



東莞農村商業銀行股份有限公司
Dongguan Rural Commercial Bank Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock Code: 9889.HK



Interim Report 2023

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* Dongguan 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.



Important Notice

The Board of Directors, the Board of Supervisors, and the Directors, Supervisors and Senior management of the Bank confirm the truthfulness, accuracy and completeness of the contents of this Interim Report and that there are no false representations, misleading statements or material omissions, and severally and jointly assume liability for the information hereof.

On 29 August 2023, the 73rd meeting of the fourth session of the Board of Directors of the Bank was held at the conference room of Dongguan Rural Commercial Bank Building. It considered and approved the Motion on Approving the 2023 Interim Report of Dongguan Rural Commercial Bank Co., Ltd.. 16 Directors were eligible to attend the meeting and 16 were present in person. 10 Supervisors attended the meeting. The convening of the meeting is in compliance with relevant provisions of the Company Law of the People's Republic of China and the Articles of Association of Dongguan Rural Commercial Bank Co., Ltd.. This Interim Report was considered and approved by the Audit Committee of the Board of Directors of the Bank.

The 2023 Interim Financial Report of the Bank prepared in accordance with the International Financial Reporting Standards was unaudited, but has been reviewed by KPMG in accordance with the International Standard on Review Engagements.

Mr. Fu Qiang, the president, Mr. Zhong Guobo, the person-in-charge of accounting, and Ms. Zhong Xuemei, the head of the accounting department, hereby declare and assure the truthfulness, accuracy, and completeness of the financial reports in this Report.

As resolved at the 2022 annual general meeting held on May 25, 2023, the Bank distributed a dividend of RMB2.90 (tax inclusive) per ten shares for the year ended December 31, 2022, with a total amount of RMB1,998 million (tax inclusive). The Bank did not make profit distribution or transfer capital reserve into share capital for the interim period of 2023.

The forward-looking statements included in this Report are based on current plans, estimates and projections. Although the Board of Directors believes that the expectations reflected in these forward-looking statements are reasonable, the Board of Directors gives no assurance that these expectations will be realized or proved to be correct and these statements should not be considered as commitment of the Group. Investors and persons concerned should be fully aware of the risks and understand the difference among plans, estimates and commitments.

During the Reporting Period, the Bank was not aware of any material risks that would adversely affect its future development strategies and business targets. Details of the major risks to which the Bank was exposed in its operations and management and the corresponding measures adopted by the Bank are described in this Report. Please refer to the information in the "Risk Management" section in the "Management Discussion and Analysis" chapter of this Report.

Under different circumstances, this Report discloses relevant information on the Group basis or at the level of the Bank only. Therefore, there exists inconsistency between the data of the "Group" and the "Bank" and such inconsistency is not due to data error, but due to the difference in the scope of the data. Unless otherwise specified, the financial information set out in this Report represents the consolidated data from the financial statements of the Bank together with its subsidiaries, namely Huizhou Zhongkai Dongying County Bank Company Limited, Yunfu Xinxing Dongying County Bank Company Limited, Dongguan Dalang Dongying County Bank Company Limited, Hezhou Babu Dongying County Bank Company Limited, Zhanjiang Rural Commercial Bank Co., Ltd. and Guangdong Chaoyang Rural Commercial Bank Co., Ltd.

There may be discrepancies between the arithmetic sum of certain breakdowns and the corresponding total amount, which is due to rounding rather than data error. To conform with the presentation of the financial statements of 2023, the Group has made reclassification adjustments to certain figures for the comparative period.

This Report is prepared in Chinese and English. If there are any discrepancies between the Chinese and English versions, the Chinese version shall prevail.



Definitions

Definitions of commonly used terms in this Report

“133” project	the Dongguan Rural Commercial Bank “133” project on rural revitalization financial services, that is, focusing on the goal of the rural revitalization strategy, to promote high-quality and efficient agriculture, promote rural livability and industry, and promote the prosperity of farmers, and fully implement the three dispatch systems of dispatching rural revitalization financial instructors, party building and co-construction liaisons, and inclusive financial service personnel
“1+12348” strategic plan	the Outline of the Second Three-Year Development Plan for the Third Transformation of Dongguan Rural Commercial Bank Co., Ltd. (2021–2023), which is, with “leading high-quality development with high-quality Party building” as one guidance, building a “regional modern rural commercial bank group” as one goal; implementation of digitalization and grouping as the two major starting points; implementation of technology, talent and capital as three major drivers; building a core competitiveness system of “four beams and eight pillars (四樑八柱)”, including a core customer management system based on “grid + scenario”, the core business system based on “market share + profitability”, the comprehensive risk management system based on “compliance operation + risk management and control” and the organizational management system based on “incentive and restraint + corporate culture”
“1+3+N”	the marketing model of “1” core enterprise, project or platform as the entry point, extending financial services to its “Three-chain” of industrial chain, supply chain and value chain and the “Three circles” of family circle, business circle, and friends circle of individual customers such as enterprise owners and major shareholders, as well as the “N” relates to small and micro enterprises and retail banking customers on their chains
“Articles of Association” or “Articles” or “Articles of Association of the Bank”	unless otherwise indicated in the context, the articles of association of the Bank currently in force
“Bank” or “our Bank” or “Dongguan Rural Commercial Bank”	Dongguan Rural Commercial Bank Co., Ltd. (東莞農村商業銀行股份有限公司), a joint stock company established on December 22, 2009 through restructuring in the PRC with limited liability, and includes its predecessor, branches and sub-branches (for the avoidance of doubt, excluding its subsidiaries)
“Board of Directors”	the board of Directors of our Bank
“Board of Supervisors”	the board of Supervisors of our Bank
“CBIRC”	the former China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會); in accordance with the Reform Plan for Party and State Institutions (《黨和國家機構改革方案》) published by the Central Committee of the Communist Party of China and the State Council in March 2023, the National Administration of Financial Regulation was formed on the basis of the CBIRC

Definitions

“CBRC”	the former China Banking Regulatory Commission (中國銀行業監督管理委員會), which has merged with China Insurance Regulatory Commission to establish the CBIRC in accordance with the Notice of the State Council on the Setup of Institutions (Guo Fa [2018] No. 6) (國務院關於機構設置的通知(國發[2018]6號)) issued by the State Council on March 24, 2018
“Chaoyang Rural Commercial Bank” or “Chaoyang RCB”	Guangdong Chaoyang Rural Commercial Bank Co., Ltd. (廣東潮陽農村商業銀行股份有限公司), a joint stock company incorporated on December 27, 2020 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules, as currently in force
“Director(s)”	the director(s) of our Bank
“Domestic Share(s)”	ordinary share(s) issued by our Bank in the mainland of the PRC
“Domestic Shareholder(s)”	holder(s) of Domestic Share(s)
“Dongguan Dalang Dongying County Bank”	Dongguan Dalang Dongying County Bank Company Limited (東莞大朗東盈村鎮銀行股份有限公司), a joint stock company incorporated on June 25, 2012 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank
“Group” or “we” or “us”	the Bank and its subsidiaries
“Hezhou Babu Dongying County Bank”	Hezhou Babu Dongying County Bank Company Limited (賀州八步東盈村鎮銀行股份有限公司), a joint stock company incorporated on August 8, 2012 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share(s)”	ordinary share(s) issued by our Bank in Hong Kong, PRC
“H Shareholder(s)”	holder(s) of H Share(s)
“Huizhou Zhongkai Dongying County Bank”	Huizhou Zhongkai Dongying County Bank Company Limited (惠州仲愷東盈村鎮銀行股份有限公司), a joint stock company incorporated on December 13, 2010 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank
“Latest Practicable Date”	August 29, 2023, being the latest practicable date prior to the printing of this Report for ascertaining certain information contained herein

“Listing Rules”	unless otherwise indicated in the context, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited currently in force
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set forth in Appendix 10 to the Listing Rules
“Non-performing loan(s)” or “NPL(s)”	loans classified as substandard, doubtful and loss under our five-level loan classification system, with reference to the Guidelines of Risk-based Classification of Loans issued by CBRC in 2007
“One Core with Two Wings”	the strategic layout where the Guangdong-Hong Kong-Macao Greater Bay Area is regarded as the core, and east and west of Guangdong as the two wings of the Bank, forming a new pattern of regional group operation that takes root in Dongguan, serves the Guangdong-Hong Kong-Macao Greater Bay Area, and radiates across Guangdong Province
“PBoC” or “Central Bank”	The People’s Bank of China, the central bank of the PRC
“Puning Rural Commercial Bank” or “Puning RCB”	Guangdong Puning Rural Commercial Bank Co., Ltd. (廣東普寧農村商業銀行股份有限公司), an institution that the Bank is entrusted by the Dongguan Municipal Government to oversee
“Report” or “this Report”	2023 Interim Report of Dongguan Rural Commercial Bank Co., Ltd.
“Reporting Period”	the six months ended June 30, 2023
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Sannong”	the Chinese acronym of, collectively, nongye (agriculture), nongcun (rural areas) and nongmin (farmers)
“SFO”	unless otherwise indicated in the context, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) currently in force
“Share(s)”	ordinary share(s) of the Bank, including Domestic Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of Share(s), including Domestic Shareholder(s) and H Shareholder(s)
“SME(s)”	collectively, small and micro enterprise(s) by number of employees, operating revenue, total assets and other indicators in accordance with the 2017 Measures for Classification of Large, Medium, the SMEs for the Purpose of Statistics 《統計上大中小微型企業劃分辦法(2017)》 issued by the National Bureau of Statistics of China
“Supervisor(s)”	the supervisor(s) of our Bank

Definitions

“High-Quality Development Project Covering Every County, Every Town and Every Village” or “High-Quality Development Project”	The strategic deployment of Guangdong Provincial Party Committee on promoting the coordinated development of urban and rural areas in Guangdong Province, that is, taking the 122 counties (cities and districts), 1,609 towns (sub-districts), and 26,500 administrative villages (communities) in the province as the main body to comprehensively promote the high-quality development of counties, towns and villages in the province. By 2025, the system and mechanism for integrated urban-rural development shall be basically in place, county economies shall develop at a faster pace, new type of urbanization and rural revitalization shall be achieved, weak spots shall be basically shored up, and the per capita disposable income gap between urban and rural residents shall be further narrowed. By 2027, the coordinated development of urban and rural areas shall achieve remarkable results, the comprehensive strength of counties shall be significantly enhanced, a number of economically strong counties, economically strong towns, and harmonious villages shall come to the top, the level of infrastructure access between urban and rural areas shall become more balanced, the level of equality of basic public services shall be significantly improved, and the practice of Chinese-style modernization in Guangdong shall make breakthrough progress in counties. Looking forward to 2035, the status and role of counties in the economic and social development of the province will become more prominent, the new type of urbanization will be basically realized, decisive progress will be made in rural revitalization, the development between urban and rural areas will be more coordinated and balanced, more tangible progress will be made in achieving common prosperity, and the urban and rural areas of the province will basically achieve socialist modernization
“Three-chain”	the customer groups of industrial chain, supply chain and value chain of modern manufacturing enterprises
“Three-innovation”	the customer groups of start-up entrepreneurs, innovative research and development institutions, and advanced technology manufacturer
“Three major personnel” stationing system	refers to the community-level work system that Dongguan Rural Commercial Bank uses to provide rural revitalization financial services, in which branches of the Bank dispatch service personnel to all administrative villages and communities within their jurisdiction, to serve as local rural revitalization and financial instructors, Party building and co-construction liaisons, and inclusive financial service personnel
“Three threes (三個三)”	refers to the management system of core customer groups, including the modern “Sannong”, the “Three-chain” of modern manufacturing, and the “Three-innovation” of micro, small and medium-sized enterprises
“Yunfu Xinxing Dongying County Bank”	Yunfu Xinxing Dongying County Bank Company Limited (雲浮新興東盈村鎮銀行股份有限公司), a joint stock company incorporated on December 23, 2011 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank
“Zhanjiang Rural Commercial Bank” or “Zhanjiang RCB”	Zhanjiang Rural Commercial Bank Co., Ltd. (湛江農村商業銀行股份有限公司), a joint stock company incorporated on October 26, 2019 in the PRC with limited liability and a non-wholly owned subsidiary of our Bank



Chapter I Profile and Business Overview

I. CORPORATE INFORMATION

Legal Chinese name	東莞農村商業銀行股份有限公司
Abbreviation of Chinese name	東莞農商銀行
Legal English name	Dongguan Rural Commercial Bank Co., Ltd.
Abbreviation of English name	DRC Bank or DRCB
Legal representative (acting on behalf of)	Fu Qiang ⁽¹⁾
Authorized representatives under the Listing Rules	Ye Jianguang, Wong Wai Chiu
Authorized representative under the Hong Kong Companies Ordinance	Wong Wai Chiu
Secretary to the Board of Directors	Ye Jianguang
Joint company secretaries	Ye Jianguang, Wong Wai Chiu
Registered address	No. 2, Hongfu East Road, Dongcheng Street, Dongguan City, Guangdong Province, the PRC
Postal code	523123
Website	www.drcbank.com
Customer service hotline	(86) 769-961122
Principal place of business in Hong Kong	40/F, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock abbreviation and code	DRCB, 9889.HK
H share registrar	Computershare Hong Kong Investor Services Limited
Domestic share depository	China Securities Depository and Clearing Corporation Limited
Domestic accounting firm	Pan-China Certified Public Accountants LLP
International accounting firm	KPMG
PRC legal advisor	C&T Partners
Hong Kong legal advisor	King & Wood Mallesons
Designated information disclosure websites	Website of the Hong Kong Stock Exchange (www.hkexnews.hk) Website of the Bank (www.drcbank.com)
Place for inspection of information disclosure	Office of the Board of Directors of the Bank
Date of establishment as joint stock company	December 22, 2009
Registered capital	RMB6,888,545,510
Unified Social Credit Code	914419007829859746
Financial license number	B1054H344190001

Note:

- (1) As approved by the Board of Directors, Mr. Fu Qiang, Executive Director and President of the Bank, has been performing the duties on behalf of Chairman and legal representative since April 28, 2023.

II. COMPANY PROFILE

Dongguan Rural Commercial Bank, as an independent legal entity, is a headquarter-level local joint stock commercial bank. Our development history can be traced back to 1952 and our predecessor is Dongguan Rural Credit Cooperatives Association. The Bank completed the reform as a unified legal person in 2005, completed the reform as a joint stock company in 2009, and successfully listed on the Hong Kong Stock Exchange on September 29, 2021 (stock code: 9889.HK), making it the 13th listed rural commercial bank and the 4th H-share listed rural commercial bank in the PRC, and the first listed local legal financial institution in Dongguan. Since the reformation from a rural credit cooperative to a rural commercial bank in 2009, the Bank has been growing rapidly and achieved sustained and coordinated development of quality, scale and efficiency, and the assets scale has reached a higher level. As of the end of June 2023, the total assets of the Group amounted to RMB686.212 billion, with various deposits of RMB485.890 billion and various loans of RMB355.062 billion. The non-performing loan ratio of the Group was 0.86%, representing a decrease of 0.04 percentage points as compared with the end of the previous year; the provision coverage ratio was 398.34%, representing an increase of 24.51 percentage points over the end of the previous year; the capital adequacy ratio was 15.83%, and the tier 1 capital adequacy ratio was 13.62%, respectively, which were higher than regulatory standards, and the asset quality remained stable.

According to the statistics of the international authoritative journal “The Banker” in 2023, in terms of tier-one capital as of December 31, 2022, the Bank ranked 214th in the global banking industry, and among the top 300 in the global banking industry. The Bank ranked 38th in the “Top 100 Banks in China of 2023” released by the China Banking Association in terms of net core tier-one capital and other statistical indicators as of December 31, 2022, and 5th among the rural commercial banks in the PRC. The Bank ranked 1,208th in the list of “2023 Global 2000 by Forbes”, up 70 places from the previous year. The Bank ranked 292nd in the “Hurun China 500 Most Valuable Private Companies 2022” with a valuation of RMB44.5 billion, indicating that its brand influence and industry reputation have reached a higher level. In terms of brand honors, The Bank was conferred the “Dongguan City Government Quality Award”, the “Dongguan City Benefit Contribution Award” and the “Dongguan Civilized Unit” issued by the Dongguan Municipal Party Committee and Municipal Government. The Bank was awarded the “National Role Model Bank of Rural Commercial Bank” by the CBIRC, and “China Top 500 Private Enterprises” by the All-China Federation of Industry and Commerce. In the banking awards initiated and organized by domestic authoritative media, the Bank was honored with various awards, including the “Best Rural Commercial Bank of the Year” and the “Annual Special Contribution Award for Supporting Local Economic Development”, etc. According to CCICR, the Bank’s corporate credit rating has remained at AAA, the highest credit rating of corporates in China, since October 2017 and the rating outlook maintained stable.

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As of the end of June 2023, the Bank has established a total of 505 business outlets (including the headquarters), including 39 tier-one branches and sub-branches, 200 tier-two sub-branches and 265 offices, and has provided a variety of onsite and offsite financial services such as 24/7-hour telephone banking, online banking, mobile banking and WeChat banking. In addition, the Bank has been boosting financial cultural innovation. The Dongguan Numismatic Museum (東莞市錢幣博物館), elaborately built by the Bank, houses nearly 20,000 pieces (sets) in its collection, and has been awarded as the “National Grade III Museum”, “Top Ten Folk Collections in Guangdong Province”, the “First Batch of Financial Education Demonstration Bases in Guangdong Province” and the “Dongguan Patriotism Education Base”. The Bank has also built the bank heritage museum that inherits its over 70 years of development history, demonstrating the charm of local finance.

In recent years, the Bank has further developed into a regional group. The Bank established four branches outside Dongguan, including the Nansha branch in the Guangdong Pilot Free Trade Zone, the Hengqin branch in the Guangdong Pilot Free Trade Zone, the Huizhou sub-branch and the Qingxin sub-branch, as well as four county banks, namely Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank, and strategically became the controlling shareholder of Zhanjiang RCB and Chaoyang RCB, and invested in Guangdong Shunde Rural Commercial Bank Co., Ltd., Guangdong Xuwen Rural Commercial Bank Co., Ltd., Guangdong Lechang Rural Commercial Bank Co., Ltd. and Ya’an Rural Commercial Bank Co., Ltd., which has preliminarily formed a new regional group development pattern of “One Core with Two Wings” with Dongguan as the center, the Guangdong-Hong Kong-Macao Greater Bay Area as the core, and East Guangdong and West Guangdong as two complements. The Bank radiated financial services to customer groups in the Greater Bay Area, built a customer ecosystem in the Greater Bay Area, and fully contributed to the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and the integrated development of Guangdong, Hong Kong and Macao.

Looking to the future, the Bank will prioritize the primary task of high-quality development, adhering to the business philosophy of “customer-centered, market-oriented and efficiency-oriented”, focusing on the two key drivers: digitalization and collectivization, and sparing no effort to promote the five core business, i.e. retail finance, corporate finance, SME finance, interbank finance and digital finance, with a view to building a regional modern rural commercial banking group with further capital marketization, more significant digital transformation, and more distinctive group operation.

III. DEVELOPMENT STRATEGY, INVESTMENT VALUE AND CORE COMPETITIVENESS

Development Vision:

Build a regional modern rural commercial banking group

Strategic Plan:

Initiate the “1+12348” strategic deployment, and further advance the “transformation and value enhancement” mission in the third transformation.

“**One Guidance**” refers to leading high-quality development with high-quality Party building, to unify the Party leadership with corporate governance, the Party building with operation and management of the Bank as well as the Party’s discipline with cadres’ requirements through enhancing spirit construction, organization construction, discipline construction and team construction.

“**1 Goal**” means building a modern rural commercial bank with further capital marketization, more significant digital transformation, and more distinctive group operation under the environment of the Guangdong-Hong Kong-Macao Greater Bay Area as the core, with East Guangdong and West Guangdong as the two complements.

“**2 Starting points**” refers to **(1)** focusing on “digitalization”, to reshape our business logic, profit model, operation system, risk control model and organizational system with a digital mindset to accelerate the building of a smart digital bank; and **(2)** focusing on “collectivization”, to explore the construction of a new rural commercial bank model that is compatible with the development of the Guangdong-Hong Kong-Macao Greater Bay Area, and to implement a coordinated development strategy so as to achieve full customer coverage, comprehensive services, and full linkage of risk control.

“**3 Major drivers**” refers to **(1)** adhering to technology-driven, empowering value creation with technology, and deepening the integration of technology and business, so as to gradually realize the transformation from technology-supported to technology-driven; **(2)** staying committed to talent-driven, exerting great effort to build a talent-driven organization, forming an endless talent generating, training and incentivizing mechanism, and giving full play to human capital advantage; and **(3)** keeping to capital-driven, fully integrating capital management into business management, improving capital utilization, and improving the return on capital of subsidiaries to maximize capital value.

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“**4 Beams of foundation**” refers to **(1)** focusing on core customers, that is, focusing on the modern “Sannong” customer group, the “Three-chain” customer group in advanced manufacturing, and the “Three-innovation” customer group of medium, small and micro enterprises, so to create a dynamic customer ecology; **(2)** focusing on core businesses, promoting the comprehensive development of corporate finance, retail finance, SME finance, interbank finance and digital finance to create business segments with competitive advantage; **(3)** focusing on risk management, adhering to the management principles of “rule-based management”, improving the construction of a comprehensive risk management platform, and promoting the integration of risk culture with business and management; and **(4)** focusing on organizational management, building an empowering commercial bank, and realizing the transformation from organizational control to organizational empowerment.

“**8 Pillars of support**” refers to **(1)** building the dual pillars of “grid + scenario”, creating a comprehensive core customer service management system, and creating value for customers; **(2)** building the dual pillars of “market share + rate of return”, creating a market-leading core business system, and comprehensively serving the real economy; **(3)** building the dual pillars of “compliance operation + risk management and control”, creating a modern comprehensive risk management system to strike the balance between risk management and value creation; and **(4)** building the dual pillars of “incentive and restraint + corporate culture”, creating a high-quality organizational management system, stimulating the initiative of the team, and enhancing the unity of the team.

Investment Value and Competitive Advantages:

Prosperous operating area, unique strategic opportunities. The Group has deeply cultivated the Dongguan market, developed based on the Greater Bay Area, seized the opportunity to develop the two provincial sub-centers in Shantou and Zhanjiang, and stabilized the main structure of “One Core with Two Wings”, with the market share in terms of deposits and loans ranked first in the Dongguan banking industry for years. The strong economic strength, complete industrial infrastructure and abundant market vitality of Dongguan and the Guangdong-Hong Kong-Macao Greater Bay Area have laid an important foundation and secured the performance improvement and sustainable development of the Group. The national strategy of “Guangdong-Hong Kong-Macao Greater Bay Area”, the location advantage of “overlapping three districts”⁽¹⁾ and the new local starting point of “double 10,000 (雙萬)”⁽²⁾ have also provided a broad potential customer base and development prospect for the Group.

Notes:

- (1) “Overlapping three districts” refers to the Guangdong-Hong Kong-Macao Greater Bay Area, the construction of Shenzhen as a pilot demonstration zone for socialism with Chinese characteristics, and the construction of Dongguan as a provincial manufacturing supply-side structural reform and innovation experimental zone.
- (2) “Double 10,000 (雙萬)” refers to a GDP of trillions and a population of 10 million in Dongguan.

Clear and firm development strategy, balancing scale, quality and effectiveness. The Group adheres to strategy-led development, clearly defines the development vision of building a regional modern rural commercial bank group, initiates the “1+12348” strategic plan, maintains a strategic focus, effectively responds to complex economic cyclical fluctuation, and keeps to the road of coordinated development of quality, scale and effectiveness. The operating scale of the Group grows steadily and enters the rank of medium-sized banks, with the asset quality continuing to be optimized, the non-performing loan ratio remaining at a low level in the industry, and profitability rising steadily, which continues to create value for Shareholders, and return on assets and return on capital rank among the first echelon of Hong Kong-listed domestic banks.

Origin-focused service structure, quality and effective business development. The Group always adheres to the main responsibility and main business of “supporting agriculture, supporting SMEs and supporting real economy”, with traditional business alongside emerging business focusing on customers, centering on transformation, being supported by technology and being driven by innovation, and strives to achieve a comprehensive improvement in market share acquisition ability, innovation and development ability, product coverage ability and professional operation ability, and provides customers with efficient and comprehensive financial services, gradually forming a situation of general development of core businesses with “excellent and strong” corporate finance, “comprehensive and strong” retail finance, “solid and strong” SMEs finance, “flexible and strong” interbank finance as well as “fine and strong” digital finance.

