2022, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis.

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the six month ended 30 June 2023 and the year of 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

43.2 Financial instruments for which fair values are disclosed

As at 30 June 2023, financial assets and liabilities not presented at fair value on the consolidated statement of financial position mainly represent "Deposits with central bank", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued". (31 December 2022: same).

Except for the following items, there are no significant differences between carrying amount and fair value.

| | As at 30 June 2023 | As at 31 December 2022 |
|------------------------------------|--------------------------|------------------------------|
| Carrying amount: | | |
| Financial assets at amortized cost | 223,323,657 | 196,517,323 |
| Debt securities issued | 132,545,932 | 124,580,525 |
| Fair Value: | | |
| Financial assets at amortized cost | 229,662,487 | 201,183,958 |
| Debt securities issued | 133,302,031 | 124,775,292 |

44 EVENTS AFTER THE REPORTING PERIOD

Pursuant to a shareholders' resolution dated 20 June 2023, the Bank will simultaneously issue domestic shares through private placement and H shares through non-public offering. The Bank intends to issue a total of not more than 2.964 billion domestic shares and not more than 0.676 billion H shares, with a par value of RMB1.00 per share.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

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

1.1 Liquidity Ratio

| | As at 30 June 2023 | As at 31 December 2022 |
|--|--------------------------|------------------------------|
| Liquidity ratio (RMB and foreign currency) | 104.58% | 101.76% |

1.2 Liquidity coverage ratio

| | As at 30 June 2023 | As at 31 December 2022 |
|-------------------------------------|--------------------------|------------------------------|
| High-quality liquid assets | 209,822.79 | 197,809.16 |
| Net cash outflows in future 30 days | 92,431.78 | 47,182.72 |
| Liquidity coverage ratio (%) | 227.00% | 419.24% |

1.3 Net stable funding ratio

| | As at 30 June 2023 | As at 31 March 2023 | As at 31 December 2022 |
|--------------------------|--------------------------|---------------------------|------------------------------|
| Available stable funds | 808,716.88 | 810,175.06 | 782,474.68 |
| Required stable funds | 675,171.36 | 670,237.67 | 650,511.46 |
| Net stable funding ratio | 119.78% | 120.88% | 120.29% |

Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (商業銀行流動性風險管理辦法) issued by the CBIRC, since 1 July 2018 (effective date of the Measures), the above liquidity ratio, liquidity coverage ratio and net stable funding ratio were calculated based on the financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

2 CURRENCY CONCENTRATION

| | As at 30 June 2023 | | | Subtotal |
|---------------------------|----------------------------|----------------------------|-------------------------------|----------|
| | USD (RMB equivalent) | HKD (RMB equivalent) | Others (RMB equivalent) | |
| Spot assets | 1,767.55 | 284.05 | 66.07 | 2,117.67 |
| Spot liabilities | 1,695.12 | 284.05 | 66.07 | 2,045.24 |
| Net long/(short) position | 72.43 | – | – | 72.43 |

| | As at 31 December 2022 | | | Subtotal |
|---------------------------|----------------------------|----------------------------|-------------------------------|----------|
| | USD (RMB equivalent) | HKD (RMB equivalent) | Others (RMB equivalent) | |
| Spot assets | 1,864.92 | 310.40 | 297.60 | 2,472.92 |
| Spot liabilities | 1,795.10 | 310.40 | 297.60 | 2,403.10 |
| Net long/(short) position | 69.82 | – | – | 69.82 |

Above information is calculated in accordance with regulations promulgated by the CBRC. The Group had no structural position as at 30 June 2023 and 31 December 2022.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements and investments in debt securities.

International claims are disclosed by country or geographical region. A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any 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.

| | As at 30 June 2023 | | |
|----------------------------------|--|-------------------------------------|-----------------|
| | Banks and other financial institutions | Non-bank private institutions | Total |
| Asia Pacific | 1,891.23 | 378.63 | 2,269.86 |
| of which attributed to Hong Kong | 872.53 | – | 872.53 |
| North and South America | 274.24 | – | 274.24 |
| Europe | 15.64 | – | 15.64 |
| Oceania | 11.09 | – | 11.09 |
| Total | 2,192.20 | 378.63 | 2,570.83 |

| | As at 31 December 2022 | | |
|----------------------------------|--|-------------------------------------|-----------------|
| | Banks and other financial institutions | Non-bank private institutions | Total |
| Asia Pacific | 2,201.86 | 914.73 | 3,116.59 |
| of which attributed to Hong Kong | 585.96 | – | 585.96 |
| North and South America | 252.10 | – | 252.10 |
| Europe | 13.91 | – | 13.91 |
| Oceania | 6.53 | – | 6.53 |
| Total | 2,474.40 | 914.73 | 3,389.13 |