Coordinated development of organization and management, flexible and efficient operating mechanism. The Group effectively leverages the advantages as a regional small and medium-sized bank, adheres to market-oriented operation, deepens organizational reform, and continues to promote empowerment for tier-1 cities. The Group makes quick decisions on business deployment, responds quickly to customer needs, identifies risks quickly, and achieves high operational efficiency. The Group makes full use of networks and geographical advantages, implements the “133” project of rural revitalization financial services according to local realities, and innovatively builds the “1+3+N” grid marketing model. The Group focuses on serving the core customer groups of the “three threes (三個三)”, and further promotes inclusive financial services to maintain strong market competitiveness.

Chapter I Profile and Business Overview

Solid risk management and continued excellent asset quality. The Group adheres to the operating principle of seeking progress while maintaining stability, and emphasizes the mutual promotion and coordinated development of “steady growth” and “risk prevention”. The Group implements the principle of “rule-based management”, builds a full-coverage risk management and control system, applies full process risk control technology and creates a risk control culture in which all employees participate, enhances the digitalization of risk management, and prevents and mitigates various risks, maintaining asset quality at an excellent level, and escorting the sustainable development of the business operation.

Technology-driven development, full power acceleration of digital development. With the strategy of “running in small steps and winning locally”, and through the empowerment of financial technology (“fintech”) innovation, the Group continuously improves the top-level design of digital transformation, strengthens the training of fintech talents, establishes digital mindset, reshapes operation mechanism and strengthens data governance. The Group also enhances the organizational coordination capabilities, deepens the implementation of digital application, promotes the close integration of technology and business, strives to create a new model of digital finance, and accelerates the creation of a “smart digital bank”.

Professional and solid corporate governance with a realistic and pragmatic corporate culture. The Group has established a sound governance structure of “the shareholders’ general meeting, the Board of Directors, the Board of Supervisors and senior management”, and formed a “diversified interests, coordination and checks and balances” shareholding structure with state-owned, private, foreign, natural person and employee shareholders through Listing; the senior management team has extensive experience in financial management with strong stability, which could affirm management ideas and team building. The Group creates a good corporate culture, adheres to the business philosophy of “customers are our greatest wealth”, deeply works on the corporate atmosphere of “respecting superiors, loving inferiors, being sincere to others, and being truthful to facts”, keeps to the enterprise motto of “accompanying, trusting and growing with each other”, and unites the entire Group for coordinated and common development with the corporate culture.

IV. MAJOR HONORS AND AWARDS

2023

January

2022 Interbank Market Charity Day Charity Organisation

Office of Designated Rural Revitalization Leading Group of the PBOC
China Foundation for Development of Financial Education
China Foreign Exchange Trade System & National Interbank Funding Center

2022 Outstanding Contribution Benefits Award for the Service Sector of Private Enterprises

Dongguan Dongcheng Street Working Committee of the Communist Party of China
Dongcheng Street Office, Dongguan City

Ranked 292nd in the “Hurun China 500 Most Valuable Private Companies 2022” (based on enterprise valuation)

Hurun Research Institute

Ranked 29th in the 2022 Comprehensive Evaluation of the Internet Platform System of Member Institutions

NetsUnion Clearing Corporation

“Top 100 Self-operated Settlement” of 2022 China Bond Member Business Development Quality Evaluation

China Central Depository and Clearing Corporation Limited

February

Dongguan City Benefit Contribution Award 2022

Chinese Communist Party Dongguan Committee
Dongguan Municipal People’s Government

Top 20 Enterprises in Dongguan by Principle Operating Income in 2022

Chinese Communist Party Dongguan Committee
Dongguan Municipal People’s Government

March

Graded with an ESG rating of A on the 2022 Wind ESG Rating List of Listed Banks in Mainland China

Wind Information Co., Ltd. (Wind)

2023 Excellent Case of “Government-Bank Interaction” of Public Data Operations in China

Smart City Working Committee of the China Law Association on Science and Technology (CLAST)
China Smart City Forum

Chapter I Profile and Business Overview

2023

March

**2022 Excellent Member of Interbank Foreign Exchange Market
“Outstanding RMB Foreign Exchange Non-US Currency Member”**

China Foreign Exchange Trade System

April

**Outstanding Strategic Cooperation Unit of Financial Development Forum in the
Guangdong-Hong Kong-Macao Greater Bay Area**

Institute of Finance and Banking, Development Research Center of the State
Council

Guangdong Administration of Financial Regulation

Advanced Unit in Credit Collection Business in 2022

Dongguan Central Sub-branch, the People’s Bank of China

**The “Integrity Enterprise” in “Boosting Consumers’ Confidence in
Consumption” of the 15th Dongguan Integrity Service Demonstration Unit**

Dongguan Consumer Council

Dongguan Newspaper Media Group

June

Excellent Performance Award for Aiding Enterprises in 2022

Guangdong SME Financing Platform

**Outstanding Contribution Award for Brand and Trademark Construction in
2023**

China Trademark Association

Ranked 1208th of the Top 2,000 Global Enterprises in 2023

Forbes, USA

**2023 “Golden Honor Award” for Asset Management and Wealth Management
Industry**

— **Excellent Large Rural Commercial Bank for Asset Management**

PYStandard

July

Ranked 214th of the Top 1,000 World Banks in 2023

The Banker, UK

Tianji Award for ESG Practices in China’s Banking Industry in 2023


Securities Times

China Securities Traders

August

Ranked 38th on the list of Top 100 Banks in China in 2023

China Banking Association



Chapter II **Accounting** **Data and** **Financial** **Indicators** **Highlights**

Chapter II
Accounting Data and Financial Indicators Highlights

(unit: RMB'000)

Operating results	For the six months ended June 30,		Percentage increase/ (decrease) for the Reporting Period as compared to the same period of the previous year (%)
	2023	2022	
Operating income	7,265,200	7,212,689	0.73
Profit before tax	3,998,415	3,957,731	1.03
Net profit	3,675,277	3,642,068	0.91
Net profit attributable to the shareholders of the Bank	3,582,891	3,540,384	1.20

(unit: RMB/share)

Per share	As at June 30,/for the six months ended June 30,		As at December 31,/for the year ended December 31,	Percentage increase/ (decrease) for the Reporting Period as compared to the same period of the previous year (%)
	2023	2022		
Net asset per share attributable to the shareholders of the Bank	7.67	7.09	7.42	8.18
Basic earnings per share	0.52	0.51	0.86	1.96
Diluted earnings per share	0.52	0.51	0.86	1.96

(unit: RMB'000)

Scale indicators	As at June 30, 2023	As at December 31, 2022	Percentage increase/ (decrease) as at the end of the Reporting Period as compared to the end of the previous year (%)
Total assets	686,211,937	657,689,972	4.34
Including: Gross loans and advances to customers (excluding accrued interest)	355,061,579	331,997,701	6.95
Allowance for expected credit loss/impairment provision for loans and advances to customers ⁽¹⁾	11,925,059	10,988,260	8.53
Total liabilities	630,630,349	603,870,043	4.43
Including: Total deposits from customers (excluding accrued interest)	485,889,557	459,162,554	5.82
Share capital	6,888,546	6,888,546	—
Shareholders' equity	55,581,588	53,819,929	3.27
Including: Equity attributable to shareholders of the Bank	52,830,635	51,127,714	3.33
Non-controlling interests	2,750,953	2,692,215	2.18

Note:

- (1) Including the expected credit loss allowance on loans and advances to customers measured at amortized costs and the expected credit loss allowance on loans and advances to customers at fair value through other comprehensive income.

Chapter II Accounting Data and Financial Indicators Highlights

(unit: %)

Profitability indicators	For the six months ended June 30,		Percentage point increase/ (decrease) for the Reporting Period as compared to the same period of the previous year
	2023	2022	
Return on average total assets (annualized) ⁽¹⁾	1.09	1.19	(0.10)
Return on average equity (annualized) ⁽²⁾	13.00	13.85	(0.85)
Net interest spread (annualized) ⁽³⁾	1.68	1.82	(0.14)
Net interest margin (annualized) ⁽⁴⁾	1.73	1.88	(0.15)
Cost-to-income ratio ⁽⁵⁾	28.86	29.07	(0.21)

Notes:

- (1) The annualized rate of return was calculated by dividing the annualized net profit for the period by the average balance of total assets at the beginning and the ending of the period.
- (2) The annualized rate of return was calculated by dividing the annualized net profit for the period by the average balance of total shareholders' equity at the beginning and the ending of the period, which was the closing balance after taking into account the annualized net profit.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost rate of interest-bearing liabilities.
- (4) Calculated by dividing the annualized net interest income for the period by the average balance of total interest-earning assets.
- (5) Calculated by dividing the total operating expenses (excluding tax and surcharges) by total operating income.

(unit: %)

Capital adequacy indicators⁽¹⁾	As at June 30, 2023	As at December 31, 2022	Percentage point increase/ (decrease) as at the end of the Reporting Period as compared to the end of the previous year
Core tier-one capital adequacy ratio ⁽²⁾	13.59	13.70	(0.11)
Tier-one capital adequacy ratio ⁽³⁾	13.62	13.74	(0.12)
Capital adequacy ratio ⁽⁴⁾	15.83	15.98	(0.15)
Ratio of total equity to total assets	8.10	8.18	(0.08)

Notes:

- (1) Calculated in accordance with relevant requirements of the Administrative Measures for the Capital of Commercial Banks (Trial) (商業銀行資本管理辦法(試行)). The calculation scope of capital adequacy ratio comprises of all branches and financial institution subsidiaries in compliance with the requirements of the Administrative Measures for the Capital of Commercial Banks (Trial).
- (2) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by total risk-weighted assets.
- (3) Calculated by dividing tier-one capital, net of tier one capital deductions, by total risk-weighted assets.
- (4) Calculated by dividing total capital, net of capital deductions, by total risk-weighted assets.

(unit: %)

Asset quality indicators	As at June 30, 2023	As at December 31, 2022	Percentage point increase/ (decrease) as at the end of the Reporting Period as compared to the end of the previous year
Non-performing loan ratio ⁽¹⁾	0.86	0.90	(0.04)
Allowance coverage ratio ⁽²⁾	398.34	373.83	24.51
Allowance to total loan ratio ⁽³⁾	3.41	3.37	0.04

Notes:

- (1) Calculated by dividing the amount of non-performing loan (excluding accrued interest) by total amount of loans (excluding accrued interest), where the loans of Zhanjiang Rural Commercial Bank and Chaoyang Rural Commercial Bank, our subsidiaries, were calculated by the original book value instead of fair value at the acquisition date.

Chapter II Accounting Data and Financial Indicators Highlights


- (2) Calculated by dividing the balance of loan impairment provision by total non-performing loans (excluding accrued interest), where the balance of loan impairment provision does not include the balance of loan impairment provision recorded under loans in revaluation reserve and the loans of Zhanjiang Rural Commercial Bank and Chaoyang Rural Commercial Bank, our subsidiaries, were calculated by the original book value instead of fair value at the acquisition date.
- (3) Calculated by dividing the balance of loan impairment provision by total loans (excluding accrued interest), where the balance of loan impairment provision does not include the balance of loan impairment provision recorded under loans in revaluation reserve and the loans of Zhanjiang Rural Commercial Bank and Chaoyang Rural Commercial Bank, our subsidiaries, were calculated by the original book value instead of fair value at the acquisition date.

(unit: %)

Asset quality indicators	As at June 30, 2023	As at December 31, 2022	Percentage point increase/ (decrease) as at the end of the Reporting Period as compared to the end of the previous year
Loan-to-deposit ratio ⁽¹⁾	73.13	72.37	0.76

Note:

- (1) Calculated by dividing total loans to customers (excluding accrued interest) by total deposits from customers (excluding accrued interest), where the deposits and loans of Zhanjiang Rural Commercial Bank and Chaoyang Rural Commercial Bank, our subsidiaries, were calculated at the original book value but not the fair value on the acquisition date.



Chapter III Management Discussion and Analysis

I. OPERATION OVERVIEW

In the first half of 2023, the Bank anchored the primary task of high-quality development, took the initiative to connect with the overall situation of high-quality development of provinces and cities, comprehensively promoted the implementation of the Group's strategic planning and business objectives, fully consolidated the foundation of transformation and development, focused on cultivating innovative development and growth poles, and achieved sustained and coordinated development of its own quality, scale and efficiency. The main operating performance maintained the leading position of the banking industry in Dongguan.

- 1. Steadily increased business scale.** As of the end of June 2023, the total assets of the Group amounted to RMB686.212 billion, representing an increase of RMB28.522 billion or 4.34% as compared with the end of the previous year. The balance of deposits was RMB485.890 billion, representing an increase of RMB26.727 billion or 5.82% as compared with the end of the previous year. The balance of loans was RMB355.062 billion, representing an increase of RMB23.064 billion or 6.95% as compared with the end of the previous year. The Bank has achieved steady growth in the scale of assets and liabilities.
- 2. Stable asset quality.** As of the end of June 2023, the non-performing loan ratio of the Group was 0.86%, representing a decrease of 0.04 percentage points as compared with the end of the previous year; the provision coverage ratio was 398.34%, representing an increase of 24.51 percentage points as compared with the end of the previous year; the capital adequacy ratio was 15.83%, and the tier 1 capital adequacy ratio was 13.62%, which were higher than regulatory standards. The asset quality remained stable.
- 3. Steadily improved operating benefits.** In the first half of 2023, the Group realized a profit before provision of RMB5.140 billion, representing a year-on-year increase of RMB67 million or 1.33%; the Group realized a net profit of RMB3.675 billion, representing a year-on-year increase of RMB33 million or 0.91%; the ROA was 1.09%, and the ROE was 13.00%. The Bank stood out of listed banks in terms of profitability.

II. KEY OPERATING DATA DURING THE REPORTING PERIOD

(I) Income Statement Analysis

During the Reporting Period, the Group achieved operating income of RMB7.265 billion, representing an increase of 0.73% from the same period of last year, and realized net profit of RMB3.675 billion, representing an increase of RMB33 million or 0.91% from the same period of last year. This was mainly due to net interest income growth slowed due to pressure on interest spreads, while maintaining provisions to strengthen risk resilience.

The key items of the Group's income statement and the comparative changes are as follows:

(unit: RMB'000)

Item	For the six months ended June 30,		Amount of increase/ (decrease)	Increase/ (decrease) percentage(%)
	2023	2022		
Net interest income	5,360,242	5,334,478	25,764	0.48
Net non-interest income	1,904,958	1,878,211	26,747	1.42
Operating income	7,265,200	7,212,689	52,511	0.73
Operating expense	(2,156,532)	(2,158,320)	1,788	(0.08)
Credit impairment losses	(1,141,975)	(1,115,363)	(26,612)	2.39
Operating profit	3,966,693	3,939,006	27,687	0.70
Share of profits of associates	31,722	18,725	12,997	69.41
Profit before tax	3,998,415	3,957,731	40,684	1.03
Income tax expense	(323,138)	(315,663)	(7,475)	2.37
Net profit	3,675,277	3,642,068	33,209	0.91
Net profit attributable to shareholders of the Bank	3,582,891	3,540,384	42,507	1.20
Net profit attributable to non-controlling interests	92,386	101,684	(9,298)	(9.14)

Chapter III Management Discussion and Analysis

1. Net interest income

During the Reporting Period, the net interest income of the Group amounted to RMB5.360 billion, representing a year-on-year increase of RMB26 million or 0.48%, mainly due to the dual impact of the Bank's preferential policies to support the real economy and the reduction of LPR interest rate, the interest margin continued to be under pressure and the growth of net interest income slowed down.

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

(unit: RMB'000)

Item	For the six months ended June 30,		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Interest income	11,502,213	11,303,499	198,714	1.76
Interest expense	(6,141,971)	(5,969,021)	(172,950)	2.90
Net interest income	5,360,242	5,334,478	25,764	0.48

(1) Net interest spread and net interest margin

During the Reporting Period, the average yield on interest-earning assets of the Group was 3.71%, representing a year-on-year decrease of 0.27 percentage points; the average cost rate of interest-bearing liabilities was 2.03%, representing a year-on-year decrease of 0.13 percentage points; the net interest spread was 1.68%, representing a year-on-year decrease of 0.14 percentage points; the net interest margin was 1.73%, representing a year-on-year decrease of 0.15 percentage points.

During the Reporting Period, the decrease in the average yield on interest-earning assets of the Group as compared to the same period of the previous year was: firstly, due to the continuous impact of loan interest rate re-pricing and policies supporting the real economy; secondly, due to the expiration or disposal of the high-yield financial investment assets allocated in the previous period, the yield of the new investment assets decreased as a result of the decline in market interest rates of financial investment.

During the Reporting Period, the decrease in the average cost rate of interest bearing liabilities of the Group as compared to the same period of the previous year was mainly due to the fact that the effective implementation of the Group's cost control measures on deposits led to a decrease in the cost rate of deposits and thus a decrease in the average cost rate of interest-bearing liabilities.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense and the related average yields on assets or related average cost rate of liabilities for the periods indicated:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾ (%)	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾ (%)
Interest-earning assets						
Loans and advances to customers	346,511,098	8,029,690	4.63	306,961,465	7,851,638	5.12
Financial investments ⁽²⁾	215,214,367	3,031,236	2.82	197,824,932	2,989,463	3.02
Deposits with Central Bank	31,381,216	218,364	1.39	30,963,305	219,720	1.42
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	27,004,208	222,923	1.65	32,460,044	242,678	1.50
Total	620,110,889	11,502,213	3.71	568,209,746	11,303,499	3.98
Interest-bearing liabilities						
Deposits from customers	463,011,624	4,469,946	1.93	419,789,513	4,258,638	2.03
Debt securities issued	72,663,212	907,523	2.50	61,580,177	903,088	2.93
Borrowings from Central Bank	24,633,399	308,468	2.50	17,782,397	226,980	2.55
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	44,786,393	446,371	1.99	54,178,320	568,600	2.10
Leasing liability	439,610	9,663	4.40	468,982	11,715	5.00
Total	605,534,238	6,141,971	2.03	553,799,389	5,969,021	2.16
Net interest income		5,360,242			5,334,478	
Net interest spread⁽³⁾			1.68			1.82
Net interest margin⁽⁴⁾			1.73			1.88

Notes:

- (1) Calculated by dividing the annualized interest income/expense for the period by the average balance.
- (2) Mainly consisted of interest-earning financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (3) The arithmetic difference between the average yield of all interest-earning assets and the average cost rate of all interest-bearing liabilities.
- (4) Calculated by dividing the annualized net interest income for the period by the average balance of total interest-earning assets.

Chapter III Management Discussion and Analysis

The following table sets forth the year-on-year changes in the Group's interest income and interest expense due to changes in volume and interest rates:

(unit: RMB'000)

Item	For the six months ended June 30, 2023 as compared to 2022		
	Increase/(decrease) due to changes in		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	1,011,623	(833,571)	178,052
Financial investments ⁽⁴⁾	262,783	(221,010)	41,773
Deposits with Central Bank ⁽⁵⁾	2,966	(4,322)	(1,356)
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	(40,789)	21,034	(19,755)
Changes in interest income	1,236,583	(1,037,869)	198,714
Interest-bearing liabilities			
Deposits from customers	438,475	(227,167)	211,308
Debt securities issued ⁽⁶⁾	162,535	(158,100)	4,435
Borrowings from Central Bank	87,448	(5,960)	81,488
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	(98,568)	(23,661)	(122,229)
Leasing liability	(734)	(1,318)	(2,052)
Changes in interest expense	589,156	(416,206)	172,950
Changes in net interest income	647,427	(621,663)	25,764

Notes:

- (1) Refers to average balance of the period minus average balance of the previous period, multiplied by average yield/cost rate of the previous period.
- (2) Refers to average yield/cost rate of the period minus average yield/cost rate of the previous period, multiplied by the average balance of the period.
- (3) Represents interest income/expense of the period minus interest income/expense of the previous period.
- (4) Mainly consisted of interest-earning financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (5) Mainly consisted of statutory deposit reserves and surplus deposit reserves.
- (6) Mainly consisted of interbank certificates of deposits, tier-two capital bonds, green financial bonds, financial bonds of Sannong and SME financial bonds etc.

During the Reporting Period, the growth of net interest income slowed down under the combined effect of stable growth in scale and decline in interest rate.

(2) *Interest income*

During the Reporting Period, the Group's interest income amounted to RMB11.502 billion, representing a year-on-year increase of RMB199 million or 1.76%. The following table sets forth the composition of the Group's interest income, the respective proportion and average yield during the indicated periods:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Amount	Percentage of total (%)	Average yield (%)	Amount	Percentage of total (%)	Average yield (%)
Loans and advances to customers	8,029,690	69.81	4.63	7,851,638	69.46	5.12
Financial investments	3,031,236	26.35	2.82	2,989,463	26.45	3.02
Deposits with Central Bank	218,364	1.90	1.39	219,720	1.94	1.42
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	222,923	1.94	1.65	242,678	2.15	1.50
Total interest income	11,502,213	100.00	3.71	11,303,499	100.00	3.98

(i) *Interest income from loans and advances to customers*

Interest income from loans and advances to customers accounted for 69.81% and 69.46% of total interest income for the six months ended 30 June 2023 and 2022, respectively. The following table sets forth the average balance, interest income and average yield for each component of the Group's loans and advances to customers for the periods indicated:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances	231,231,744	5,708,808	4.94	201,390,991	5,371,942	5.33
Personal loans and advances	81,754,399	2,049,986	5.01	79,375,463	2,205,922	5.56
Discounted bills	33,524,955	270,896	1.62	26,195,011	273,774	2.09
Total	346,511,098	8,029,690	4.63	306,961,465	7,851,638	5.12

Chapter III Management Discussion and Analysis

During the Reporting Period, interest income from loans and advances to customers amounted to RMB8.030 billion, representing an increase of RMB178 million or 2.27% over the corresponding period last year. Firstly, the scale of loans increased as the Bank increased its relief efforts and the support for local real economy, launched the “Financial Support for the ‘High-Quality Development Project’ Initiative” to increase its credit support for key areas such as advanced manufacturing, modernized industrial parks, urban renewal, green and environmental protection industries, and strategic emerging industries; vigorously supported small and micro-enterprises and individual industrial and commercial households, and tilted credit funds to small and micro enterprises to drive the growth of loan scale. Secondly, the loan yield continued to decline due to the implementation of loan interest rate preferential policies to support the real economy and the reduction of LPR interest rate by the Central Bank; the growth of loan interest income slowed down under the combined effect of scale and interest rate.

(ii) Financial investment interest income

For the six months ended 30 June 2023 and 2022, financial investment interest income accounted for 26.35% and 26.45% of total interest income, respectively. The majority of interest income from financial investments is derived from interest income from debt securities.

During the Reporting Period, the Group achieved interest income from financial investments of RMB3.031 billion, representing an increase of RMB42 million or 1.40% from the corresponding period last year. The increase of interest income was mainly due to the increase in interest-earning assets of financial investments. The average balance of financial investment increased by RMB17.389 billion from the same period of the previous year, which was mainly due to the increase in deposit scale and the increase in financial investment when the bond interest rate is rising.

(iii) Interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions

The average balance, interest income and average yield of each component of the Group’s financial assets held under resale agreements and deposits and placements with banks and other financial institutions are as follows:

(unit: RMB’000)

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Financial assets held under resale agreements	14,400,300	123,383	1.71	18,374,237	166,876	1.82
Deposits and placements with banks and other financial institutions	12,603,908	99,540	1.58	14,085,807	75,802	1.08
Total	27,004,208	222,923	1.65	32,460,044	242,678	1.50

During the Reporting Period, interest income from financial assets held under resale agreements and deposits and placements with banks and other financial institutions amounted to RMB223 million, representing a decrease of 8.14% as compared with the same period of last year, which is because, firstly, the Bank increased the scale of financial investment, and correspondingly reduced the investment of financial assets held under resale agreements, resulting in a decline in the scale of interest-bearing assets, and thus a decrease in interest income; secondly, the market interest rates of financial assets held under resale agreements and deposits and placements with banks and other financial institutions increased compared to the same period last year, resulting in an overall increase in average earnings rates to offset the impact of the aforementioned change in the scale.

(3) *Interest expense*

During the Reporting Period, interest expense of the Group amounted to RMB6.142 billion, representing a year-on-year increase of RMB173 million or 2.90%. The following table sets forth the composition of the Group's interest expenses and their corresponding proportion and average cost rate for the periods indicated:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Amount	Percentage of total (%)	Average cost rate (%)	Amount	Percentage of total (%)	Average cost rate (%)
Deposits from customers	4,469,946	72.78	1.93	4,258,638	71.35	2.03
Debt securities issued	907,523	14.78	2.50	903,088	15.13	2.93
Borrowings from Central Bank	308,468	5.02	2.50	226,980	3.80	2.55
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	446,371	7.27	1.99	568,600	9.53	2.10
Leasing liabilities	9,663	0.15	4.40	11,715	0.19	5.00
Total interest expense	6,141,971	100.00	2.03	5,969,021	100.00	2.16

Chapter III Management Discussion and Analysis

(i) Interest expense on customer deposits

For the six months ended 30 June 2023 and 2022, interest expenses on customer deposits accounted for 72.78% and 71.35% of total interest expenses, respectively.

The following table sets forth the average balance, interest expense and average cost rate of each component of the Group's customer deposits during the period indicated:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	99,423,688	493,968	0.99	97,843,790	422,657	0.86
Time	86,657,717	1,471,407	3.40	77,216,752	1,483,604	3.84
Sub-total	186,081,405	1,965,375	2.11	175,060,542	1,906,261	2.18
Personal deposits						
Demand	118,228,820	304,913	0.52	112,786,965	344,902	0.61
Time	158,701,399	2,199,658	2.77	131,942,006	2,007,475	3.04
Sub-total	276,930,219	2,504,571	1.81	244,728,971	2,352,377	1.92
Total	463,011,624	4,469,946	1.93	419,789,513	4,258,638	2.03

During the Reporting Period, the Group's interest expense on customer deposits was RMB4.470 billion, representing an increase of RMB211 million or 4.96% year-on-year. The increase in interest expense on customer deposits was primarily due to the steady growth of deposits. On the other hand, the Bank's cost control measures on deposits have been effective, with the cost rate of deposits decreasing. The impact of the increase in deposits was partially offset by the impact of the decrease in cost rate.

(ii) Interest expense on Debt securities issued

During the Reporting Period, interest expense on Debt securities issued of the Group amounted to RMB908 million, representing a year-on-year increase of 0.49%, mainly due to the increase in interest expenses as a result of the scale growth owing to the decrease in the scale of deposits and placements from banks and other financial institutions along with the increase in the issuance of interbank certificates of deposit.

(iii) Interest expense on borrowing from the Central Bank

During the Reporting Period, the Group's interest expense on borrowings from the Central Bank amounted to RMB308 million, representing an increase of RMB81 million or 35.90% year on year, which was mainly due to the increase in interest expenses as a result of the scale growth owing to enhancing the debt management and increasing the size of MLF.

- (iv) Interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions

The average balance, interest expense and average cost rate of components of the Group's financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions during the period indicated are as follows:

(unit: RMB'000)

Item	For the six months ended June 30,					
	2023			2022		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Financial assets sold under repurchase agreements	26,402,252	240,175	1.82	23,006,999	192,262	1.67
Deposits and placements from banks and other financial institutions	18,384,141	206,196	2.24	31,171,321	376,338	2.41
Total	44,786,393	446,371	1.99	54,178,320	568,600	2.10

During the Reporting Period, the Group's interest expense on financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions amounted to RMB446 million, representing a decrease of RMB122 million or 21.50% year-on-year, mainly due to the decrease in interest expenses and the scale of the deposit of inter-bank and other financial institutions owing to the increase of the issuance scale of inter-bank certificates of deposits, which replaced the deposit of inter-bank and other financial institutions.

2. Net non-interest income

During the Reporting Period, net non-interest income of the Group amounted to RMB1.905 billion, representing a year-on-year increase of RMB27 million or 1.42%. The following table sets forth the composition and proportion of net non-interest income of the Group for the periods indicated:

(unit: RMB'000)

Item	For the six months ended June 30,		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Net fee and commission income	448,527	482,457	(33,930)	(7.03)
Net trading gains	623,612	744,057	(120,445)	(16.19)
Net gains on financial instruments	740,365	594,795	145,570	24.47
Other operating income	92,454	56,902	35,552	62.48
Total	1,904,958	1,878,211	26,747	1.42

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(1) Net fee and commission income

During the Reporting Period, the net fee and commission income of the Group amounted to RMB449 million, representing a year-on-year decrease of RMB34 million, mainly due to a year-on-year decrease in fee and commission income from wealth management business as a result of the decrease in market interest rates.

The details of net fee and commission income of the Group during the period indicated are as follows:

(unit: RMB'000)

Item	For the six months ended 30 June			
	2023		2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Fee income from settlement business	25,213	5.62	37,840	7.84
Bank card fee income	97,082	21.64	113,427	23.51
Fee income from trust and fiduciary activities	221,577	49.40	168,780	34.98
Income from wealth management business	151,043	33.68	235,527	48.82
Income from other businesses	58,557	13.06	42,212	8.75
Fee and commission income	553,472	123.40	597,786	123.90
Fee and commission expense	(104,945)	(23.40)	(115,329)	(23.90)
Net fee and commission income	448,527	100.00	482,457	100.00

(2) Net trading gains

During the Reporting Period, the Group's net trading gains amounted to RMB624 million, representing a year-on-year decrease of RMB120 million, which was due to firstly a decrease in exchange gains on capital funds and secondly the decrease of exchange gains resulting from a year-on-year decrease in the foreign exchange settlement and sales on behalf of customers.

(3) Net gains on financial instruments

During the Reporting Period, the Group's net gains on financial instruments amounted to RMB740 million, representing a year-on-year increase of RMB146 million, mainly due to seizing the opportunity of the decline in market interest rates and increasing the sale of financial investment assets to realize the spread income.

(4) Other operating income

During the Reporting Period, other operating income of the Group amounted to RMB92 million, representing a year-on-year increase of 36 million, mainly due to the fact that the PBoC provided incentive funds for the increase in the balance of inclusive loans to small and micro enterprises granted by local corporate financial institutions in a certain proportion, and the Bank's inclusive SME loans scale increased significantly in the first half of 2023, thus the income from incentive funds increased correspondingly.

3. Operating expense

During the Reporting Period, the Group's operating expenses amounted to RMB2.157 billion, basically the same as the same period of last year. This was mainly due to the fact that the Bank continued to adhere to the principle of cost reduction and efficiency enhancement and continued to strengthen refined management of expenses, so the operating expenses decreased slightly year-on-year.

The following table sets forth the main components of the Group's operating expenses for the periods indicated:

(unit: RMB'000)

Item	For the six months ended 30 June		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Staff costs	1,565,017	1,528,993	36,024	2.36
Taxes and surcharges	59,677	61,528	(1,851)	(3.01)
General and administrative expenses	312,394	337,548	(25,154)	(7.45)
Depreciation and amortization	217,063	227,817	(10,754)	(4.72)
Others	2,381	2,434	(53)	(2.18)
Total	2,156,532	2,158,320	(1,788)	(0.08)

(1) Staff costs

Staff costs is the largest component of the Group's operating expenses, accounting for 72.57% and 70.84% of the operating expenses in the first half of 2023 and 2022 respectively.

The following table sets forth the main components of the Group's staff costs for the periods indicated:

(unit: RMB'000)

Item	For the six months ended 30 June		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Salaries, bonuses, allowances and subsidies	1,119,709	1,132,509	(12,800)	(1.13)
Pension and other social benefits	362,646	313,664	48,982	15.62
Enterprise annuity scheme	60,355	60,220	135	0.22
Others	22,307	22,600	(293)	(1.30)
Total	1,565,017	1,528,993	36,024	2.36

During the Reporting Period, the Group's staff costs amounted to RMB1.565 billion, representing an increase of RMB36 million or 2.36% year on year.

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(2) Depreciation and amortization

During the Reporting Period, the Group's depreciation and amortization amounted to RMB217 million, which was basically the same as that of the same period of last year, mainly due to the small change in the scale of property equipment.

4. Credit impairment losses

(unit: RMB'000)

Item	For the six months ended 30 June		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Loans and advances to customers	1,098,542	925,621	172,921	18.68
Financial investments	31,545	151,601	(120,056)	(79.19)
Loan commitments and guarantee contracts	19,105	473	18,632	3,939.11
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	(4,206)	6,823	(11,029)	(161.64)
Other assets	(3,011)	30,845	(33,856)	(109.76)
Total	1,141,975	1,115,363	26,612	2.39

(1) Loans and advances to customers

During the Reporting Period, the Group's provision for credit impairment losses on loans and advances to customers was RMB1.099 billion, representing an increase of RMB173 million from the same period of the previous year, which was mainly because the Group's continued strengthening of provisions to enhance its asset risk resilience in accordance with the principle of prudence.

(2) Financial investments

During the Reporting Period, the Group's provision for credit impairment losses on financial investments amounted to RMB32 million, representing a decrease of RMB120 million from the same period of the previous year, mainly due to the fact that the Group continued to optimize the investment structure of financial assets in recent years, the proportion of low-credit risk bonds increased, and the existing non-performing financial assets gradually decreased, resulting in a decrease in the impairment losses on credit assets required to be provided.

5. Income tax expense

During the Reporting Period, the Group's income tax expense amounted to RMB323 million, representing a year-on-year increase of RMB7 million. The effective income tax rate was 8.08%, representing an increase of 0.10 percentage point from the same period of the previous year, mainly due to the increase in profit before tax as compared with the corresponding period of last year but the scale of tax-free income remained basically flat.

(unit: RMB'000)

Item	For the six months ended 30 June		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Current income tax expense	498,662	522,114	(23,452)	(4.49)
Deferred income tax expense	(175,524)	(206,451)	30,927	(14.98)
Total	323,138	315,663	7,475	2.37

(II) Balance Sheet Analysis

1. Assets

As of the end of the Reporting Period, the total assets of the Group was RMB686.212 billion, representing an increase of RMB28.522 billion or 4.34% over the end of last year, mainly due to the increase in asset scale driven by the steady growth of loans and financial investments.

The following table sets forth the balance of main components of the Group's total assets as of the dates indicated:

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Net loans and advances to customers	343,851,985	50.11	321,748,124	48.92
Cash and balances with Central Bank	37,846,178	5.52	40,024,836	6.09
Financial investments ⁽¹⁾	280,266,701	40.84	269,777,909	41.02
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	14,180,633	2.07	15,515,079	2.36
Investment in associates	507,131	0.07	480,421	0.07
Goodwill	520,521	0.08	520,521	0.08
Property and equipment	2,386,776	0.35	2,475,704	0.38
Right-of-use assets	1,011,445	0.15	934,118	0.14
Deferred tax assets	4,188,447	0.61	4,059,547	0.62
Others ⁽²⁾	1,452,120	0.20	2,153,713	0.32
Total assets	686,211,937	100.00	657,689,972	100.00

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Notes:

- (1) Financial investments include bonds, funds, beneficiary rights of credit assets, and unlisted equity investments.
- (2) Consisted of derivative financial assets, advances to suppliers, long-term deferred expenses, foreclosed assets, R&D expenses, clearing and settlement, and precious metal.

(1) Loans and advances to customers

As of the end of the Reporting Period, the Group's net loans and advances to customers amounted to RMB343.852 billion, representing an increase of RMB22.104 billion or 6.87% over the end of last year.

(unit: RMB'000)

	As at 30 June 2023	As at 31 December 2022	Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
Total loans and advances to customers	355,061,579	331,997,701	23,063,878	6.95
Add: accrued interest	659,956	670,422	(10,466)	(1.56)
Less: allowance for expected credit loss ⁽¹⁾	11,869,550	10,919,999	949,551	8.70
Net loans and advances to customers	343,851,985	321,748,124	22,103,861	6.87

Note:

- (1) Excluding provision for impairment of bills rediscounting and forfeiting, which is included in revaluation reserve.

The Group's loans and advances to customers mainly consisted of corporate loans, personal loans and discounted bills. For details of the Group's loans and advances to customers, please refer to the "Loan Quality Analysis" in this chapter of this Report.

(2) Financial assets held under resale agreements and deposits and placements with banks and other financial institutions

As of the end of the Reporting Period, the amount of the Group's financial assets held under resale agreements and deposits and placements with banks and other financial institutions was RMB14.181 billion, representing a decrease of RMB1.334 billion as compared with the end of the previous year, which mainly due to increasing the scale of financial investment, and corresponding reduction in the investment of financial assets held under resale agreements.

The breakdown of the Group's financial assets held under resale agreements and deposits and placements with banks and other financial institutions as of the dates indicated is as follows:

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Deposits with domestic banks and other financial institutions	6,269,848	44.13	5,759,262	37.04
Deposits with overseas banks and other financial institutions	609,802	4.29	658,713	4.24
Placements with domestic banks and other financial institutions	6,790,000	47.80	6,738,230	43.34
Financial assets held under resale agreements	536,461	3.78	2,390,500	15.38
Sub-total	14,206,111	100.00	15,546,705	100.00
Add: accrued interest	20,761	—	18,819	—
Less: impairment allowance	46,239	—	50,445	—
Total	14,180,633	—	15,515,079	—

(3) *Financial investments*

As of the end of the Reporting Period, the Group's financial investments mainly include bonds, beneficiary rights of credit assets, funds and unlisted equity investments. The Group's total financial investments were RMB280.267 billion, representing an increase of RMB10.489 billion or 3.89% over the end of last year.

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

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial investments at fair value through profit or loss	53,727,882	19.17	52,182,664	19.34
Financial investments at amortized cost	115,508,694	41.21	124,352,911	46.09
Financial investments at fair value through other comprehensive income	111,030,125	39.62	93,242,334	34.57
Total	280,266,701	100.00	269,777,909	100.00

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In particular, the detailed distribution of the types and amounts of bonds held by the Group as of the dates indicated was as follows:

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Debt securities issued by the central and local governments	182,584,052	73.47	166,323,926	69.12
Debt securities issued by financial institutions	56,615,398	22.78	64,268,087	26.71
Debt securities issued by enterprises	2,343,379	0.94	4,375,484	1.82
Interbank certificates of deposits	6,987,612	2.81	5,661,879	2.35
Total	248,530,441	100.00	240,629,376	100.00

In particular, the top ten financial bonds (based on nominal value) held by the Group are as follows:

(unit: RMB'000)

Name of bonds	Issuer	Nominal value	Coupon rates (%)	Maturity date
19 CDB bond 10	China Development Bank	2,810,000	3.65	2029-05-21
18 CDB bond 10	China Development Bank	1,430,000	4.04	2028-07-06
22 EIBC bond 10	The Export-Import Bank of China	1,420,000	3.18	2032-03-11
22 ADBC bond issued at SCH (Shanghai Clearing House) 04	Agricultural Development Bank of China	1,370,000	2.83	2029-08-11
22 ADBC bond issued at SCH 02	Agricultural Development Bank of China	1,170,000	2.91	2029-02-21
18 CDB bond 05	China Development Bank	1,080,000	4.88	2028-02-09
20 CDB bond 05	China Development Bank	1,070,000	3.07	2030-03-10
21 ADBC bond issued at SCH 01	Agricultural Development Bank of China	990,000	3.48	2028-02-04
23 ADBC bond 03	Agricultural Development Bank of China	940,000	2.90	2028-03-08
22 CDB bond 20	China Development Bank	920,000	2.77	2032-10-24

2. Liabilities

As of the end of the Reporting Period, the total liabilities of the Group were RMB630.630 billion, representing an increase of RMB26.760 billion or 4.43% over the end of last year, which was mainly due to the increase in liabilities driven by deposits from customers and issuance of Debt securities, and the increase was partially offset by the impact of the decrease in the scale sold under repurchase agreements.

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

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Deposits from customers	493,666,439	78.28	465,688,801	77.12
Debt securities issued	81,551,252	12.93	64,053,467	10.61
Borrowings from Central Bank	27,462,039	4.35	23,351,892	3.87
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	21,459,036	3.40	44,404,451	7.35
Leasing liability	531,677	0.08	456,116	0.08
Financial liabilities at fair value through profit or loss	1,803,286	0.29	1,809,212	0.30
Taxes payable	613,389	0.10	457,304	0.08
Other liabilities ⁽¹⁾	3,543,231	0.57	3,648,800	0.59
Total liabilities	630,630,349	100.00	603,870,043	100.00

Note:

(1) Mainly consisted of derivative financial liabilities and salaries payable.

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(1) Composition of deposits from customers

The following table sets forth the Group's deposits from customers by product category as at the dates indicated:

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate deposits				
— Demand	98,736,812	20.32	101,798,785	22.17
— Time	90,420,753	18.61	79,565,638	17.33
Sub-total	189,157,565	38.93	181,364,423	39.50
Personal deposits				
— Demand	123,991,737	25.52	122,182,086	26.61
— Time	164,350,158	33.82	147,879,965	32.21
Sub-total	288,341,895	59.34	270,062,051	58.82
Other deposits⁽¹⁾	8,390,097	1.73	7,736,080	1.68
Principal of customer deposits in total	485,889,557	100.00	459,162,554	100.00
Add: accrued interest	7,776,882		6,526,247	
Total deposits from customers	493,666,439		465,688,801	

Note:

(1) Consisted of remittance outstanding and margin deposit.

As of the end of the Reporting Period, in respect of the structure of deposits from customers of the Group, personal deposits accounted for 59.34% with its balance increased by RMB18.280 billion or 6.77% as compared to the end of the previous year; and corporate deposits accounted for 38.93%, with its balance increased by RMB7.793 billion or 4.30% as compared to the end of the previous year. In terms of maturity structure, demand deposits accounted for 45.84%, representing a decrease of 2.94 percentage points as compared to the end of the previous year; and time deposits accounted for 52.43%, representing an increase of 2.89 percentage points as compared to the end of the previous year.

(2) *Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions*

As of the end of the Reporting Period, the Group's financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions amounted to RMB21.459 billion, representing a decrease of RMB22.945 billion over the end of the previous year, mainly due to the decrease in business volume for the purpose of liquidity management.

The breakdown of financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions of the Group as of the dates indicated is as follows:

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Deposits from domestic banks	6,972,671	32.49	7,009,437	15.79
Deposits from non-banking domestic financial institutions	1,636,556	7.63	5,881,907	13.25
Placements from domestic banks	4,062,658	18.93	2,000,000	4.50
Bonds sold under repurchase agreements	5,148,890	23.99	22,592,631	50.88
Notes sold under repurchase agreements	3,571,139	16.64	6,828,782	15.38
Sub-total	21,391,914	99.68	44,312,757	99.80
Add: accrued interest	67,122	0.32	91,694	0.20
Total	21,459,036	100.00	44,404,451	100.00

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3. Shareholders' equity

As of the end of the Reporting Period, the total shareholders' equity of the Group was RMB55.582 billion, representing an increase of RMB1.762 billion or 3.27% from the end of the last year, mainly due to the increase in undistributed profits.

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

(unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	6,888,546	12.39	6,888,546	12.80
Capital reserve	6,230,429	11.21	6,230,429	11.58
Surplus reserve	8,323,435	14.98	8,323,435	15.47
General reserve	6,915,566	12.44	6,915,566	12.85
Revaluation reserve	722,275	1.30	604,567	1.12
Undistributed profit	23,750,384	42.73	22,165,171	41.18
Total equity attributable to shareholders of the Bank	52,830,635	95.05	51,127,714	95.00
Non-controlling interests	2,750,953	4.95	2,692,215	5.00
Total shareholders' equity	55,581,588	100.00	53,819,929	100.00

As of the end of the Reporting Period, the Group's share capital was RMB6.889 billion, the capital reserve was RMB6.230 billion, and the undistributed profit was RMB23.750 billion.

4. Asset rights restrictions as of the end of the Reporting Period

As of the end of the Reporting Period, certain assets of the Group were used as collateral for the repurchase business and the business of borrowing from the Central Bank. For details of the collateral, please refer to Note 38(e) "Collateral" to the consolidated financial statements in the "Financial Report" chapter in this Report. As at the end of the Reporting Period, the breakdown of the fair value of the assets used as collateral is as follows:

(unit: RMB'000)

Item	As at 30 June 2023	Reason for restriction
Bonds	5,703,598	Repurchase business
Bills	3,567,767	Repurchase business
Bonds	32,575,737	Borrowing from the Central Bank
Loans	149,220	Borrowing from the Central Bank
Bills	734,351	Borrowing from the Central Bank
Total	42,730,673	

(III) Cash Flow Statement Analysis

During the Reporting Period, the Group's net cash outflow from operating activities was RMB12.643 billion, as compared to a net inflow of RMB27.646 billion for the same period last year, mainly representing the cash outflow caused by the decrease in financial assets sold under repurchase agreements during the Reporting Period; net cash outflow from investing activities amounted to RMB5.238 billion, representing a decrease of RMB4.987 billion as compared with the net outflow for the same period of last year, mainly representing that the increase in cash recovered from investment in financial assets exceeding the increase in cash paid for investment in financial assets of RMB4.867 billion; net cash inflow from financing activities amounted to RMB14.468 billion, as compared with net cash outflow of RMB14.274 billion for the same period last year, mainly due to the increase of RMB27.827 billion as compared with the same period of last year in cash received from issuance of debt securities during the Reporting Period.

(Unit: RMB'000)

Item	For the six months ended 30 June		Amount of increase/ (decrease)	Increase/ (decrease) percentage (%)
	2023	2022		
Net cash flow from operating activities	(12,643,492)	27,646,032	(40,289,524)	(145.73)
Net cash flow from investing activities	(5,237,662)	(10,224,376)	4,986,714	(48.77)
Net cash flow from financing activities	14,467,556	(14,273,999)	28,741,555	(201.36)

(IV) Loan Quality Analysis

During the Reporting Period, due to the expected weakening of employment and income of residents, the insufficient consumption demand and consumption willingness, and the continuous inflationary pressure in major economies in the United States and Europe, the domestic and overseas demand was relatively weak, and the production and operation pressure of enterprises increased. As of the end of the Reporting Period, the balance of non-performing loans of the Group was RMB2.954 billion, representing an increase of RMB83 million from the end of last year, and the non-performing loan ratio was 0.86%. In the future, the Group will prudently assess the quality of assets in strict accordance with relevant regulatory requirements, further strengthen the disposal and collection of non-performing loans, and enhance risk prevention and control.

1. Loan distribution by five-tier loan classification

(Unit: RMB'000)

Item	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	346,168,656	97.50	324,632,095	97.79
Special mention	5,939,001	1.67	4,494,969	1.35
Substandard	434,122	0.12	711,789	0.21
Doubtful	2,224,983	0.63	2,006,939	0.60
Loss	294,817	0.08	151,909	0.05
Total loans to customers	355,061,579	100.00	331,997,701	100.00
NPLs and NPL ratio⁽¹⁾	2,953,922	0.86	2,870,637	0.90

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Note:

- (1) Calculated by dividing the balance of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB and Chaoyang RCB, both our subsidiaries, was calculated based on the original book value of the loans as of 31 December 2022 and 30 June 2023 respectively, and not the fair value on the combination date.

As of the end of the Reporting Period, the Group's normal loans amounted to RMB346.169 billion, accounting for 97.50% of all loans, representing an increase of RMB21.537 billion from the end of last year; special mention loans amounted to RMB5.939 billion, representing an increase of RMB1.444 billion from the end of last year, which was mainly due to the fact that some of the existing normal loans migrated to the special mention category as a result of the overdue interest, and certain borrowers started to be exposed to risks.

As at the end of the Reporting Period, the balance of non-performing loans of the Group was RMB2.954 billion, representing an increase of RMB83 million from the end of last year, which was mainly due to the non-performing loans formed by overdue interest on certain enterprise loans and certain personal mortgage loans, consumption and operating loans affected by the greater downward pressure on the economy.

The Group calculated the migration ratio of loans pursuant to the Notice of the CBIRC for Amendments to the Definition and Calculation Formula of Off-site Regulation Basic Indicators of the Banking Industry (Yin Bao Jian Fa [2022] No.2). As of the end of the Reporting Period, the migration ratio of the Group's normal loans was 1.76%, the migration ratio of special mention loans was 9.64%, the migration ratio of substandard loans was 133.26%, and the migration ratio of doubtful loans was 21.73%.

2. Loans and non-performing loans by product type

(Unit: RMB'000)

Item	As at 30 June 2023				As at 31 December 2022			
	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽¹⁾ (%)	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽¹⁾ (%)
Corporate loans⁽²⁾								
Working capital loans	80,291,998	22.61	998,018	1.35	76,595,554	23.07	976,565	1.43
Fixed asset loans	115,061,383	32.41	246,004	0.21	107,090,426	32.26	356,985	0.33
Others	7,701,745	2.16	60,202	0.78	5,121,987	1.54	50,202	0.98
Subtotal	203,055,126	57.18	1,304,224	0.68	188,807,967	56.87	1,383,752	0.79
Personal loans								
Personal business loans	42,165,209	11.88	584,258	1.39	38,675,434	11.65	508,538	1.32
Property mortgage loans	39,858,540	11.23	525,194	1.32	38,939,465	11.73	519,264	1.34
Credit card overdrafts	5,679,042	1.60	187,752	3.31	6,760,399	2.04	152,117	2.25
Personal consumption loans	32,425,127	9.13	352,494	1.09	30,053,733	9.05	306,966	1.02
Subtotal	120,127,918	33.84	1,649,698	1.38	114,429,031	34.47	1,486,885	1.30
Discounted bills⁽³⁾								
Bank acceptance bills	31,878,535	8.98	—	—	28,760,703	8.66	—	—
Trade acceptance draft	—	—	—	—	—	—	—	—
Subtotal	31,878,535	8.98	—	—	28,760,703	8.66	—	—
Total	355,061,579	100.00	2,953,922	0.86	331,997,701	100.00	2,870,637	0.90

Notes:

- (1) Calculated by dividing the balance of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB and Chaoyang RCB, both our subsidiaries, was calculated based on the original book value of the loans as of 31 December 2022 and 30 June 2023 respectively, instead of the fair value on the acquisition date.
- (2) Forfeiting is included in corporate loans.
- (3) Mainly includes discounted and re-discounted bills.

As of the end of the Reporting Period, the non-performing loan ratio of corporate loans (excluding discounted bills) was 0.68%, decreasing by 0.11 percentage point as compared with the end of last year; the non-performing loan ratio of personal loans was 1.38%, increasing by 0.08 percentage point as compared with the end of previous year. The increase was mainly due to the increase in non-performing personal business and consumer loan business under the negative impact caused by the weakening of employment and income expectation.

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3. Loans and non-performing loans by industry

(Unit: RMB'000)

Industry ⁽¹⁾	As at 30 June 2023				As at 31 December 2022			
	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽²⁾ (%)	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽²⁾ (%)
Corporate loans and advances	203,055,126	57.18	1,304,224	0.68	188,807,967	56.87	1,383,752	0.79
Wholesale and retail	35,244,351	9.94	623,578	1.77	34,040,491	10.26	571,444	1.68
Leasing and commercial services	36,232,494	10.20	96,910	0.42	36,083,880	10.87	186,933	0.67
Manufacturing	53,160,923	14.97	327,116	0.67	45,816,489	13.80	240,622	0.66
Construction	23,068,506	6.50	22,666	0.10	24,374,877	7.34	135,113	0.55
Real estate	20,021,921	5.64	—	—	16,165,084	4.87	—	—
Finance	5,718,381	1.61	—	—	5,579,271	1.68	—	—
Production and supply of power, gas and water	6,862,552	1.93	—	—	6,287,897	1.89	2,390	0.04
Transportation, logistics and postal services	5,549,485	1.56	350	0.01	4,610,215	1.39	5,043	0.11
Water, environment and public utilities management	3,633,671	1.02	224,477	6.18	3,043,119	0.92	224,100	7.36
Health, social security and welfare	2,594,212	0.73	—	—	2,294,669	0.69	—	—
Education	3,885,086	1.09	2,377	0.06	3,921,894	1.18	—	—
Information transmission, software and information technology services	1,060,285	0.30	—	—	937,076	0.28	—	—
Accommodations and catering industries	2,629,178	0.74	—	—	2,540,995	0.77	—	—
Agriculture, forestry, animal husbandry and fishery	1,839,530	0.52	5,387	0.29	2,002,141	0.60	18,107	0.90
Residential services and other services	510,715	0.14	1,263	0.25	227,719	0.07	—	—
Culture, sports, and entertainment	127,559	0.04	—	—	114,998	0.03	—	—
Scientific research and technical services, and geological prospecting	896,360	0.25	100	0.01	759,252	0.23	—	—
Mining	10,400	0.00	—	—	7,900	0.00	—	—
Public management and social organizations	9,517	0.00	—	—	—	—	—	—
Discounted bills	31,878,535	8.98	—	—	28,760,703	8.66	—	—
Personal loans	120,127,918	33.84	1,649,698	1.38	114,429,031	34.47	1,486,885	1.30
Total	355,061,579	100.00	2,953,922	0.86	331,997,701	100.00	2,870,637	0.90

Notes:

- (1) Classified based on the Industrial Classification for National Economic Activities (《國民經濟行業分類》) issued by the Standardization Administration of China on 30 June 2017.
- (2) Calculated by dividing the balance of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang RCB and Chaoyang RCB, both our subsidiaries, was calculated based on the original book value of the loans as of 31 December 2022 and 30 June 2023 respectively, and not the fair value on the combination date.

As of the end of the Reporting Period, the non-performing loans of the Group's corporate loans were mainly concentrated in wholesale and retail industries, and the manufacturing industry. In particular, the balance of non-performing loan in the wholesale and retail industries amounted to RMB624 million, representing an increase of RMB52 million as compared with the beginning of the year, and the non-performing loan ratio was 1.77%; the balance of non-performing loan in the manufacturing industry was RMB327 million, representing an increase of RMB86 million as compared to the beginning of the year, and the non-performing loan ratio was 0.67%. This was mainly due to the fact that the wholesale and retail industry and manufacturing industry accounted for a relatively large proportion of the Group's loan structure under the industrial economic structure of the region, and certain small and micro enterprise customers in the industry were affected by the economic downturn and found it difficult to maintain normal operation, and loans with overdue interest of more than 60 days was included in non-performing loans.

4. Loans and non-performing loans classified by types of guarantees

(Unit: RMB'000)

Guarantee method	As at 30 June 2023				As at 31 December 2022			
	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽¹⁾ (%)	Amount	Percentage of total (%)	NPL amount	NPL ratio ⁽¹⁾ (%)
Collateralized loans	184,278,325	51.89	1,379,337	0.78	170,426,153	51.33	1,369,837	0.83
Pledged loans	45,302,980	12.76	484,945	1.07	41,939,301	12.63	485,818	1.16
Guaranteed loans	93,861,005	26.44	417,636	0.48	84,448,418	25.44	416,864	0.53
Unsecured loans	31,619,269	8.91	672,004	2.13	35,183,829	10.60	598,118	2.01
Total	355,061,579	100.00	2,953,922	0.86	331,997,701	100.00	2,870,637	0.90

Note:

- (1) Calculated by dividing the balance of NPL (excluding accrued interest) by total amount of loans (excluding accrued interest). For the purpose of NPL ratio calculation, the NPL ratio of Zhanjiang Rural Commercial Bank and Chaoyang RCB, both our subsidiaries, was calculated based on the original book value of the loans as of 31 December 2022 and 30 June 2023 respectively, and not the fair value on the combination date.

5. Loans classified by region

(Unit: RMB'000)

Region	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Dongguan	284,090,662	80.01	264,363,531	79.63
Outside Dongguan	70,970,917	19.99	67,634,170	20.37
Total	355,061,579	100.00	331,997,701	100.00

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6. Loan to top ten single borrowers

As of the end of the Reporting Period, the Group's loan balance to any single borrower did not exceed 10% of the Group's net capital. The following table sets forth the Group's loan balance to the top ten single borrowers (excluding group borrowers) as of the end of the Reporting Period, none of which was non-performing loan:

(Unit: RMB'000)

Borrower	Industry	As at 30 June 2023		
		Balance of loans	Percentage of total loans (%)	Percentage of net capital (%)
Customer A	Leasing and commercial services	2,959,000	0.83	4.76
Customer B	Construction	1,862,045	0.52	3.00
Customer C	Real estate	1,800,000	0.51	2.90
Customer D	Leasing and commercial services	1,730,500	0.49	2.79
Customer E	Manufacturing	1,308,709	0.37	2.11
Customer F	Leasing and commercial services	1,300,000	0.37	2.09
Customer G	Real estate	1,135,750	0.32	1.83
Customer H	Real estate	1,122,000	0.32	1.81
Customer I	Water, environment and public utilities management	1,115,870	0.31	1.80
Customer J	Leasing and commercial services	1,069,000	0.30	1.72
Total		15,402,874	4.34	24.80

As of the end of the Reporting Period, the total loans to the largest single borrower of the Group was RMB2.959 billion, accounting for 4.76% of the net capital of the Group. The total loans to top ten single borrowers was RMB15.403 billion, accounting for 24.80% of the net capital of the Group and 4.34% of the total loans of the Group.

The following table sets forth the concentration indicators of the Group during the indicated periods:

Concentration indicators	As at 30 June 2023	As at 31 December 2022	Regulatory Requirements
Percentage of loans to the largest single customer to net capital	4.76%	4.92%	≤10%
Percentage of credits to a single group customer to net capital	7.83%	8.16%	≤15%
Percentage of loans to top ten customers to net capital	24.80%	23.37%	—

Note: Data as of 31 December 2022 are calculated based on audited data according to regulatory standards; data as of 30 June 2023 are calculated based on reviewed data according to regulatory standards.

As of the end of the Reporting Period, the balance of loans to any single borrower granted by the Bank did not exceed 10% of the net capital of the Bank.

7. Loans overdue

(Unit: RMB'000)

Type	As at 30 June 2023		As at 31 December, 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Current loans	350,915,030	98.64	326,461,966	98.13
Loans past due	4,806,505	1.36	6,206,157	1.87
– Within 3 months	2,119,931	0.60	3,884,230	1.17
– From 3 months to 1 year	1,205,208	0.34	750,148	0.23
– More than 1 year to less than 3 years	1,386,717	0.39	1,431,058	0.43
– More than 3 years	94,649	0.03	140,721	0.04
Total loans and advances to customers⁽¹⁾	355,721,535	100.00	332,668,123	100.00
Less: allowance for expected credit loss	11,869,550		10,919,999	
Net loans and advances to customers	343,851,985		321,748,124	

Note:

- (1) Total loans and advances to customers represent the credit risk exposure including the loan principal amount and accrued interest balance.

As at the end of the Reporting Period, the balance of overdue loan of the Group was RMB4.807 billion, accounting for 1.36% of all loans, with a decrease of RMB1.400 billion over the end of last year. Among which, the balance of loans past due within 3 months amounted to RMB2.120 billion, with a decrease of RMB1.764 billion over the end of last year, mainly due to the fact that the cash flow situation of individual loan customers has eased, and intermittent delinquencies have decreased. The balance of loans past due for 3 months to 1 year amounted to RMB1.205 billion, representing an increase of RMB455 million over the end of last year, mainly due to the increase in overdue loans such as large public loans and mortgage loans due to the failure of individual loan customers to repay their principal and interest. The balance of loans past due for more than 1 year to less than 3 years amounted to RMB1.387 billion, representing a decrease of RMB44 million over the end of last year; the balance of loans past due for more than 3 years amounted to RMB95 million, representing a decrease of RMB46 million over the end of last year.

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8. Restructured loans

A restructured loan is a loan for which contractual terms have been renegotiated due to changes in the borrower, guarantee, or repayment. During the Reporting Period, the Group actively negotiated with the borrowers to deal with the restructured loans, part of the outstanding restructured loans were settled, and the amount of restructured loans and the percentage of restructured loans in the total loans decreased at the same time. The following table sets forth the balance and proportion of the Group's restructured loans as at the dates indicated:

(Unit: RMB'000)

Type	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Restructured loans	39,796	0.01	57,784	0.02

9. Foreclosed assets

As at the dates indicated, the foreclosed assets of the Group are as follows:

(Unit: RMB'000)

Type	As at 30 June 2023	As at 31 December 2022
Property and equipment	274,986	274,986
Land use rights	107,461	107,461
Subtotal	382,447	382,447
Less: Provision for impairment losses	296,137	296,137
Total	86,310	86,310

10. Disposal of non-performing assets

As of the end of the Reporting Period, the balance of non-performing loans of the Group was RMB2.954 billion, representing an increase of RMB83 million from the end of the previous year, and the non-performing loan ratio was 0.86%, with a small decrease of 0.04 percentage points from the end of the previous year. In the first half of 2023, a total of RMB1.298 billion of non-performing loans has been resolved, including cash settlement of RMB656 million, debt transfer of RMB40 million, write-off of bad debts of RMB380 million and quality upward adjustment of RMB221 million.

11. Changes in provision for impairment of loans and advances to customers

During the Reporting Period, the Bank made provision for credit losses of RMB1.099 billion, with RMB1.111 billion provided for loans and advances to customers measured at amortized cost, and RMB13 million reversed for loans and advances to customers measured at fair value through other comprehensive income. RMB380 million of non-performing loans was written off, while RMB211 million of written-off loans were recovered. As at the end of the Reporting Period, the balance of provision for expected credit losses of loans was RMB11.925 billion, of which the balance of impairment on loans and advances to customers measured at amortized cost was RMB11.870 billion and the changes in provision for expected credit losses are as follows:

(Unit: RMB'000)

	For the six months ended 30 June	
	2023	2022
Balance as at the end of last period	10,919,999	9,028,895
Addition for the period	1,591,062	914,144
Derecognition or settlement for the period	(1,514,971)	(1,705,570)
Write off for the period	(380,067)	(244,921)
Re-measurement	1,253,527	2,039,964
Closing balance	11,869,550	10,032,512

In addition, as at the end of the Reporting Period, the expected credit loss reserve balance of loans and advances to customers measured at fair value through other comprehensive income (rediscounted bills and forfeiting) amounted to RMB56 million.

(V) Capital Management

As at the end of the Reporting Period, the Group's capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 15.83%, 13.62% and 13.59%, respectively, all of which met the regulatory requirements. During the Reporting Period, the Group's profit maintained steady growth, and achieved endogenous capital growth and capital adequacy ratio maintained at a robust level.

The Group continued to strengthen capital management: firstly, strengthened the management on capital planning, optimized capital allocation strategies based on capital planning guidelines and realized the effective transmission from capital planning to capital budgeting and capital allocation; secondly, optimized the allocation structure on- and off-balance sheet assets to improve the efficiency of capital utilization gradually; and thirdly, continued to optimize the capital structure, adhered to the principle of giving priority to endogenous accumulation and supplementing from external sources, and broaden the channels for capital replenishment.

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1. Capital adequacy ratios analysis

The Group calculates and discloses the capital adequacy ratio in accordance with the relevant provisions of the Administrative Measures for Capital Management of Commercial Banks (Trial) (with effect from 1 January 2013). The scope of capital adequacy ratio calculation includes all branches of the Bank as well as financial institution-type subsidiaries that fall within the provisions of the Administrative Measures for Capital Management of Commercial Banks (Trial).

(Unit: RMB'000)

Item	As at 30 June 2023	As at 31 December 2022
Core tier-one capital	53,860,407	52,125,369
Core tier-one capital deductions	552,338	566,056
Net core tier-one capital	53,308,069	51,559,313
Other tier-one capital	137,303	133,021
Net tier-one capital	53,445,372	51,692,334
Tier-two capital	8,659,049	8,432,236
Net capital	62,104,421	60,124,570
Total risk-weighted assets	392,383,495	376,335,100
Including: Credit risk-weighted assets ⁽¹⁾	355,250,547	337,577,911
Market risk-weighted assets ⁽²⁾	13,208,374	14,832,615
Operational risk-weighted assets ⁽³⁾	23,924,574	23,924,574
Core tier-one capital adequacy ratio(%)⁽⁴⁾	13.59	13.70
Tier-one capital adequacy ratio(%)⁽⁵⁾	13.62	13.74
Capital adequacy ratio(%)⁽⁶⁾	15.83	15.98

Notes:

- (1) Credit risk is measured under weighted method.
- (2) Market risk is measured under standardized method.
- (3) Operational risk is measured under basic indicator method.
- (4) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by total risk-weighted assets.
- (5) Calculated by dividing tier-one capital, net of tier-one capital deductions, by total risk-weighted assets.
- (6) Calculated by dividing total capital, net of capital deductions, by total risk-weighted assets.

In accordance with the Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》), information on capital composition, explanation and breakdown of relevant items and the main characteristics of the capital instruments of the Group will be further disclosed subsequently in the “Investor Relations” — “Information Disclosure” — “Regulatory Capital” section on the Chinese version website of the Bank (www.drcbank.com).

2. Leverage ratio

The leverage ratio was calculated and disclosed by the Group in accordance with the relevant provisions under the Administrative Measures on the Leverage Ratio of Commercial Banks (Revision) (《商業銀行槓桿率管理辦法(修訂)》).

(Unit: RMB'000)

Item	As at 30 June 2023	As at 31 December 2022
Net tier-one capital	53,445,372	51,692,334
Adjusted balance of on-and off-balance sheet assets	700,319,265	668,518,886
Leverage ratio ⁽¹⁾ (%)	7.63	7.73

Notes:

- (1) Calculated by dividing the net tier-one capital by the adjusted balance of on-and off-balance sheet assets.
- (2) The leverage ratio of the Group as at the end of the first quarter of 2023, the end of 2022 and the end of the third quarter of 2022 was 7.79%, 7.73% and 8.06%, respectively, of which the leverage ratio as at the end of the first quarter of 2023 and the end of the third quarter of 2022 was based on off-site supervision statement of the National Administration of Financial Regulation on a Group consolidated basis.

For more details on leverage ratio, please refer to the “Information on Leverage Ratio” in the unreviewed supplementary information in the “Financial Report” chapter of this Report.

(VI) Segment Operating Results

Our principal business activities include corporate banking, retail banking and treasury business. The following table sets forth our operating income of principal business segment for the periods indicated:

(Unit: RMB'000)

Item	For the six months ended 30 June			
	2023		2022	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate banking	3,869,821	53.27	3,486,618	48.34
Retail banking	2,754,033	37.91	2,936,079	40.71
Treasury business	525,657	7.24	671,641	9.31
Others	115,689	1.58	118,351	1.64
Total operating income	7,265,200	100.00	7,212,689	100.00

(VII) Off-balance Sheet Items Analysis

The Group's off-balance sheet items mainly include the letter of credit, letter of guarantee, bank acceptance bills and unused limit of credit card, with the balances of RMB1.117 billion, RMB4.901 billion, RMB7.802 billion and RMB9.486 billion respectively as of the end of the Reporting Period.

In particular, commitments include financial guarantees and other credit commitments and capital commitments, and the distribution of which is as follows:

1. Financial guarantees and other credit commitments

(Unit: RMB'000)

Item	As at	As at	Increase/ (decrease) as at the end of the Reporting Period as compared to the end of the previous year (%)
	30 June 2023	31 December 2022	
Letter of credit	1,116,551	634,248	76.04
Letter of guarantee	4,901,227	3,873,420	26.53
Bank acceptance bills	7,802,031	6,838,020	14.10
Unused limit of credit card	9,486,013	9,594,259	(1.13)
Total	23,305,822	20,939,947	11.30

2. **Capital commitments**

(Unit: RMB'000)

Item	Contract amount at the end of the period	Contract amount at the beginning of the period
Contracted, but not provided for	346,390	603,106

As of the end of the Reporting Period, the Group had no major contingent liabilities; there were no major litigation cases in which the Bank or the Bank's subsidiaries were defendants.

For details of off-balance sheet commitments, please refer to Note 38 "Contingent Liabilities and Commitments" to the consolidated financial statements in the "Financial Report" chapter in this Report.

(VIII) Other Financial Information Disclosed in accordance with Regulatory Requirements

1. Contingent liabilities and pledged assets

For details of our contingent liabilities and pledged assets as at the end of the Reporting Period, please refer to Note 38 "Contingent Liabilities and Commitments" to the consolidated financial statements in the "Financial Report" chapter in this Report.

2. Overdue debts

The Group had no overdue debts during the Reporting Period.

3. Analysis of investment

The Group had no new investment in equity during the Reporting Period.

4. Disposal of major assets and equity interests

The Group had no major disposals of asset and equity interests during the Reporting Period.

5. Structured entities controlled by the Bank

As of the end of the Reporting Period, the scale of structured entities that the Group have issued, managed and included in the scope of the consolidated financial statements was RMB8.272 billion.

III. THE IMPLEMENTATION OF BUSINESS DEVELOPMENT STRATEGY

The year 2023 is the concluding year for the Bank's comprehensive implementation of the Three-Year Development Plan for 2021–2023. The Bank, in accordance with the Group's established development strategic plan, led the Group's high-quality development with high-quality Party building and focused on the positioning of the city of Guangdong as "the leader of the manufacturing industry" and Dongguan as a city of "scientific and technological innovation + advanced manufacturing", comprehensively served the national, provincial and municipal development strategies, and provided stronger financial support for the high-quality development of the local economy by effectively improving quality and steadily increasing quantity.

(I) Focusing on advanced manufacturing, vigorously enhancing industrial financial services

The Bank fully responded to the strategic deployment of the Municipal Party Committee and the Municipal Government, and took the service of science and technology innovation, advanced manufacturing and construction of strategic emerging industry base as the focus of the Bank's industrial finance business development, continuously upgraded its comprehensive service solutions, and vigorously supported the key areas of Dongguan's new-generation information industry, new infrastructure, environmental protection, etc., promoting the overall development of industries in Dongguan's livelihood area, urban modernization area, and the field of science and technology innovation. As of the end of June 2023, the balance of the Bank's industrial finance loans amounted to RMB131.628 billion, of which RMB43.244 billion was provided as credit support for various types of parks. The balance of loans to support manufacturing and related industries was RMB57.557 billion, representing an increase of 18.98% as compared with the beginning of the year. In terms of supporting the "Three-chain" of modern manufacturing industry, with the "1+3+N" grid marketing model, the balance of loans supporting the "Three-chain" of modern manufacturing industry amounted to RMB54.964 billion, representing an increase of 16.81% as compared with the beginning of the year. The Bank also provided credit lines of RMB36.467 billion for major projects in Dongguan City, fully assisting the construction of local infrastructures. In terms of supporting green finance, the Bank's green credit balance was RMB11.064 billion, representing an increase of 11.50% as compared with the beginning of the year. In terms of supporting the finance of science and innovation, the Bank actively innovated and launched the "Industry Support Loans" series of products, which comprehensively utilized the Sci-insurance Loans, the Songshan Lake Government-Bank-Guarantee, the Talent Loan, and the Venture Capital Loan to meet the needs of emerging industries and "specialized, refinement, differential, innovation" enterprises. As of the end of June 2023, the Bank supported technology loans of RMB14.311 billion, representing an increase of RMB3.465 billion or 31.95% over the beginning of the year.

(II) Focusing on helping enterprises and benefiting the people, the Bank vigorously enhanced its inclusive financial services

As the main force of local finance, the Bank has always practiced its original mission of supporting the real economy, focusing on the “urgent, difficult, worrying and anxious” problems of enterprises, constantly innovating inclusive financial products and services, increasing credit availability in key areas, key industries and weak links in people’s livelihoods, and striving to alleviate the difficulties in financing and the high cost of financing of small and micro-enterprises, and fully support small and micro enterprises to tide over difficulties and stabilize development. As of the end of June 2023, the balance of the Bank’s loans to small and micro enterprises (including loans to small and micro enterprises, loans to self-employed industrial and commercial business and loans to owners of small and micro enterprises, excluding discounting) with no more than RMB10 million credit line each (inclusive) amounted to RMB37.737 billion, representing a growth rate of 14.45% as compared with that of the beginning of the year, which is 8.11 percentage points higher than the growth rate of various loans as at the beginning of the year; the number of households with loans amounted to 22,026, representing an increase of 573 as compared with that at the beginning of the year. During the Reporting Period, the interest rate of newly issued loans to small and micro-enterprise was 4.38%, representing a decrease of 0.37 percentage points as compared with that for the whole year of 2022, and the non-performing rate of inclusive loans to SMEs was 1.34%, which was controlled within the level of no more than 3 percentage points of various loans, and achieved the assessment target of “two increases and two controls”.

(III) Focusing on rural revitalization, vigorously enhance the modern “Sannong” financial services

As the main force of “Sannong” finance, the Bank has always adhered to the positioning of supporting agriculture, supporting SMEs and supporting real economy, and has continuously improved the quality and effectiveness of financial services for rural revitalization, helping Dongguan to achieve the goals of “industrial development of villages, beautiful villages, and inclusive villagers”. Firstly, the Bank adhered to the leadership of the Party building in serving Sannong. The Bank further implemented the “133” project of rural revitalization financial services, fully implemented the “three major personnel” stationing system, i.e. dispatching rural revitalization financial instructors, Party building and co-construction liaisons, and inclusive financial service personnel, and stationed nearly 4,000 personnel to carry out inclusive financial services in villages, so as to open up the “last meter” of “Sannong” financial services. The Bank actively carried out the “double reporting” of grass-roots Party organizations and in-service Party members to the villages (communities), partnered with Party organizations in 597 village groups and communities in Dongguan to jointly work on Party building, with 100% coverage ratio; in addition, the Bank continued to change focus, and carried out over 600 “double reporting” volunteer activities in such manners as promoting financial literacy, assisting in epidemic prevention, as well as visiting, helping and cheering up the elderly. Secondly, the Bank focused on key tasks and made practical moves to benefit farmers. The Bank gave priority to the promotion of the high-quality and efficient development of agriculture, the livability and industry in rural areas, and the prosperity of farmers, launched innovative products and platforms such as “Fumin Loan (富民贷)”, Rural Revitalization Card and “Haoyi Rent (好易租)” housing rental management platform, deeply promoted the “giving credit limit to whole village” activities, delivered financial “living water” to precisely revitalize the “modern Sannong” and fully support the development of modern agriculture, modern countryside and modern farmers. As of the end of June 2023, the Bank’s total loan balance for “modern Sannong” customers amounted to RMB69.263 billion,

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and the number of new “modern Sannong” loan customers during the Reporting Period amounted to 115,900; the credit granted to villages and groups in the city exceeded RMB11.295 billion, and the credit used by villagers exceeded RMB44.005 billion; the number of Rural Revitalization Card issued for rural revitalization reached 52,100. Thirdly, the Bank is innovative in its service mode and has made real efforts to help farmers. For all inclusive finance service personnel, the Bank carried out the rural revitalization activity with the theme of “grassroots around you”, set up inclusive finance “grassroots” mobile service team, took the initiative to provide door-to-door services for village groups and villagers, deepened the image of “bank in the heart of Dongguan people”, and constantly improved its service image and service level. As of the end of June 2023, the Bank completed the registration of 349,600 households with a coverage rate of 96.52%.

(IV) Adhering to the goal of digital transformation and vigorously improving data management and business empowerment

The Bank has formulated an enterprise-class digitalization strategy to carry out digital transformation based on the baseline of “solid foundation and breakthrough opportunities”, adhering to the strategy of “planning in the whole area, highlighting key points, running in small steps and quickly winning in local areas”, and carrying out in-depth construction of data empowerment, data operation and data management to realize data-driven digital transformation.

Firstly, the Bank will seize the development opportunities of becoming a digital transformation pilot. In March 2023, the Bank became a pilot institution for digital transformation in the whole province. In this regard, the Bank seized the development opportunity, formulated a pilot work plan for digital transformation, and delineated 66 pilot projects planned to be implemented in 2023 to speed up the digital transformation of the whole Bank. Secondly, the Bank will empower business marketing scenarios. In terms of precision marketing, the Bank will accurately tap high-value customers and improve the scale of asset management for retail customers; build a prediction model of credit card customer activity to improve the activity of credit card customers; screen potential small and micro customers and wealth management customers through algorithmic models to enhance the precision marketing of credit and wealth management products; and establish an upgrading model for high-quality customers without loans and long-tail customers, and promote the upgrading of customer asset level. In terms of intelligent risk control, the Bank will establish a small and micro credit risk control model, strengthen the risk prevention and control of innovative small and micro financial products such as policy list loans; build a credit model for small business loans, and enhance the risk control capability driven by data model based on the rules of the approval strategy for small and micro businesses. In terms of customer management, the Bank will conduct a series of customer profile analyses to speed up the operation and management of front-line customers; establish a data analysis system for large retail business and empower large retail business to carry out customer stratification and classification management; summarize and analyze the characteristics of customer groups such as acquiring merchants, government agencies and organizations, and fluctuations in deposits at the end of the quarter to improve the precipitation of customer assets and explore new growth points for business. In terms of channel operation, the Bank will establish a data analysis system for outlets and provide data insight and a decision-making basis for the transfer management of various transaction channels in outlets to help the differentiate the layout of outlets and make business decisions; build a hierarchical classification model system for outlets, scientifically formulate the evaluation and operation management mechanism of outlets to help transform outlets and improve their effectiveness; set up mobile banking to promote activity and an early warning model for loss, and strengthen mobile banking’s user traffic operation by digital means.

IV. BUSINESS OPERATION

(I) Five Major Business Sectors

1. Retail financial business

The Bank's retail finance business focused on customers, leveraged its advantages in outlets, channels and customer bases, relied on service modes and service scenarios such as digital transformation of innovative products, channels and teams, promoted the construction of customer ecological system, deepened the retail transformation, and promoted the high-quality development of retail business services. As of 30 June 2023, the Group's individual deposits balance was RMB288.342 billion, representing a year-on-year increase of 6.77%, and the individual loan balance was RMB120.128 billion, representing a year-on-year increase of 4.98%; as of 30 June 2023, the balance of individual demand deposits amounted to RMB123.992 billion, accounting for 25.52% of the total deposits from customers as of the same date, which provided a stable, low-cost capital source for the Group.

(1) Retail customer base and asset management

During the Reporting Period, the Bank actively expanded the target customer groups such as young retail customers and new citizen customer groups to inject new vitality into the customer ecosystem; the Bank deeply operated existing retail customers, continued to increase customer stickiness and continuously improved customer contribution by actively innovating products and actively optimizing services. As of the end of the Reporting Period, the Bank had 20,193,200 retail customers (including debit and credit card customers), representing an increase of 205,200 customers or 1.03% from the beginning of the year. The annual average daily asset management scale (AUM) of the retail customer base has reached RMB278.745 billion, representing an increase of RMB18.330 billion from the beginning of the year, a year-on-year increase of 10.10%.

(2) Wealth management business

During the Reporting Period, the Bank promoted the innovation and development of wealth management business through technology empowerment, continued to promote wealth management business transformation, and constantly improved its system for products. In April 2023, the Bank obtained the pilot qualification of "Cross-boundary Wealth Management Connect". As of the end of the Reporting Period, the total wealth management scale of the Bank reached RMB38.084 billion, of which personal wealth management accounted for 92.35%; the sales of agency insurance products amounted to RMB1.039 billion, representing a year-on-year increase of 19.12% in fee income; the non-cash assets of agency fund business retained a scale of RMB8.688 billion; and sales of saving treasury bonds amounted to RMB503 million. The fee income of agency precious metals business amounted to RMB1,497,300. The sales of precious metal business amounted to RMB110 million, the sales of precious metal business increased by 82.09% year on year.

(3) Private Banking Business

With the goals of increasing customer value, increasing the number of customers, and deepening product penetration, the Bank provided customers with a full range of asset allocation services by building a full-life-cycle agency asset management product system and promoting the family trust business. Through the “1+3+N” grid business model, the Bank has deeply managed the business circle, family circle and circle of friends of private banking customers, and built a dynamic customer ecosystem. Through the establishment of the distinctive “Dongguan Enterprise Club” (莞企荟) brand, we have created a service of “people — family — enterprises” for private banking customers. By focusing on the inheritance line, we have cultivated a new generation of young private banking customers. As of the end of the Reporting Period, the number of private banking customers reached 7,675, representing an increase of 4.65% over the end of the previous year; the asset management scale (AUM) of private banking customers reached RMB53.832 billion, representing an increase of 5.13% over the end of the previous year.

(4) Personal Credit Business

The Bank’s personal credit business was driven by the “two wheels” of mortgage loans and consumer loans. By continuously strengthening product innovation, risk management, empowerment for tier-1 cities and team building, the Bank strived to expand mortgage loans and activate consumer loans, so as to achieve the coordinated development of scale, quality and efficiency of personal credit business. As of the end of the Reporting Period, the balance of the Bank’s personal loans (excluding personal business loans and bank card assets) amounted to RMB63.863 billion, representing an increase of RMB2.529 billion or 4.12% as compared to the beginning of the year; the assets under management (AUM) of personal loan customers amounted to RMB10.535 billion, representing an increase of 13.37% as compared to the beginning of the year.

(5) Credit Card Business

The Bank’s credit card business adhered to the basic positioning of supporting consumption, focused on customers, adhered to the basic principles of expanding customer base and optimizing business operations, took “grid + digitization” as the main starting point, focused on operation and management from the aspects of rural revitalization, product iteration, digital upgrading, and risk prevention and control, focused on improving customer activity, promoted the construction of customer ecology, improved the quality and efficiency of products and services, promoted residents’ consumption, and implemented inclusive finance. As of the end of the Reporting Period, the Bank achieved a cumulative issuance of 626,800 credit cards.

2. Corporate financial business

The Bank continuously upgraded the industrial finance services with technology so as to achieve the coordinated development of the quality of corporate service, scale and efficiency. As of the end of the Reporting Period, the balance of corporate deposits of the Group achieved RMB189.158 billion, representing a year-on-year increase of 4.30%, and the balance of corporate loans (including direct discounted and rediscounted bills) achieved RMB234.934 billion, representing a year-on-year increase of 7.98%, which maintained a good growth trend.

The Bank proactively developed the “commercial banking + investment banking” model, with the balance of the investment banking business being RMB4.606 billion. During the Reporting Period, the Bank’s international business settlement volume reached USD4.463 billion, among which, the cross-border RMB business volume was RMB7.482 billion. Cross-border financial services were increasingly improved.

Following the national policies, the Bank focused on strengthening financial support for the advanced manufacturing industry, emerging sectors of strategic importance, SRDI enterprises, green finance, urban renewal and other areas, so as to drive the scale of the increment in corporate loans and make a greater contribution to revenues. As of the end of the Reporting Period, the balance of the Bank’s loans to the manufacturing industry was RMB57.557 billion, with an increase of RMB9.183 billion over the end of last year; green credit balance was RMB11.064 billion, with an increase of RMB1.141 billion over the end of last year.

With the construction of a customer ecological model, the Bank actively promoted “1+3+N” grid-based marketing and supported to improve the quality and efficiency of real economy and local finance. The Bank organized and cooperated with the Dongguan Municipal Government’s special debt work, and vigorously supported major construction projects and livelihood projects in Dongguan. The Bank supported the city’s water supply “one network” project. As of the end of the Reporting Period, 23 township water supply operators have successfully set up special accounts with the Bank. The Bank responded to Dongguan’s static parking system which has been connected to the intelligent parking system of 32 towns and streets. The Bank set up scenario-based financial services, deeply dug the multiple business area of state-owned enterprises with public-private linkages, and provided state-owned enterprise group with comprehensive and integrated financial financing services covering major provincial and municipal infrastructure projects, industrial zones, mortgage projects, and credit cards, etc.

The Bank actively responded to the national rural revitalization strategy, strongly supported Dongguan City’s efforts to promote high-quality rural revitalization, continuously increased its support for “modern Sannong”, considerably supported the project construction in villages through specific credit schemes such as preferential interest rates, simplified guarantee types and sufficient credit lines, and provided financial services in rural areas. As of the end of the Reporting Period, the Bank granted loans to “modern Sannong” customers with a balance of RMB69.263 billion, and the balance of agriculture-related loans reached RMB36.905 billion.

3. Small and micro finance business

The Bank adhered to its main business positioning of “supporting agriculture, supporting SMEs and supporting real economy”, focused on the theme of high-quality development of inclusive finance, made every effort to speed up the pace of digital transformation, optimized the business approval process and created a green financing channel for SMEs. As of the end of the Reporting Period, the number of SMEs was 22,000, to which loans were granted, the balance of the Bank’s loans to SMEs (full caliber of the CBIRC) reached RMB163.908 billion, up by 11.01% from the beginning of the year, among which, the balance of inclusive loans to SMEs with no more than RMB10 million credit line each (excluding discounted bills) was RMB37.737 billion, representing an increase of 14.45% from the beginning of the year, which was 8.11 percentage points higher than the growth rate of all kinds of loans of the Bank.

The Bank has actively facilitated innovations in inclusive financial services, and promoted the grid-based marketing of “walking through the streets and alleys, going into factories and stores”. The Bank formed an inclusive professional service team linked by the headquarter and branches, established a diversified, online and full-coverage inclusive financial product system. Through products such as “Fumin Loan (富民貸)”, “Overpayment Quick Loans (超抵快貸)”, “Excellent Enterprise Loan (優企貸)” and “Industry Support Loans (行業扶持貸)”, the Bank continued to provide targeted services for small and micro enterprises, villagers and village communities, high-tech and advanced manufacturing customers. During the Reporting Period, the Bank successfully completed the online application transformation of business loans, and added an online application channel for corporate collateralised loans to further promote the online operation of products.

The Bank implemented the decisions and arrangements, made every effort to aid enterprises, and supported the local economy in speeding up the recovery process. During the Reporting Period, the Bank implemented the service of “renewing loans without repayment of principal” for SMEs with a total amount of RMB1.034 billion; granted small business loans with a total amount of RMB170 million, providing interest-free small business loans for start-up businesses; launched the “special offers at the beginning (開門紅特惠)” interest rate campaign to actively benefit customers and continuously reduce their financing costs to ensure the stability of customer funds. As of the end of June 2023, the weighted interest rate of the Bank’s inclusive SME loans was 4.38%, 0.37 percentage points lower than the weighted interest rate of the previous year; the non-performing ratio of inclusive SME loans was 1.34%, which was controlled within 3 percentage points of the Group’s non-performing loan ratio of various loans so as to steadily promote the “volume increment and coverage expansion, quality improvement and cost reduction” of financial services for small and micro enterprises.

4. Interbank financial business

The Bank adhered to the general strategy of “seeking progress while maintaining stability” for the inter-bank financial business. The Group has focused on its strategic development goals, focused on market trends, strengthened investment research linkage, coordinated and balanced various indicators, flexibly used diversified strategies, strengthened technology empowerment, optimized risk management and control system, comprehensively promoted the high-quality development of inter-bank financial business, and effectively consolidated the distinctive advantages of inter-bank financial business. During the Reporting Period, market influence continued to rise. The online business transaction volume of the Bank in the interbank market exceeded RMB4.73 trillion, and market transactions were active.

In terms of interbank financial assets, the Bank conducted in-depth research and evaluation of interest rate trends, and carried out asset allocation at the right time, continuously adjusted and optimized property structure, strengthened swing trading operations, and increased the contribution of spread income. In terms of inter-bank financial liabilities, the Group has strengthened the refined management of liabilities and effectively reduced the cost of liabilities. During the Reporting Period, the Bank’s issuance scale of inter-bank certificates of deposits totaled approximately RMB44.0 billion, and the issuance interest rate was at a relatively low level among banks of the same level.

In terms of intermediary business, the Bank practised the concept of being “customer-oriented”, actively explored its customer base, increased the depth and coverage of cooperation with inter-bank customers and increased income from intermediary businesses through bond underwriting and distributing, securities lending and other business. During the Reporting Period, the Bank’s bond underwriting and distributing scale amounted to RMB93.5 billion, achieving a year-on-year increase of 55% in fee income.

5. Digital finance business

With online channel services and data services as the core, the Bank’s digital finance business followed the pace of “planning in the whole area, highlighting key points, running in small steps, and quickly winning in local areas”, and steadily upgraded online channels to improve customer operation efficiency; gradually deepened data management and empowerment to help reduce costs and increase efficiency at all levels. In terms of online channel services, the Bank steadily upgraded its channel services and continued to enrich the channel scenarios to further improve the overall operation capability of online channels and comprehensive customer service level. In terms of data services, the Bank further cultivated and facilitated data-centric development momentum by solidly promoting the process of data governance, orderly restructuring the data operation system, and steadily transforming the value of data empowerment. As of the end of the Reporting Period, the number of personal mobile banking users of the Bank reached 4,269,000, with an increase of 6.24% over the beginning of the Reporting Period. The average monthly active users (MAU) increased by 16.17% year on year. The number of bound accounts on WeChat Bank reached 1,253,300, with an increase of 11.55% over the beginning of the Reporting Period.

(II) Digital transformation and financial technology development

1. Development of digital transformation

The Company deeply implemented the digital transformation strategy, and reconstructed the organisational structure and functions of the digital transformation office. In 2023, 53 digital transformation pilot projects were implemented in an orderly manner, and the Company was successively selected as one of the pilot institutions for digital transformation and data governance in the province.

Building an efficient multiplex new data infrastructure to empower business development and transformation. Firstly, the Bank consolidated the data middle platform base, comprehensively promoted the construction of data middle platform project groups based on the data middle platform planning blueprint, accelerated the construction of capacity centers such as data operation and data development, continued to strengthen data aggregation and standardisation construction, and improved the unified management capability of data assets. Secondly, the Bank strengthened data governance, conducted self-inspection and evaluation on the data governance level of the Bank in accordance with industry standards such as regulatory guidelines and data management capabilities maturity evaluation model (DCMM), and focused on the improvement of data management capabilities through customer information governance and regulatory data quality improvement. Thirdly, we deepened data application services. In terms of external data application, the Bank enriched various external data resources, and improved the quality and efficiency of external data use through service integration and adjustment strategy optimisation. In terms of internal data application, we established data analysis and application process mechanism to continuously empower the operation of four major segments, namely precision marketing, intelligent risk control, customer management and channel operation with data mining technology. During the Reporting Period, a total of 19 data empowerment projects and 41 self-developed data analysis models were carried out.

Building a new digital ecosystem with comprehensive links to improve customer service capabilities. Firstly, the Bank built a customer ecosystem, promoted public and private banking, accelerated the capacity building of business marketing, product management and other modules, and deeply empowered the Bank's customer management. Secondly, the Group built an intelligent customer service platform, completed the development of robot outbound call function, accelerated the optimisation of intelligent voice navigation system, and drove the improvement of the quality and efficiency of customer service and marketing management with digital platform tools. Thirdly, the Bank upgraded the transaction banking system and strengthened the scenario-based customer acquisition and service transformation of corporate finance. Fourthly, the Bank consolidated the support of the wealth management platform, accelerated the construction of fund investment advisory, wealth management with zero money, derivatives business and other functions on the agency platform, continuously enriched the product shelves, and satisfied customers' wealth management needs in multiple aspects. Fifthly, the Bank expanded the ecological cooperation with external institutions, deepened the connection between government institutions and the construction of digital RMB and open banking capabilities, continued to inject scenarios such as housing, provident fund, property payment, medicine and canteen top-up, and improved the management level of customer contact, customer acquisition and customer retention through the construction of "finance + non-financial" scenario linkage.

Building an omni-channel service integrating online and offline channels. In terms of online platform construction, the Bank carried out customer-centric research on diversified scenarios, strengthened the unified external services of online channels, upgraded the functions and rights of mobile banking 5.0 and new WeChat banking, and reconstructed and upgraded customer experience with key pages and key transactions to facilitate business development and operation services. In terms of offline channel construction, the Bank strengthened the “online + offline” scenario customer acquisition such as 5G network live broadcast, micro-video, and outlet business circle, continued to improve the efficiency of human-machine combination, upgraded the intelligent counter transaction interface and service process, and accelerated the digital transformation of outlets. As at the end of the Reporting Period, the replacement rate of intelligent equipment in outlets reached 77.54%, representing an increase of 11.17 percentage points as compared with the end of last year.

2. Development of financial technology

The Bank actively embraced the general trend of financial technology development, continuously deepened the application scenarios of financial technology, and promoted the full implementation of digital transformation and information technology strategic planning with the model of “financial technology + business scenarios”, so as to drive business innovation and development with technology.

Firstly, the Bank improved its technological support capability. Through orderly promoting the construction of technology centers and new data centers, continuously optimising database performance, completing SDN network transformation, optimising the scope of cloud computing services, and upgrading network security management and technology systems, the Bank provided a strong technology foundation for business development.

Secondly, the Bank strengthened the empowerment of financial technology. Focusing on service channels, customer operation, product innovation, intelligent risk control, group operation and other aspects, through the construction of informatization projects, the Bank quickly responded to business needs, effectively promoted the digital transformation of business, provided comprehensive scientific and technological support for the rapid innovation and development of business and the improvement of operation and management quality and efficiency, and gave full play to the role of scientific and technological empowerment.

Thirdly, the Bank continued to increase investment in financial technology and strengthen the construction of talent team. Through measures such as increasing capital investment, increasing talent recruitment, organising special training, and carrying out team culture construction, the Bank strengthened the protection of resources and talents, and promoted technological innovation and development. As at the end of the Reporting Period, the Group had a total of 695 scientific and technological personnel (including dispatched personnel), and invested a total of RMB158,515,200 in financial technology during the Reporting Period.

(III) Distribution Channels

1. Physical distribution channel

As of the end of the Reporting Period, the Bank had 504 branches and sub-branches (excluding the headquarters), including 500 in Dongguan and 4 in other cities within the province. Our number of bank branches in Dongguan ranks first in terms of the number of bank branches in Dongguan. The Bank has 2 branches outside Dongguan in Guangzhou and Zhuhai, and 2 sub-branches outside Dongguan in Huizhou and Qingyuan.

In addition, we have jointly established four county banks with third parties in Dongguan, Huizhou and Yunfu in Guangdong Province and Hezhou in Guangxi Zhuang Autonomous Region; we have also jointly established two rural commercial banks with third parties in Zhanjiang City and Shantou City in Guangdong Province.

2. Self-service banking channel

As of the end of the Reporting Period, the Bank had 1,251 automatic teller machines (ATMs), self-service inquiry terminals, self-service card issuing terminals and intelligent service terminals; among them, there are 809 automatic teller machines (ATMs), 26 self-service inquiry terminals, 416 intelligent service terminals.

3. E-banking channel

During the Reporting Period, the Bank continued to optimize customer experience of e-banking channels, continuously deepened the construction of financial and non-financial ecosystems, further enhanced the digital operation capabilities of online channels and improved the channel business system. The electronic channels of the Bank mainly include mobile banking, online banking, WeChat banking, telephone banking, etc. As of the end of the Reporting Period, the Bank's comprehensive counter replacement rate of electronic channels reached 98.04%.

V. RISK MANAGEMENT

The Bank focused on the top priority of "high-quality development", established a comprehensive risk management organizational structure with a sound organizational structure and clear responsibilities, clarified that the Board of Directors, the Board of Supervisors and the senior management were responsible for the ultimate responsibility, supervision responsibility and implementation responsibility for comprehensive risk management respectively, and assigned the chief risk officer with full independence in respect of overall risk management. The comprehensive risk management department of the head office was responsible for coordinating the daily work of comprehensive risk management. All departments, branches and subsidiaries of the head office were responsible for their own comprehensive risk management responsibilities, achieving full coverage, penetration and whole-process management and control of institutions at all levels and various business. At the same time, the Bank continuously optimized the three lines of defense of risk management consisting of business departments, risks under centralized management by specialized departments and audit departments, forming a coordinated and balanced operation mechanism to jointly promote the healthy development of business.

During the Reporting Period, in the face of more complex domestic and international environment and economic situation, the Bank continued to optimize the comprehensive risk management mechanism, strengthened risk management and control in key areas, actively promoted the high-quality transformation and development of the Bank, adhered to a stable and prudent risk appetite, and further promoted the construction of a comprehensive risk management system suitable for strategic objectives based on the foundation of “steady growth and risk prevention”, so as to ensure that the Bank’s risk tolerance was in line with the capital adequacy level, and commit to maximizing risk returns.

(I) Credit Risk Management

Credit risk refers to the risk of economic loss caused by the failure of the Bank’s counterparties in performing their relevant obligations according to the agreed conditions.

The Bank has established and implemented standardized credit review and extensive management policies and procedures, and continuously improved the procedures, systems and methods related with credit risk management to identify, measure, supervise, reduce and control risks caused by credit business. In terms of credit risk management policies and procedures, the Bank has continuously improved its credit risk management system, and it has formulated and introduced relevant business management systems based on actual business development. During the Reporting Period, the Bank has formulated (revised) the “Measures for Risk Classification of Credit Assets of Dongguan Rural Commercial Bank Co., Ltd. (2023 Version)” “Operational Guidelines for the Adjustment of Loan Interest and Bank Card Interest Fee Differentials of Dongguan Rural Commercial Bank Co., Ltd. (2023 Version)”, “Operational Guidelines for the Unified Registration System for Movable Assets and Rights Guarantees of Dongguan Rural Commercial Bank Co., Ltd. (2023 Version)” and other mechanisms, which continuously strengthened the Bank’s credit risk management. In terms of the organizational structure and responsibilities of credit risk management, at the head office level, the Bank has established a comprehensive risk management department, which is a dedicated risk management department independent of other business departments that undertakes credit risk management functions. At the branch level, the Bank has established the risk compliance department, which is responsible for the risk management of the branches’ credit business, and it has achieved vertical credit risk management and improved the efficiency of credit risk management and control. In terms of the methods of asset risk classification, the Bank has adopted a series of standards derived from the management measures of the CBIRC to establish a classification mechanism, and categorized loans into five categories based on the overall risk level of loans, namely normal, special mention, substandard, doubtful and loss. Through the continuous supervision and analysis of the borrower’s financial risks, non-financial risks, cash flow, guarantees and other factors, it can accurately reflect the borrower’s ability to repay, willingness to repay and risk fluctuations in each specific period. In terms of the construction of the credit risk management system, the pre-loan investigation system, the risk data pool and credit risk alert system of the Bank have been operating normally, and are comprehensively used in the entire process from pre-disbursement, disbursement to post-disbursement of loans to strengthen the overall risk management and control of credit business.

As of the end of June 2023, the credit risk of the Group was generally controllable, and the non-performing loan ratio of the Group was within the control target.

For more details on credit risk management, please see Note 41.1 “Credit Risk” to the Consolidated Financial Statements in the section headed “Financial Report” in this Report.

(II) Liquidity Risk Management

Liquidity risk refers to the risk that a commercial bank cannot obtain sufficient funds in a timely manner at a reasonable cost to repay debts due, perform other payment obligations and meet other capital needs for normal business operations.

The Bank has established and implemented standardized liquidity risk management strategies, policies and procedures to continuously identify, measure, monitor and control liquidity risks to ensure that the Bank's liquidity needs could be satisfied in a timely manner and at a reasonable cost. In terms of policies and procedures for liquidity risk management, the Bank continued to improve the liquidity risk management system. During the Reporting Period, the Bank issued the Measures for Managing the Liquidity Risk of Dongguan Rural Commercial Bank Co., Ltd. (2023 Version), Liquidity Emergency Plan for Dongguan Rural Commercial Bank Co., Ltd. Group (2023 Version) and Liquidity Emergency Plan for Tier-One Branches and Sub-Branches of Dongguan Rural Commercial Bank Co., Ltd. (2023 Version), further improving the liquidity risk management level. In terms of strategy for liquidity risk management, the Bank adopted a prudent liquidity risk management strategy. On the basis of meeting regulatory requirements, the Bank properly balanced the levels of income and liquidity, maintained moderate liquidity, and controlled liquidity risk within a reasonable range to ensure the safe operation of the Bank. In terms of the organizational structure and responsibilities for liquidity risk management, the Board of Directors of the Bank assumes the ultimate responsibility for liquidity risk management. The Assets and Liabilities Management Committee of the senior management is responsible for the effective organization and implementation of the Bank's liquidity risk management system. The assets and liabilities management department and the financial market department are jointly responsible for the daily management of liquidity risk. All departments of each business line and branches cooperate to carry out active liquidity risk management.

During the Reporting Period, the Bank measured liquidity risk based on the structural allocation of assets and liabilities, with a number of indicators, including liquidity ratio, RMB excess reserve ratio, liquidity gap ratio, liquidity coverage ratio and net stable funding ratio. Through stress testing scenarios combining mild, moderate and severe stress, the Bank analyzed the ability to withstand liquidity events or liquidity crises, and reasonably allocated sufficient liquidity reserve assets to cope with liquidity risks. The Bank has established a risk limit management and alert monitoring mechanism to ensure that the liquidity risk is controlled within an acceptable and reasonable range by regulating the daily asset-liability portfolio. The Bank has formulated specific emergency plans and organized emergency drills regularly to improve emergency response capabilities.

During the Reporting Period, the Bank's liquidity risk was generally controllable, and no liquidity risk events occurred. The main liquidity risk regulatory indicators have met the standard monthly. The stress test results also showed that the Bank has sufficient risk mitigation capability under stressful scenarios to cope with the crises.

1. Liquidity coverage ratio

The Group calculates and discloses the liquidity coverage ratio in accordance with the relevant provisions of the Measures for Information Disclosure of Liquidity Coverage Ratio of Commercial Banks (《商業銀行流動性覆蓋率信息披露辦法》):

(Unit: RMB'000)

Item	As at 30 June 2023	As at 31 December 2022	Minimum Regulatory Requirement
Liquidity ratio	87.13%	77.07%	≥25%
Qualified high-quality liquid assets	154,171,277.20	137,082,938.30	—
Net cash outflows	67,538,000.80	58,655,719.30	—
Liquidity coverage ratio	228.27%	233.71%	≥100%

Note: The data in the above table are all based on the standards adopted under the "off-site regulatory report" of the CBIRC on a group consolidated basis.

2. Net stable funding ratio

The Group calculates and discloses the net stable funding ratio in accordance with the relevant provisions of the Measures for Information Disclosure of Net Stable Funding Ratio of Commercial Banks (《商業銀行淨穩定資金比例信息披露辦法》):

(Unit: RMB'000)

Item	As at 30 June 2023	As at 31 March 2023	As at 31 December 2022
Available stable funding	485,794,208.79	475,888,142.31	458,443,597.31
Required stable funding	332,910,018.43	336,073,714.51	317,199,790.23
Net stable funding ratio	145.92%	141.60%	144.53%

Note: The data in the above table are all based on the standards adopted under the "off-site regulatory report" of the CBIRC on a group consolidated basis.

(III) Market Risk Management

Market risks include interest rate risk, exchange rate risk (including gold), stock price risk and commodity price risk, which refer 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 risks faced by the Bank include interest rate risk and exchange rate risk. The Bank has established and continued to improve its governance framework for market risk management, which clearly defines the responsibilities of the Board of Directors, the Board of Supervisors and the senior management, risk management and business departments in the process of market risk identification, measurement, monitoring and reporting, so as to ensure the effectiveness of market risk management.

Chapter III Management Discussion and Analysis

During the Reporting Period, the Bank followed the principle of prudent market risk management, adopted a conservative market risk appetite, and took measures such as limit management, duration control, sensitivity analysis and stress testing to measure, monitor and manage interest rate risks in the trading accounts and banking book, and exchange rate risk, respectively, to ensure that market risks can be controlled within a reasonable range.

In accordance with the provisions of the Capital Management Measures for Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the Bank adopts the standard method to measure market risk capital. As of the end of June 2023, the Bank's market risk-weighted assets were RMB13.208 billion. The capital provision was made in a prudent way and fully covered market risks. All important market risk indicators were up to standard. The results of the stress test showed that the impact of interest rate and exchange rate changes on the Bank was controllable, and the overall market risk was at a manageable level.

1. Interest rate risk management

Interest rate risk management refers to the process of identifying, measuring, monitoring and controlling interest rate risk.

The objectives of the Bank's interest rate risk management include "establishing a sound interest rate risk management system, controlling fluctuations in income and economic value, ensuring that the Bank operates within an acceptable interest rate risk range, balancing interest rate risk and income, and ultimately maximizing risk returns".

In terms of the trading accounts, the Bank strengthened the interest risk measurement and the limit management of trading accounts. The Bank conducted measurement management of the interest rate risk of trading accounts by adopting various methods including change in fair value through profit and loss and floating profit and loss monitoring, gap analysis, value-at-risk (VaR), and interest rate sensitivity analysis (PVBP and duration). The Bank further optimized the interest rate risk limit management system of trading accounts, continued to monitor interest rate risk limits, and reported and alerted risks in a timely manner. The Bank continued to conduct stress tests on interest rate risk, including bond valuation stress tests and derivatives stress tests and examined the impact of changes of market returns on the valuation of bond holdings and of revenue curves on the economic value of derivative portfolios. During the Reporting Period, the Bank has adopted a prudent investment management strategy in general, and dynamically adjusted risk exposures based on market changes using bond transactions, derivative instruments hedging and other methods. All trading book interest rate risk indicators remained within the target range.

In terms of the banking book, the Bank continued to strengthen the management of interest rate risk in the banking book. During the Reporting Period, the Bank revised and issued the Measures for the Management of Interest Rate Risk in the Banking Book of Dongguan Rural Commercial Bank Co., Ltd. (2023 Edition) and the Measures for the Management of Interest Rate Risk Model in the Banking Book of Dongguan Rural Commercial Bank Co., Ltd. (2023 Edition) to further standardize the management process of interest rate risk in the banking book, and optimize and improve the limit indicator system and risk measurement model for interest rate risk in the banking book. Adhering to the principles of prudence, comprehensiveness and independence, the Bank paid close attention to external policies and interest rate changes in markets, adopted gap analysis, duration analysis, scenario simulation, stress testing and other methods to measure interest rate risk in the banking book, and regularly evaluated the impact of different interest rate change scenarios on net interest income and economic value. With the main goal of controlling the fluctuation of interest rate risk indicators, the Bank proactively adjusted the pricing of its businesses, as well as the management strategy of assets and liabilities, and promoted the application and conversion of new repricing methods of floating-rate loans. As of the end of June 2023, all interest rate risk limit indicators for the banking book remained within the target range.

2. Exchange rate risk management

Affected by various factors such as the ongoing Russian-Ukrainian war and the widening of the Sino-US interest rate spread, the overall RMB exchange rate showed a unilateral downward trend in the first half of 2023. During the Reporting Period, the Bank took the control of foreign exchange exposure as the main means of exchange rate risk management, and adopted the management strategy of maintaining low exposure to reduce the risk losses caused to the Bank by exchange rate fluctuations. As of the end of June 2023, the Bank's cumulative foreign exchange exposure ratio was 1.35%, which slightly increased by 0.83% from the beginning of the year, the exchange rate risk level was low, and the overall exchange rate risk was controllable.

(IV) Off-balance Sheet Business Risk Management

Off-balance sheet businesses refer to the businesses engaged by commercial banks which are not included in the balance sheet and do not constitute actual assets and liabilities according to the current enterprise accounting standards for business enterprises, but may cause changes in profit or loss. Because of off-balance sheet businesses' characteristics such as contingency, concealment, high leverage and hysteresis, off balance-sheet risks may transfer to on-balance sheet risks and seriously affect the operating activities and earning position of commercial banks under the influence of an uncertain factor at some time in the future.

During the Reporting Period, the Bank incorporated off-balance sheet businesses into comprehensive risk management in accordance with regulatory requirements. Through measures such as risk limit management and risk assessment, the Bank identified, measured, monitored and reported its major off-balance sheet businesses, such as commitment and guarantee, providing investment and financing services as an agent, and financial derivatives, to ensure that its business development was in line with the Bank's positioning.

1. Commitment and guarantee

Commitment and guarantee business is a business with which the Bank is entrusted by its customers to undertake responsibilities for third parties, and it is a business that the Bank is exposed to credit risks associated with commitment and guarantee and may be required to provide funds if the Bank's customer fails to fulfill its obligations. At present, the Bank's commitment and guarantee business mainly includes acceptance bills, letters of credit and letters of guarantee.

The Bank formulated the Operating Instruction for the Acceptance Business of E-Banking Acceptance Bills of Dongguan Rural Commercial Bank Co., Ltd. (2022 Edition), Operating Procedures for Lending Business under Domestic Letter of Credit of Dongguan Rural Commercial Bank Co., Ltd. (2022 Edition), Operating Procedures for Import Letter of Credit Business of Dongguan Rural Commercial Bank Co., Ltd. (2020 Edition), Measures for the Management of Letter of Guarantee Business of Dongguan Rural Commercial Bank Co., Ltd. (2021 Edition) and other systems in accordance with laws, regulations and rules, so as to accept the acceptance bills, letters of credit and letters of guarantee in compliance with laws. The aforesaid commitment and guarantee bill business was included in the Group's unified credit management.

2. Providing investment and financing services as an agent

The business of providing investment and financing services as an agent refers to the business with which commercial banks are entrusted to provide investment and financing services to customers according to the agreement, with no responsibility for repayment on behalf of customers. At present, the Bank's investment and financing services as an agent mainly include entrusted loans, wealth management for customers and bond underwriting.

In terms of entrusted loan business, the Bank adopted a series of credit safety precautions to strengthen loan management for principals, for example, the issuance, use and recovery of entrusted loans, provided that as a trustee, the Bank shall just receive service fee, and shall not bear any credit risk or make any advance payment.

As for the business of wealth management for customers, the Bank formulated corresponding management systems and business management procedures from the asset end and liability end respectively, incorporated the wealth management investment business into the unified credit granting system of the Bank. The Bank implemented a list management system for partners in the wealth management investment business and conducted regular follow-up evaluations. The Bank regularly conducted stress tests on wealth management products to strengthen the risk management of wealth management assets and liabilities, and regularly disclose full information on wealth management products, investment targets of funds, the net value of products, the liquidity risk analysis of the investment portfolios and other information to investors. During the Reporting Period, the Bank's investment banking and wealth management business had no risks and legal proceedings.

In terms of bond underwriting, the Bank has established a bond underwriting and distributing team, who shall be mainly responsible for the underwriting and distribution of bonds such as interest rate bonds and local government bonds. The Bank formulated corresponding management systems and business procedures, and conducted business within the risk limit set by the senior management. In order to prevent risks caused by counterparties, the Bank established a blacklist of bond underwriting and distributing bidders and the investors in the blacklist are prohibited from bond distributing. During the Reporting Period, the bond underwriting and distributing business of the Bank's financial marketing department had no risks and legal proceedings.

3. Financial derivatives

The financial market department was established as the front office department for proprietary trading of local and foreign currency derivatives. Derivatives trading strictly followed the principles of separation of front, middle and back stages and the businesses were developed in an orderly manner according to the requirements of internal control and risk management system.

Before entering into derivatives transactions, the Bank shall determine the credit lines of counterparties by analyzing the financial data, business position, ratings by external credit rating agencies, shareholders' background and other information of counterparties, on the basis of the risk preference and the risk characteristics of each business. The Bank monitored and managed the risks of the derivatives business through risk limit, value at risk reports, exposure position statements and capital flow statement analysis and other measures. The Bank regularly conducted stress tests on the derivatives business, improved policies and procedures of market risk management based on the test results, and inspected the design and results of stress tests, so as to continuously improve the testing procedures. The derivatives business was incorporated into the liquidity risk management system and monitored through the liquidity risk management system. And the factors of the derivatives business were considered in the liquidity stress tests based on the actual situation.

(V) Compliance Risk Management

Compliance risks refer to the risks of possible legal sanctions, regulatory penalties, significant financial loss or loss of reputation due to failure to comply with laws, rules and guidelines and internal rules and regulations.

During the Reporting Period, the Bank insisted on operating in compliance with laws and regulations, steadily carried out various tasks, and strictly prevented and controlled compliance risks. In line with the regulatory requirements, the Bank continued to implement the "establishment, revision and abolition" of the system, thereby ensuring the compliance and applicability of the system. At the same time, the Bank organized its subsidiaries and management institutions to carry out comprehensive evaluation of the mechanism management system to further improve the system construction. The Bank strictly verified the compliance of new products and new businesses, and put compliance risk control at the front. The Bank carried out "strengthening case risk screening and continuously deepening the construction of internal control and compliance management" activities, implemented compliance risk assessment, strengthened risk screening and prevention and control in key areas, and established a sound internal control and compliance system. The Bank formulated a compliance reporting mechanism and the construction plan for "Top Five" compliance culture to enhance employees' awareness of performing duties in accordance with regulations and improve the level of compliance risk prevention and control. During the Reporting Period, the Bank did not have any major compliance risk events.

(VI) Operational Risk Management

Operational risks refer to the risks of losses resulting from inadequate or faulty internal procedures, staff and IT systems, and external events.

During the Reporting Period, the Bank established a sound organizational structure and a sound management system for operational risks to ensure that business operations are in compliance with laws and regulations, which provided a healthy internal operating environment for business development. The Bank actively promoted the application of core operational risk management tools, established an effective operational risk identification system, and formulated the procedures and methods for operational risk identification, measurement, monitoring and control, and strengthened the digital identification, prevention and control of operational risks. The Bank enhanced the compliance supervision of employees' behaviors and business operations by strengthening business supervision and inspection, risk screening, employees' behavior management, accountability for breaches and other aspects, reducing the occurrence of operational risk events caused by employees. During the Reporting Period, the Bank did not have any major operational risk events.

(VII) Large-scale Risk Exposure Management

Pursuant to the Management Measures for Large-scale Risk Exposure of Commercial Banks (《商業銀行大額風險暴露管理辦法》) issued by the CBIRC (Order No. 1 of China Banking and Insurance Regulatory Commission in 2018), large-scale risk exposure refers to the credit risk exposure to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net tier one capital.

The Bank strictly implemented the Management Measures for Large-scale Risk Exposure of Commercial Banks, actively established and improved the organizational structure and management system for large-scale risk exposure management, incorporated large-scale risk exposure management into a comprehensive risk management system, and actively promoted the system construction related to the large-scale risk exposure management; continuously improved the management of customer credit, strengthened the risk management and control of large credit risks so as to strictly prevent concentration risks. As of the end of the Reporting Period, the Bank's large-scale risk exposure indicators complied with regulatory requirements.

(VIII) Reputational Risk Management

Reputational risks refer to the risks that may be caused by negative evaluations on the Group and the Bank by stakeholders, the public, the media and others due to the operation and management of the Group and the Bank, the behaviors of employees or external events, thereby damaging the brand value of the Group and the Bank, affecting the normal operations of the Group and the Bank, and even affecting market stability and social stability. Reputational events refer to relevant acts or activities that cause significant damage to the Group's and the Bank's reputation.

The Bank has established an effective reputational risk pre-assessment mechanism to promote the reputational risk control in advance. By making full use of the intelligent reputation monitoring system, implementing 24/7 hours omni-channel public opinion monitoring and strengthening manual monitoring, the Bank has created the intelligent reputation monitoring mechanism of "technical defense + manual defense". Also, the Bank conducted regular reputational risk management training, continuously improving the media public relations literacy and reputational risk response capabilities of relevant business personnel of various branches.

During the Reporting Period, the Bank further strengthened the quarterly reputational risk screening of each branch, and regularly investigated major customer complaints as well as improper marketing and publicity behaviors that occurred in branches each quarter which may cause widespread public concern, etc. The Bank also investigated and identified potential reputational risks, and promptly released reputational risk warnings. During the Reporting Period, the overall reputation of the Bank was stable and good, and no major reputational events occurred.

(IX) Information Technology Risk Management

Information technology risks refer to risks arising from natural factors, human factors, technology loopholes and management defects during the course of the application of information technology by the Bank, including operational, legal and reputational risks.

During the Reporting Period, the Bank continued to strengthen information technology risk management. Firstly, the Bank improved the system through formulating and revising several systems in the areas such as information technology governance, information technology outsourcing management and information technology risk so as to further establish a sound control mechanism of information technology risk. Secondly, the Bank gave full play to the role of the “three lines of defense” of information technology risk management, implemented a number of security inspections, risk assessments and internal and external audits to promote and effectively improve the effectiveness of information technology risk management and control. Thirdly, the Bank carried out network security protection on a regular basis, strengthened daily monitoring and operation, upgraded the security technology prevention and control system, and successfully completed the “Guan Shield-2023 (莞盾-2023)” defense drill, and steadily improved the level of network security protection. Fourthly, the Bank implemented the monitoring and early warning of key indicators information technology risk, effectively implemented business continuity emergency drills to improve the Bank’s emergency response capabilities in response to information technology emergencies. During the Reporting Period, the Bank’s information system operated safely and steadily as a whole, and no information technology risk events that had a significant impact on the Bank occurred.

(X) Strategic Risk Management

Strategic risk refers to the risk where the strategic goal deviates from the expected due to the failure of strategic behavior to effectively maintain the match between the enterprise and the environment.

The Bank continued to pay attention to strategic risks. We have established a strategic risk management organizational system with the Board of Directors, the Board of Supervisors and senior management as the core, to ensure the implementation of the overall development plan, to evaluate the implementation of the development plan on a regular basis and to identify the main risk factors for achieving strategic goal. For relevant risk factors, we have formulated necessary measures and continuously tracked the risk factors, and carried out dynamic management of strategic objectives with reference to internal and external environments.

During the Reporting Period, the Bank deepened the implementation and monitoring mechanism of the “Outline of the Second Three-Year Development Plan for the Third Transformation of Dongguan Rural Commercial Bank Co., Ltd. (Group) (2021–2023)”. By improving the breakdown of different tasks in the plan, the Bank refined the annual work tasks of the development plan, regularly collected information on the implementation of the development plan, continuously monitored the progress of achieving the strategic objectives to ensure that the development strategy was in line with the internal and external environment, and continued to play a strategic leading role. During the Reporting Period, the Bank’s progress of achieving the strategic objectives was generally in line with expectations.

(XI) Anti-Money Laundering Management

According to the definition of “money laundering risk” made by the Financial Action Task Force on Money Laundering (FATF), money laundering risks refer to the possibility of money laundering activities caused by the external threat of money laundering against the weak procedures of countries (or systems).

During the Reporting Period, the Bank’s anti-money laundering work mainly focused on the compliance of duty performance and the effectiveness of risk prevention and control, and further strengthened and improved the money laundering risk prevention and control system of legal entities. Through optimizing the anti-money laundering organization, revising the internal control system, formulating continuous emergency plans, standardizing the identification and management of non-natural person beneficial owners and residents in Hong Kong and Macau, and organizing group-level self-inspection and self-correction of compliance performance so as to improve the compliance of anti-money laundering obligations. At the same time, the Bank organized a new generation of anti-money laundering list monitoring system to be launched in stages to strengthen customer money laundering risk management; organized annual business money laundering risk assessment and issued high-risk business risk warnings to strengthen business money laundering risk management; cooperated with the regulatory authorities to carry out the annual supervision and assessment of banking corporate institutions, strengthened the assessment and management of money laundering risks of institutions, gave full play to the role of money laundering risk assessment, and improved the effectiveness of money laundering risk prevention and control system. During the Reporting Period, the Bank did not have any material money laundering risk events.

(XII) Internal Control

During the Reporting Period, the Bank established a corporate governance structure with a reasonable division of labor, clear authority and responsibilities and checks and balances, as well as a multilevel internal control organizational structure. The Board of Directors, the Board of Supervisors and senior management performed their respective duties and formed a scientific and effective division of responsibilities and checks and balances mechanism. Each department of the head office formulated a comprehensive, systematic and standardized work system based on the functions of the department, and clarified management requirements, job responsibilities, business standards, work procedures, practice standards, accountability and other aspects to ensure that all business activities were carried out in an orderly manner. Meanwhile, the Bank established the system compliance review and follow-up evaluation mechanism to ensure the compliance, applicability and effectiveness of the system.

(XIII) Internal Audit

The Bank implements an independent and vertical internal audit management system. The Board of Directors assumed ultimate responsibility for the independence and effectiveness of internal audit, considered and approved internal audit rules, mid-and long-term audit plans and annual audit plans, etc., provided necessary safeguards for independent and objective internal audit work, and assessed the independence and effectiveness of internal audit. The Audit Committee of the Board of Directors is responsible for reviewing important systems and reports such as internal audit rules, considering and approving mid-and long-term audit plans and annual audit plans as well as guiding, assessing and evaluating internal audit. The Audit Department specifically undertook internal audit responsibilities, and was responsible for reviewing, evaluating and urging for improvements in the Bank's business operation, risk management, internal control and compliance and corporate governance through the application of systematic and standardized methods, so as to promote stable operation and value enhancement of the Bank.

During the Reporting Period, the Bank adhered to and strengthened the Party's leadership over our audit work. The audit departments focused on its main responsibilities and main business, scientifically formulated the annual audit plan, made good use of management measures such as "double audit" and project discussion, and adopted the audit team responsibility system for the orderly implementation of the audit projects relating to corporate governance, credit business, financial management, information technology and subsidiaries, and the management organization, as well as the implementation of the economic responsibility audits of some key personnel and urging the responsible units and individuals to do a good job in rectifying the situation, coordinated to do a good job in the "first half" of the audit supervision and the "second half" of the audit rectification. At the same time, the bank continued to promote the digital transformation of auditing, further enhance the ability to collect and apply basic data, broaden the scope of off-site monitoring, promote the quality and efficiency of auditing work, and earnestly fulfill our duties as the third line of defense for risk prevention and control.

VI. FUTURE OPERATING PROSPECT

In the second half of 2023, the Bank will adhere to the business philosophy of “customer-centered, market-oriented, and efficiency-targeted”, concentrate the efforts of the whole Bank to promote the implementation of key tasks such as core system transformation, financial support for the “High-Quality Development Project”, and optimization of the organization and risk system to push forward the Group’s high-quality development to a new level by giving full play to the Bank’s scale and resource advantages.

1. Striving to fully advance the transformation of core systems and enhance the carrying capacity of digital transformation

The Bank considers the construction of the new core system as the “No.1 Project”, comprehensively promotes digital transformation, reconstructs the business process and technical architecture of the core and front-end systems in accordance with the concept of “customer-centered”, clarifies the ideas of business development, public-private linkage, and industry-technology integration, and carefully analyzes bottlenecks and explores improvement. By combining top-level design with demand orientation, the Bank also enhances coordination and overall management and control, clarifies the construction scope of the new core system projects group, identifies the starting point, highlights the key points to provide a more solid carrying capacity for the Bank’s digital transformation and at the same time inject new impetus into the Bank’s long-term development and core competitiveness enhancement.

2. Fully supporting the “High-Quality Development Project” and fostering comprehensive business development

The “High-Quality Development Project Covering Every County, Every Town and Every Village” serves as an important starting point and mainline for Guangdong Province in its pursuit of high-quality development and realization of Chinese modernization at the forefront. The Bank actively fulfilled the responsibilities of the local financial leader and the “Sannong” financial main force, formulated the Implementation Plan for Dongguan Rural Commercial Bank to Comprehensively Promote Financial Support for the “High-Quality Development Project Covering Every County, Every Town and Every Village”, and launched a phased action plan to effectively serve the real economy and adhere to the manufacturing industry. By strengthening the provision of financial services, optimizing products and services and focusing on the three major markets of cities, towns and villages, the Bank fully supports the development of modern industries, the improvement of urban quality, the characteristic industries of towns and streets, the expansion of industrial space, social welfare and livelihood security, the high-quality development of modern “Sannong”, etc., to contribute its financial strength to the coordinated urban-rural development and the advancement of Chinese modernization in Dongguan.

3. Expediting the construction of an ecological organizational system and improving new development momentum


To further enhance operational and management efficiency, the Bank will focus on flattening, specialization and marketization, deepen the adjustment of internal system and mechanism, expedite the construction of an ecological organizational system, promote the integration of outlets and vertical management of lines, and comprehensively strengthen the role of branches and outlets in marketing positions. By establishing business franchise teams for towns and villages, companies, small and micro business and individuals, we have comprehensively enhanced our front-line operation and customer service capabilities. Furthermore, through the establishment of a flat ecological organization, the implementation of a large operating system that is simple, effective and process-coherent from end to end, and the transformation of our business backbone process, the Bank has achieved simplified backbone, improved flexibility at the end and continued enhancement of operational efficiency.

4. Expediting product and service innovation and enhancing market competitiveness

The Bank will provide timely, accurate and high-quality financial services to customers by taking customers' needs as the guide, insisting that innovation is the first driving force, and setting up the customer's simple values of good service, good quality, and quick response to needs. On the one hand, we will enhance our management of customer stratification and classification, realize "originally belonging to customers and finally understanding them", optimize our "end-to-end" service, gain a deep understanding of the pain points of customers, identify the key factors, and offer professional solutions. On the other hand, we will expedite the piloting of the product manager system, promote the development of new products and new businesses, and further advance the online and standardized enhancement of personal and micro-credit products to continuously provide customers with professional services that meet their needs.

5. Strengthening the construction of the security system and comprehensively enhancing management effectiveness

In the second half of 2023, the Bank will formulate overall plans for management and efficiency improvement while making every effort to do a good job in business development to maintain the stability and long-term development of the Bank. The first is to strengthen the risk system. The Bank will optimize the risk control mechanism of credit products, integrate risk control measures into product research and development, and improve the management level of credit risk control. We will also explore and promote the loan review mechanism of independent approvers to strengthen checks and balances and enhance risk control measures. The second is to strengthen the internal control system. The Bank will consistently strengthen the Group's compliance risk management, operational risk monitoring and employee behavior management, and strive to reinforce the role of digital and intelligent risk control management and supervision. The third is to strengthen asset and liability management. The Bank will enhance the management of the balance between volume and price of assets and liabilities through considerations of scale, structure and pricing, and make a dynamic balance between efficiency and scale. The fourth is to enhance the protection of consumer rights and interests. The Bank will comprehensively strengthen the whole-process management of consumer protection. We will strictly focus on pre-review to ensure full coverage of consumer protection review on all matters affecting consumer rights and interests. In addition, we will pay close attention to in-process management and control, and carry out special inspections on consumer protection to marketing and publicity management, information disclosure, information protection, public education, etc. Furthermore, we will pay close attention to post-event supervision, continuously enhance the traceability rectification mechanism, and implement a closed-loop management of rectification. The fifth is to enhance management to improve efficiency. The Bank will comprehensively enhance the professional level of management by establishing an investment and research team, deepening the transformation of outlets, implementing cost reduction and efficiency improvement measures, and enhancing the emergency response command system.



Chapter IV Environmental, Social and Governance

Chapter IV Environmental, Social and Governance

The Bank always adheres to the corporate purpose of “accompanying, trusting and growing with each other”, takes “creating maximum value for inclusive finance” as its core value, and fully integrates the concept of environmental, social and corporate governance (“ESG”) into the daily operation and management. The Bank returned to original aspiration by supporting rural revitalization, integrated industry and finance to promote regional development, developed green finance to support carbon peaking and neutrality goals, strengthened services to protect customer rights, and took the responsibilities in consolidating poverty alleviation. The Bank gave back to society with practical actions, actively fulfilled its corporate social responsibility, promoted high-quality sustainable development of the economy, environment and society, and supported in achieving the goal of shared prosperity.

I. PRACTICE INCLUSIVE FINANCE AND FULFILL SOCIAL RESPONSIBILITIES

(I) Adhere to the Original Intention to Serve the Economy and People’s Livelihood

1. Focus on core customers and practice inclusive finance

Firstly, the Bank satisfied all of financial needs of new citizens. In terms of the demand for employment, the Bank optimized and innovated credit products according to the entrepreneurial needs and characteristics of new citizens to help new citizens to increase their entrepreneurial income; in addition, the Bank cooperated with government departments to establish a fund supervision platform, ensure that the wages of migrant workers are paid in full and timely, and protect the legitimate rights and interests of new citizens. In terms of housing demand, on the one hand, the Bank provided more housing mortgage credit resources, strove to meet the housing credit needs of qualified new citizens, and helped new citizens realize their “settlement dream”; On the other hand, with the “Haoyi Rent (好易租)” product as the cutting point, the Bank provided one-stop housing rental management services through the digital and intelligent platform, and constantly improved the supply of rental market, so as to meet the rental needs of new citizens. In terms of optimizing basic financial services, the Bank built six “financial service demonstration sites for new citizens” and three specialized areas including the “Intelligent Service Area”, the “Happy Dongguan Area (幸福莞家區)” and the “Dongguan Dream Sailing Area (莞夢起航區)”, launched mobile banking APP featuring “DRCB Serving New Citizens for Comfortable Work and Life in Dongguan”, and set up nine major functional sections, including housing, transportation, entertainment, medical care, and wealth management, so as to fully address the needs of new citizens in medical care, food, housing, transportation and entertainment.

Secondly, the Bank actively supported the development of the local real economy. The Bank adhered to its main business positioning of “supporting agriculture, supporting SMEs and supporting real economy”, closely focused on the core value of “creating maximum value for inclusive finance”, promoted the digitization, standardization and online construction of products, continuously improved the quality and efficiency of inclusive financial services, and continued to increase support for small and micro enterprises. On the one hand, the Bank made full use of policy funding support such as refinancing loans, rediscount, and sub-lending, accurately introducing monetary policy dividends into small and micro enterprises, actively benefiting customers, and continuously reducing customer financing costs. During the Reporting Period, the Bank applied for a refinancing loan of RMB5.737 billion and a sub-loan of RMB300 million. The interest rate of new SMEs loans in 2023 was 4.38%, representing a decrease of 0.37 percentage points from that in 2022. On the other hand, the Bank insisted on creating a comprehensive service channel that is “fast, convenient, quality and in place” for small and micro customers, continuously improving customer service experience, and steadily doing a good job in the local market. Firstly, the Bank established an electronic intensive credit process, created exclusive green credit channels for small and micro customers, and reduced the time cost of enterprise financing; secondly, the Bank built a “government + finance” joint force to provide a full range of services such as the “Loan Renewal Services Free of Principal Repayment (無還本續貸)”, “Dongguan Enterprises Reloan (莞企轉貸)”, “Policy Financing Guarantee” and “Financial Discount” to reduce the pressure on customers to renew loans; thirdly, the Bank provided product precision services, constantly innovated and optimized the “Business Loan (創業貸)”, “Overpayment Quick Loans (超抵快貸)”, “Stable Business Card (穩業卡)”, “Excellent Enterprise Loan (優企貸)”, “pay-as-you-go (隨借隨還貸)” and other products with inclusive features, accelerated the online transformation of products, and provided comprehensive financial services covering the whole life cycle for small and micro enterprises in different categories of industrial chain and supply chain.

Thirdly, the Bank actively promoted quality development in rural revitalization. In terms of promoting high-quality and efficient agriculture, based on the “High-Quality Development Project Covering Every County, Every Town and Every Village”, the Bank closely focused on the national policy of building an agricultural power, using “Agricultural Leading Loans (農業龍頭貸)”, “Lingnan Quality Fruit Loan (嶺南佳果貸)”, “Seafood Loan (海鮮貸)”, “Tea Loan (茶葉貸)” and other featured products to do a good job in ensuring the stable production of grain and important agricultural products. In terms of promoting the livability and industry in rural areas, a “one-to-one” exclusive financial service program has been formulated for projects such as rural basic agriculture-related construction, and the renovation of living environment and beautiful villages, to help village groups revitalize existing assets; In terms of promoting the prosperity of farmers, the Bank continued to use the “two grassroots coordination mechanism” (i.e. “grassroots village group and grassroots banking outlet”) to do a good job in the coverage of “giving credit limit to whole village” activity to solve the problems of villagers, such as “difficult financing, expensive financing and complicated financing”. As of the end of the Reporting Period, the Bank’s total loan balance for “modern Sannong” customers amounted to RMB69.263 billion, representing an increase of RMB2.529 billion as compared with the beginning of the year, and the balance of agriculture-related loans reached RMB36.905 billion, representing an increase of RMB2.906 billion compared with the beginning of the year.

2. Focus on industrial transformation and drive regional development

The Bank kept up with the pulse of the “14th Five-Year Plan” transformation and development of Dongguan, constantly explored and upgraded the brand of industrial financial services, comprehensively improved the comprehensive financial service capabilities in key areas, and supported the industrial transformation and economic development of Dongguan with all-round and high-quality financial services. Focusing on the financial support of Guangdong Province for the “High-Quality Development Project Covering Every County, Every Town and Every Village”, the Bank focused on improving the regional economy and the development of new urbanization in Dongguan, and comprehensively deployed in areas such as industrial cultivation and transformation, park platform construction, and development of characteristic industries. As of the end of June 2023, the balance of industrial finance loan of the Bank was RMB131.628 billion. Among them, the Bank provided credit support of RMB43.244 billion for various parks, and provided loans of RMB35.444 billion to 170 parks with the balance of loans amounting to RMB24.037 billion. The balance of loans supporting “specialized, refinement, differential, innovation” enterprises and related industries amounted to RMB5.254 billion, representing an increase of RMB667 million or 14.53% as compared with the beginning of the year. The number of “specialized, refinement, differential, innovation” enterprises customers amounted to 167, representing an increase of 13 or 8.14% as compared with the beginning of the year. The balance of loans supporting manufacturing and related industries amounted to RMB57.557 billion, representing an increase of RMB9.183 billion or 18.98% as compared with the beginning of the year, of which the balance of medium and long-term loans supporting manufacturing and related industries was RMB33.603 billion, representing an increase of RMB4.211 billion or 14.33% as compared with the beginning of the year, accounting for 58.38% of the balance of loans to manufacturing and related industries.

(II) Optimize Services and Protect Customers’ Rights and Interests

The Bank adhered to the “customer-focused” concept, continuously improved the management system, simplified the service process, refined the service standards, and maintained professional, high-efficiency and warm services. In terms of improving the service process, the Bank optimized the high-frequency business scenarios such as opening/closing an account, transfer and remittance, and added wealth services in smart devices to upgrade customers’ business handling experience. In terms of strengthening service management, the Bank shortened customers’ waiting time by improving the online reservation function of the hall system; and improved the service quality for elderly customers by adding large print display on counters and devices, promoting the aging transformation. In terms of financial knowledge popularization and consumer education activities, the Bank launched a series of anti-fraud propaganda through WeChat tweets and short videos by online and offline full-dimensional means such as live broadcasting, media, WeChat public accounts, enterprise and household access, and knowledge quiz, and actively carried out publicity to prevent network and telecom fraud, so as to protect the legitimate rights and interests of customers.

The Bank earnestly fulfilled its responsibility for consumer rights protection. Firstly, the Bank further enhanced the protection of consumer rights and improved the construction of the consumer rights protection system and mechanism. During the Reporting Period, the Consumer Right Protection Center of the Bank conducted 727 consumer rights protection reviews, proposed 69 relevant risk mitigation suggestions and measures, and the adoption rate of review opinions was 100%. Secondly, the Bank continued to improve service and marketing standardization. In the first half of the year, the Bank carried out the special inspection of consumer rights protection and the inspection of “3·15” activities, covering 120 outlets and 39 business departments; in the first half of 2023, the Bank conducted service supervision by means of remote spot checks and on-site unannounced visits. 289 outlets were subject to remote spot checks, 128 outlets were subject to unannounced visits by third parties, and 120 outlets were subject to on-site cross checks, with a quarterly inspection coverage of branches reaching 100%; a total of 594 consumer complaints were accepted and handled, and the complaint resolution rate reached 100%; in the first half of the year, the Bank received over 2.221 million times of customer service evaluations in total, and customer satisfaction rate remained stable at 99%. Thirdly, the Bank launched an assortment of consumer protection education activities. A total of 165 financial knowledge publicity and education activities were carried out, covering 190,800 consumers. 56 messages of online publicity and education were released, reaching 531,400 consumers with good publicity results. Fourthly, the Bank continued to strengthen employee training on consumer protection, and carried out consumer protection training through the cloud-based learning platform, covering over 5,500 senior and middle management, grassroots business personnel and new employees, with a total of over 22,100 person-times; a total of 155 annual consumer protection training programs were formulated, covering 13,300 person-times in each key position.

During the Reporting Period, the Bank’s consumer rights protection work performed well. The Bank was awarded the title of “2022 Outstanding Unit for Financial Consumer Rights Protection” by Dongguan Financial Consumer Rights Protection Association (東莞市金融消費權益保護協會), and the title of “Integrity Enterprise” in the 15th Dongguan Integrity Service Demonstration Unit of “Boosting Consumer Confidence” by Dongguan Consumer Council and Dongguan Daily Media Group.

(III) Be Enthusiastic about Public Welfare and Fulfill Social Responsibilities

The Bank is committed to cultivating a warm and caring corporate image, actively fulfilling its social responsibilities, participating in social welfare activities, wholeheartedly supporting public welfare and charitable undertakings, giving full play to its characteristics and advantages of financial services to contribute financial strength to social development.

Through the “Dongguan Charity Day” activities, the Bank donated RMB2 million to 16 villages and communities, including Caibian, Dalang Town, and Jiaoli, Zhongtang Town, including projects to enhance the environment of the old residences of Caibian, Dalang Town, assisting in the construction of Houwang Park in Jiaoli, Zhongtang Town, and building a new children’s basketball court in Lianhua Village, Xianxi, Chang’an Town, which further improved the living environment of villages and effectively enhanced the villagers’ sense of acquisition and happiness. In addition, the Bank carried out care and condolence activities for low-income households and needy households in Xiacao Village of Wangniudun Town, actively solving problems for villagers, improving their lives and comprehensively assisting rural revitalization.

II. DEVELOP GREEN FINANCE AND SUPPORT DOUBLE-CARBON COMPLIANCE

(I) Develop Green Finance and Support Green Industries

The Bank continued to strictly implement the development concept of green finance. Firstly, the Bank increased the credit reserve of green credit projects, continued to focus on supporting green and low-carbon industries such as energy conservation and emission reduction, pollution control and environmental protection, and new energy. At the same time, the access of projects (enterprises) that do not comply with environmental protection policies was strictly prohibited to ensure the sound and stable development of the Bank's green credit scale. Secondly, the Bank strengthened the credit supply to green and environmental protection enterprises, actively responded to the national policy of "carbon peak and carbon neutrality", and implemented a number of measures to support enterprises in the field of green and environmental protection, such as favorable policies, preferential interest rates and rapid approval, so as to gradually increase the proportion of green credit business of the Bank. Thirdly, the Bank continued to innovate green financial products and services, and built a diversified green financial product system. By continuously improving the "Green Financing" integrated financial service programs in the environmental protection industry and continuously innovating and enriching the exclusive products of green finance, the Bank strengthened its support for green environmental protection enterprises, pollution control enterprises and clean energy enterprises. As of the end of the Reporting Period, the Bank supported the green credit balance of RMB11.064 billion, representing an increase of RMB1.141 billion or 11.50% over the beginning of the year.

The Bank actively empowered the green finance sector, participated in the issuance and investment of green bonds, and helped financial resources to gather in green and low-carbon industries. As of the end of the Reporting Period, the balance of green finance bonds issued by the Bank was RMB1 billion, and the raised funds have all been invested in green project loans certified by third-party institutions, involving pollution prevention and control, resource conservation and recycling, clean energy and other categories. The Group continued to allocate green bonds, and as of the end of the Reporting Period, the Group's green bond investment balance was RMB9.319 billion.

(II) Strengthen Green Review and Prevent Green Risks

During the Reporting Period, the Bank managed the full process of environmental and social risks, undertook environmental and social risk due diligence in a standard manner, and set reasonable limits of authority and reasonable procedure for credit approval based on the level of environmental and social risks of enterprises and projects. The Bank strictly applied the policies of no access and restricted access, and implemented the "one-vote veto system for environmental protection". For enterprises that fail to meet environmental protection standards and "high pollution, high energy consumption and overcapacity", the Bank strictly controlled the credit supply, forbade granting of new credit, and resolutely cut down and withdrew existing loans. The Bank made strict review on environmental impact assessment, strengthened the management of the environmental risk warning system, and promptly entered information on the enterprises that fail to pass the environmental impact assessment, that are on the black list due to poor performance in environmental protection, and that broke the law on environmental protection to avoid making loans to them.

The Bank continuously monitored environmental benefits. In conducting credit review of green projects, the Bank analyzed the feasibility study reports, environmental impact assessment reports, etc. in detail to reasonably predict the future environmental benefits of the projects. In conducting post-loan inspections, the Bank paid close attention to whether project progress met expectations and whether credit funds were used in compliance with relevant regulations. For projects that have been completed and put into operation, the Bank investigated whether there was significant deviation between the actual environmental benefits and that referred to in the project report, and strictly prevented green projects from emergence of risk issues, such as “unhealthy financial arbitrage” and “green washing”.

(III) Carry out Green Action and Realize Green Operation

The Bank implemented paperless business processes, actively developed smart financial services, provided electronic certificates, and saved paper, thereby realizing energy conservation and emission reduction. In recent years, the Bank continued to optimize business processes and practice the concept of “green services, low carbon operation”. The Bank has successively launched the smart counters and cloud banking projects, and embedded functions such as paperless electronic certificates, electronic seals, OCR license identification and image acquisition in the business process, actively guiding customers to use smart devices for processing business. As of the end of the Reporting Period, the Bank put 416 smart devices into operation, further realized paperless and low-carbon business processing, and improved the effectiveness of green and environmental protection.

In procurement activities, guided by the concept of green development, the Bank adhered to the green low-carbon concept, fully considered environmental protection, resource conservation, safety and health, recycling and low-carbon and recycling promotion, and gave priority to the use of raw materials, products and services that were conducive to environmental protection, such as energy conservation, water conservation and material conservation. By giving priority to purchasing environmental label products with less negative impact on the environment, the Bank promoted the improvement of environmental behaviors of enterprises so as to save resources and energy and reduce pollutant emissions as much as possible.

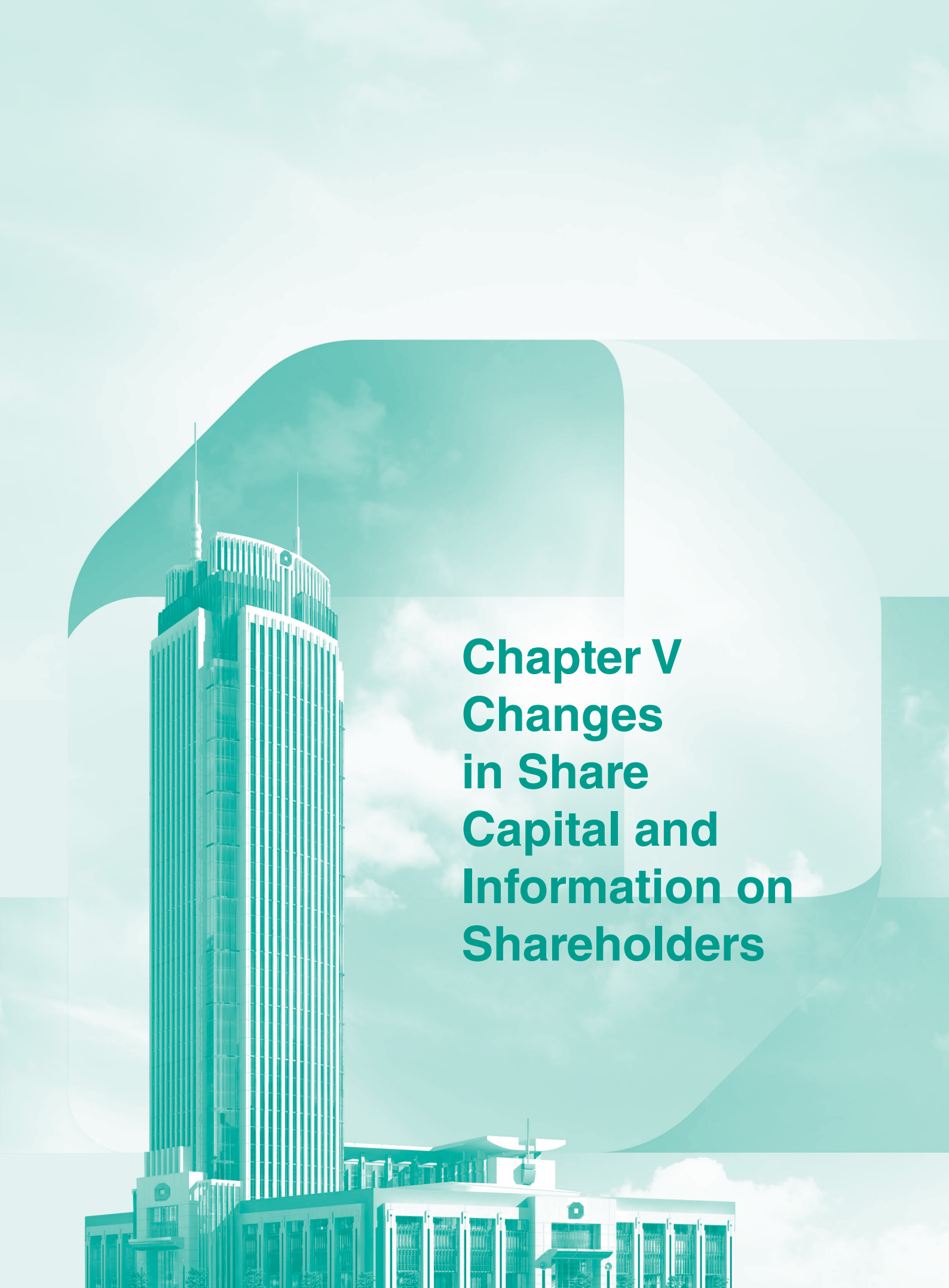
The Bank has actively practiced the concept of green office and implemented low-carbon and energy-saving office. We gradually broadened the scope of applicable paperless meetings, significantly reduced the waste generated for material preparation, printing, binding, distribution, recycling, destruction and other links, and controlled the use of paper and consumables from the source.

III. IMPROVE GOVERNANCE LEVEL AND PROMOTE STABLE OPERATION

The Bank established a “five-pronged” governance mechanism for listed companies, which incorporates core leadership by the Party Committee, decision-making by the general meetings, strategic decision-making by the Board of Directors, supervision by the Board of Supervisors in accordance with law, and implementation by the senior management. The mechanism defines the division of responsibilities and performance requirements of each governance entity. Based on the principles of independent operation, effective checks and balances, mutual cooperation and coordinated operation among each governance entity, the Bank improved risk control, established a reasonable incentive and restraint mechanism, and realized scientific decision-making, execution and supervision.

During the Reporting Period, the Board of Directors of the Bank earnestly fulfilled its responsibilities related to the environment, society and governance such as Sannong financial services, green finance, consumer rights protection and social responsibility. The Board of Directors and relevant committees considered and approved relevant resolutions, such as Resolution on the 2022 Work Report of Sannong Financial Services of Dongguan Rural Commercial Bank Co., Ltd., Resolution on the Consumer Rights Protection Work Report of Dongguan Rural Commercial Bank Co., Ltd. in 2022, Resolution on the 2022 Work Report of Green Credit Work of Dongguan Rural Commercial Bank Co., Ltd., and Resolution on the Social Responsibility Report (Environmental, Social and Governance Report) of Dongguan Rural Commercial Bank Co., Ltd. in 2022, so as to further build and improve the ESG management system of the Bank, actively promote the fulfillment of social responsibilities by the Bank, and achieve long-term sustainable development.

For more details on the Bank’s environmental, social and corporate governance, please refer to the “Corporate Governance Report” section of this Report and the 2022 Social Responsibility Report (Environmental, Social and Governance Report) of Dongguan Rural Commercial Bank Co., Ltd. and the “Corporate Governance Report” section of 2022 Annual Report of Dongguan Rural Commercial Bank Co., Ltd. published by the Bank.



Chapter V Changes in Share Capital and Information on Shareholders

Chapter V Changes in Share Capital and Information on Shareholders

I. Changes in Shares

(I) Share capital

During the Reporting Period, there was no change in the Bank's share capital. As of the end of June 2023, the Bank had a total of 5,740,454,510 Domestic Shares in issue, representing 83.33% of the total shares, including 1,363,409,836 Shares held by the legal person, representing 19.79% of the total shares; 3,893,896,178 Shares held by the public natural person, representing 56.53% of the total shares; and 483,148,496 Shares held by staff members, representing 7.01% of the total shares. All Domestic Shareholders are private enterprises and natural persons. There are 1,148,091,000 overseas listed foreign shares (H Shares), representing 16.67% of the total Shares.

(II) Details of Changes in Shares

During the Reporting Period, the changes in the ordinary Shares of the Bank are as follows:

(Unit: Shares)

	As at December 31, 2022		Increase (decrease) during the period Number	As at June 30, 2023	
	Number	Percentage (%)		Number	Percentage (%)
Domestic shares	5,740,454,510	83.33	—	5,740,454,510	83.33
Domestic shares held by legal persons	1,361,799,326	19.77	1,610,510	1,363,409,836	19.79
Domestic shares held by natural persons Including: Shares held by staff members	4,378,655,184	63.56	(1,610,510)	4,377,044,674	63.54
	483,148,496	7.01	—	483,148,496	7.01
Overseas listed foreign shares (H shares)	1,148,091,000	16.67	—	1,148,091,000	16.67
Total	6,888,545,510	100.00	—	6,888,545,510	100.00

Notes:

- (1) As at the end of the Reporting Period, there were 57,543 Domestic Shareholders. All Domestic Shares were deposited in China Securities Depository and Clearing Corporation Limited. The total number of registered H Shareholders was 23, of which HKSCC Nominees Limited, as a nominee, held the Shares on behalf of multiple Shareholders.
- (2) As at the end of the Reporting Period, 1,205,683 Domestic Shares were involved in judicial freezing, representing 0.02% of the total Shares.
- (3) The Bank has applied to the Hong Kong Stock Exchange and the Hong Kong Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 8.08(1)(a) of the Listing Rules pursuant to which the minimum public float of the Shares of the Bank shall be 16.67%. Based on publicly available information as at the latest practicable date and to the best knowledge of the Directors, at least 16.67% of the issued Shares of the Bank has been held by the public during the Reporting Period, in compliance with the requirements under the Listing Rules as modified by the aforementioned waiver.

(III) Issuance of Securities

During the Reporting Period, the Bank did not issue any new Shares.

II. SHAREHOLDING STRUCTURE

(I) Number and Shareholdings of Shareholders

As of June 30, 2023, the total number of Shares of the Bank was approximately 6,889 million shares, comprising approximately 5,740 million domestic shares and approximately 1,148 million H shares. There were 81 legal person shareholders holding approximately 1.363 billion domestic shares, representing 19.79% of the total shares, all of which are private enterprise Shareholders; and 57,462 natural person shareholders holding approximately 4.377 billion domestic shares, representing 63.54% of the total shares.

(II) Top Ten Shareholders as at the End of the Reporting Period

As of June 30, 2023, the ten largest Shareholders of the Bank together held 30.11% of the Bank's total shares. Among the top ten Shareholders, the shareholdings of all Domestic Shareholders did not exceed 5%, and the shareholding structure was relatively decentralised. Among the Domestic Shareholders, the largest Shareholder was Guangdong Canvest Investment Co., Ltd.* (廣東粵豐投資有限公司), holding 4.34% of the total Shares; the second largest Shareholder was Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司), holding 2.18% of the total Shares; and the third largest Shareholder was Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司), holding 1.45% of the total Shares. All of these top three Domestic Shareholders are private enterprises.

As of June 30, 2023, shareholdings of the ten largest Shareholders are as follows:

No.	Name	Class of Shares	Nature of shareholders	Number of Shares (share)	Percentage of the Bank's issued share capital ⁽²⁾ (%)	Changes of shares during the Reporting Period
1	HKSCC Nominees Limited ⁽¹⁾	H Shares	Others	1,148,046,990	16.67	—
2	Guangdong Canvest Investment Co., Ltd.* (廣東粵豐投資有限公司)	Domestic Shares	Non-state-owned legal person	299,246,910	4.34	—
3	Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司)	Domestic Shares	Non-state-owned legal person	150,104,602	2.18	—
4	Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司)	Domestic Shares	Non-state-owned legal person	99,660,304	1.45	—

Chapter V Changes in Share Capital and Information on Shareholders

No.	Name	Class of Shares	Nature of shareholders	Number of Shares (share)	Percentage of the Bank's issued share capital ⁽²⁾ (%)	Changes of shares during the Reporting Period
5	Dongguan City Huimei Decoration Engineering Co., Ltd.* (東莞市惠美裝飾工程有限公司)	Domestic Shares	Non-state-owned legal person	82,468,873	1.20	—
6	Dongguan City Haida Industrial Co., Ltd.* (東莞市海達實業有限公司)	Domestic Shares	Non-state-owned legal person	74,027,320	1.07	—
7	Guangdong Haide Group Co., Ltd.* (廣東海德集團有限公司)	Domestic Shares	Non-state-owned legal person	69,784,524	1.01	—
8	Dongguan City Jianhua Paper Co., Ltd.* (東莞市建樺紙業股份有限公司)	Domestic Shares	Non-state-owned legal person	57,978,360	0.84	—
9	Dongguan City Fengjing Group Co., Ltd.* (東莞市峰景集團有限公司)	Domestic Shares	Non-state-owned legal person	57,978,360	0.84	—
10	Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司)	Domestic Shares	Non-state-owned legal person	35,080,472	0.51	—
Total				2,074,376,715	30.11	—

Notes:

- (1) HKSCC Nominees Limited held a total of 1,148,046,990 H Shares of the Bank on behalf of various Shareholders, representing approximately 16.67% of the total issued Shares. HKSCC Nominees Limited is the joint nominee for the Shares held by the depositary for the Central Clearing and Settlement System of the Hong Kong Stock Exchange.
- (2) Based on the total issued Shares of 6,888,545,510 shares.

(III) Interest and Short Position of Directors and Chief Executives in the Shares, Underlying Shares and Debentures of the Bank or Any Associated Corporation

Please refer to the “Interests and Short Positions of Directors, Supervisors and Chief Executives” section in the chapter “Corporate Governance” of this Report.

(IV) Shareholding of Staff Members

As of 30 June 2023, the Bank had a total of 3,022 employee Shareholders, holding approximately 483 million Shares (excluding H shares), which accounted for 7.01% of the total Shares.

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

As of 30 June 2023, according to the register kept by the Bank pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities, other than a Director or chief executive of the Bank, had an interest or short position in the Shares, the underlying Shares or debentures of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to divisions 2 and 3 of Part XV of the SFO.

Name of Shareholders	Capacity	Class of Shares	Number of Shares ⁽¹⁾ (share)	Approximate percentage of the relevant class of Shares (%)	Approximate percentage of interest in the Bank (%)
Mr. Guo Huiqiang (郭惠強)	Interest in controlled corporation ⁽²⁾	Domestic Shares	299,247,910 (L)	5.21	4.34
Ms. Yang Miaoxia (楊妙霞)	Interest of spouse ⁽³⁾	Domestic Shares	299,247,910 (L)	5.21	4.34
Guangdong Canvest Investment Co., Ltd.* (廣東粵豐投資有限公司)	Beneficial owner	Domestic Shares	299,246,910 (L)	5.21	4.34
	Interest in controlled corporation ⁽⁴⁾	Domestic Shares	1,000 (L)		
Caitong Securities Co., Ltd.* (財通證券股份有限公司)	Interest in controlled corporation ⁽⁵⁾	H Shares	178,311,000 (L)	15.53	2.59
Caitong Fund Management Co., Ltd.* (財通基金管理有限公司)	Others ⁽⁶⁾	H Shares	178,311,000 (L)	15.53	2.59
Yam Tak Cheung (任德章)	Interest in controlled corporation ⁽⁷⁾	H Shares	149,100,000 (L)	12.99	2.16
Scoperto Limited	Beneficial owner	H Shares	149,100,000 (L)	12.99	2.16
State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan (東莞市人民政府國有資產監督管理委員會)	Interest in controlled corporation ⁽⁸⁾	H Shares	126,262,000 (L)	11.00	1.83
Dongguan City Transportation Investment Group Co., Ltd.* (東莞市交通投資集團有限公司)	Interest in controlled corporation ⁽⁸⁾	H Shares	126,262,000 (L)	11.00	1.83
Dongguan City Fook Man Group Company* (東莞市福民集團公司)	Interest in controlled corporation ⁽⁸⁾	H Shares	126,262,000 (L)	11.00	1.83

Chapter V Changes in Share Capital and Information on Shareholders

Name of Shareholders	Capacity	Class of Shares	Number of Shares ⁽¹⁾ (share)	Approximate percentage of the relevant class of Shares (%)	Approximate percentage of interest in the Bank (%)
Fook Man Development Company Limited	Beneficial owner	H Shares	126,262,000 (L)	11.00	1.83
Guotai Asset Management Co., Ltd.* (國泰基金管理有限公司)	Investment manager	H Shares	103,874,000 (L)	9.05	1.51
Central Huijin Investment Ltd.	Interest in controlled corporation ⁽⁹⁾	H Shares	60,000,000 (L)	5.23	0.87
Agricultural Bank of China Limited	Interest in controlled corporation ⁽⁹⁾	H Shares	60,000,000 (L)	5.23	0.87
ABC International Holdings Limited	Interest in controlled corporation ⁽⁹⁾	H Shares	60,000,000 (L)	5.23	0.87
ABCI Investment Management Limited (農銀國際投資管理有限公司)	Interest in controlled corporation ⁽⁹⁾	H Shares	60,000,000 (L)	5.23	0.87
Cozy Pony Limited	Person having a security interest in shares	H Shares	60,000,000 (L)	5.23	0.87

Notes:

- (1) The letter "L" denotes long position.
- (2) According to the information provided by Mr. Guo Huiqiang, the entire shareholding interest of Guangdong Canvest Investment Co., Ltd.* ("Canvest Investment") was held by Mr. Guo Huiqiang. Accordingly, Mr. Guo Huiqiang is deemed to be interested in all the Shares that Canvest Investment interested in under the SFO.
- (3) Ms. Yang Miaoxia is the spouse of Mr. Guo Huiqiang. Accordingly, Ms. Yang is deemed to be interested in all the Shares that Mr. Guo is interested in under the SFO.
- (4) According to the information provided by Canvest Investment, Canvest Investment is also interested in 1,000 Domestic Shares held by its 90%-owned subsidiary, Guangdong Canvest Environmental Investment Co., Ltd.* (廣東粵豐環保投資有限公司).
- (5) According to the information provided by Caitong Securities Co., Ltd. ("Caitong Securities"), Caitong Securities has 40% control over Caitong Fund Management Co., Ltd.* ("Caitong Fund Management"). Accordingly, Caitong Securities was deemed to be interested in the interest held by Caitong Fund Management under the SFO.
- (6) According to the information provided by Caitong Fund Management, Caitong Fund Management is the asset manager of ten asset management plans and held the H Shares under such Qualified Domestic Institutional Investor (QDII) asset management plans to implement the investment plans of its clients.
- (7) According to the information provided by Yam Tak Cheung, Yam Tak Cheung has 100% control over Scoperto Limited. Accordingly, Yam Tak Cheung was deemed to be interested in the interest held by Scoperto Limited under the SFO.
- (8) According to the information provided by the State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan, Fook Man Development Company Limited is wholly-owned by Dongguan City Fook Man Group Company (東莞市福民集團公司), which in turn is wholly-owned by Dongguan City Transportation Investment Group Co., Ltd. (東莞市交通投資集團有限公司), a company wholly-owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan. Accordingly, each of State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan, Dongguan City Transportation Investment Group Co., Ltd. and Dongguan City Fook Man Group Company is deemed to be interest in all the Shares held by Fook Man Development Company Limited under the SFO.

- (9) According to the information provided by Central Huijin Investment Ltd., Cozy Pony Limited is wholly-owned by ABCI Investment Management Limited, which is in turn wholly-owned by ABC International Holdings Limited. ABC International Holdings Limited is wholly-owned by Agricultural Bank of China Limited, which is in turn owned as to 40.03% by Central Huijin Investment Ltd.. Therefore, Central Huijin Investment Ltd., Agricultural Bank of China Limited, ABC International Holdings Limited and ABCI Investment Management Limited are deemed to be interested in the interest held by Cozy Pony Limited under the SFO.

(VI) Substantial Shareholders under the Interim Measures for Equity Management of Commercial Banks

According to the Interim Measures for Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) promulgated by the former CBRC, a substantial shareholder of a commercial bank refers to a shareholder who holds or controls more than 5% of the shares or voting rights of a commercial bank, or a shareholder who hold less than 5% of the total capital or total shares but have a significant impact on the operation and management of the commercial bank. The aforementioned significant influence includes, but not limited to, dispatching directors, supervisors or senior management personnel to commercial banks, influencing the financial and operational management decisions of commercial banks through agreements or other means, and other circumstances recognized by the CBIRC or its local offices.

1. Shareholders who hold 5% or above of the Shares of the Bank

As of 30 June 2023, except HKSCC Nominees Limited, the Bank had no shareholder holding 5% or above of the Shares of the Bank.

2. Other substantial Shareholders within the regulatory scope

(1) Guangdong Canvest Investment Co., Ltd.* (廣東粵豐投資有限公司)

Guangdong Canvest Investment Co., Ltd. was established on 27 December 2002. Its legal representative is Guo Huiqiang (郭惠強) and its registered capital is RMB100 million. Its business scope covers: investment and establishment of industries, and sales of steel, building materials, wood, construction machinery and hardware.

The controlling shareholder of Guangdong Canvest Investment Co., Ltd. is Guo Huiqiang who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. As at the end of the Reporting Period, Guangdong Canvest Investment Co., Ltd. and its related parties held a total of 303,602,853 Shares, accounting for 4.41% of the total Shares. The related parties of Guangdong Canvest Investment Co., Ltd. include Dongguan San Yang Industrial Development Co., Ltd.* (東莞市三陽實業發展有限公司), Lai Chun Tung (黎俊東) and others; among them, there is related relationship between Lai Chun Tung, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Guangdong Canvest Investment Co., Ltd. and its related parties was RMB2,681,032,100. During the Reporting Period, Guangdong Canvest Investment Co., Ltd. and its related parties did not pledge their equities in the Bank.

Chapter V

Changes in Share Capital and Information on Shareholders

(2) *Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資有限公司)*

Dongguan City Kanghua Investment Group Co., Ltd. was established on 29 March 2002, its legal representative is Wang Junyang (王君揚), its registered capital is RMB268.88 million, and its business scope covers: corporate management consulting, investment in various infrastructure construction projects, domestic commerce and material supply and marketing (excluding state-controlled and franchised projects), investment in medical projects (excluding operations), investment in educational projects, property leasing and property management.

The controlling shareholder of Dongguan City Kanghua Investment Group Co., Ltd. is Wang Junyang who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. At the end of the Reporting Period, Dongguan City Kanghua Investment Group Co., Ltd. and its related parties held a total of 172,389,749 Shares, accounting for 2.50% of the total Shares. The related parties of Dongguan City Kanghua Investment Group Co., Ltd. include Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司) and others; among them, there is related relationship between Wang Junyang, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan City Kanghua Investment Group Co., Ltd. and its related parties was RMB2,466,490,000. During the Reporting Period, Dongguan City Kanghua Investment Group Co., Ltd. and its related parties did not pledge their equities in the Bank.

(3) *Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd.* (東莞市南方糧油有限公司)*

Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. was established on 30 June 2004, its legal representative is Cai Hanzhen (蔡漢珍), its registered capital is RMB6 million, and its business scope covers: wholesale, retail, pre-packaged food, bulk food, operation and management of grain and feed wholesale market in Zhangmutou, wholesale and retail, general cargo storage, loading and unloading services.

The controlling shareholder of Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. is Cai Hanzhen who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. As at the end of the Reporting Period, Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. and its related parties held a total of 106,062,178 Shares, accounting for 1.54% of the total Shares. The related parties of Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. include Dongguan Leading Industry Co., Ltd., Cai Guowei (蔡國偉) and others; among them, there is related relationship between Cai Guowei, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. and its related parties was RMB209,435,800. During the Reporting Period, Dongguan Nanfang Foodgrain & Cooking Oil Co., Ltd. and its related parties did not pledge their equities in the Bank.

(4) *Guangdong Haide Group Co., Ltd.* (廣東海德集團有限公司)*

Guangdong Haide Group Co., Ltd. was established on 28 July 2000, its legal representative is Ye Jinqun (葉錦泉), its registered capital is RMB200 million, and its business scope covers: industrial investment, engineering bidding agency services, building intelligent engineering, decoration design and engineering construction, production of hardware products, landscaping engineering, sales of building materials and decoration materials (excluding hazardous chemicals) and real estate development (operating with valid qualification certificates).

The controlling shareholder of Guangdong Haide Group Co., Ltd. is Ye Jinqun who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. As at the end of the Reporting Period, Guangdong Haide Group Co., Ltd. and its related parties held a total of 116,333,556 Shares, accounting for 1.69% of the total Shares. The related parties of Guangdong Haide Group Co., Ltd. include Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司), Ye Jinqun and others; among them, there is related relationship between Ye Jinqun, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Guangdong Haide Group Co., Ltd. and its related parties was RMB3,244,730,000. During the Reporting Period, Guangdong Haide Group Co., Ltd. and its related parties did not pledge their equities in the Bank.

(5) *Dongguan Hongyuan Hotel Co., Ltd.* (東莞市宏遠酒店有限公司)*

Dongguan Hongyuan Hotel Co., Ltd. was established on 22 June 2000, its legal representative is Chen Jiangtao (陳江濤), its registered capital is RMB10 million, and its business scope covers: catering services, tourism, karaoke, ballroom, hairdressing service, cigarette retail and beauty service (excluding medical beauty).

The controlling shareholder of Dongguan Hongyuan Hotel Co., Ltd. is Chen Jiangtao who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. As at the end of the Reporting Period, Dongguan Hongyuan Hotel Co., Ltd. and its related parties held a total of 32,845,106 Shares, accounting for 0.48% of the total Shares. The related parties of Dongguan Hongyuan Hotel Co., Ltd. include Dongguan Yingjun Industrial Investment Co., Ltd. (東莞市盈君實業投資有限公司) and Chen Haitao (陳海濤), and others; among them, there is related relationship between Chen Haitao, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan Hongyuan Hotel Co., Ltd. and its related parties was RMB2,937,759,000. During the Reporting Period, Dongguan Hongyuan Hotel Co., Ltd. and its related parties did not pledge their equities in the Bank.

Chapter V

Changes in Share Capital and Information on Shareholders

(6) *Dongguan City Xingye Knitting Co., Ltd.* (東莞市興業針織有限公司)*

Dongguan City Xingye Knitting Co., Ltd. was established on 28 May 1995. Its legal representative is Fu Wanxia (傅婉霞) and its registered capital is RMB50 million. Its business scope covers: general items: manufacturing of knitted or crocheted fabrics and their products; sales of knitted textiles and raw materials; sales of knitted textiles; apparel and accessories manufacturing; apparel manufacturing; wholesale of apparel and accessories; retail of apparel and accessories; non-residential real estate leasing; property management.

The controlling shareholder of Dongguan City Xingye Knitting Co., Ltd. is Chen Xipei (陳錫培) who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. At the end of the Reporting Period, Dongguan City Xingye Knitting Co., Ltd. and its related parties held a total of 36,313,081 Shares, accounting for 0.53% of the total Shares. The related parties of Dongguan City Xingye Knitting Co., Ltd. (東莞市興業針織有限公司) include Chen Xipei (陳錫培), Chen Weiliang (陳偉良) and others; among them, there is related relationship between Chen Weiliang, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan City Xingye Knitting Co., Ltd. and its related parties was RMB430,368,000. During the Reporting Period, Dongguan City Xingye Knitting Co., Ltd. and its related parties did not pledge their equities in the Bank.

(7) *Dongguan Shenzhou Industrial Development Co., Ltd.* (東莞市神州實業開發有限公司)*

Dongguan Shenzhou Industrial Development Co., Ltd. was established on July 30, 1996, its legal representative is Lu Chaoping (盧超平), its registered capital is RMB6 million, and its business scope covers: industrial investment, property leasing; sales of fashion, decorative materials, building materials, daily necessities, textiles, electronic products, and hardware.

The controlling shareholder of Dongguan Shenzhou Industrial Development Co., Ltd. is Lu Chaoping (盧超平) who is also the actual controller. There is no party acting in concert. The ultimate beneficiary is the company itself. At the end of the Reporting Period, Dongguan Shenzhou Industrial Development Co., Ltd. held a total of 6,442,040 Shares, accounting for 0.09% of the total Shares, and there were no other related parties holding Shares. There is related relationship between Lu Chaoping, the Bank's Supervisor, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan Shenzhou Industrial Development Co., Ltd. and its related parties was RMB93,429,900. During the Reporting Period, Dongguan Shenzhou Industrial Development Co., Ltd. and its related parties did not pledge their equities in the Bank.

(8) *Dongguan City Royal Garden Hotel Co., Ltd.* (東莞市帝豪花園酒店有限公司)*

Dongguan City Royal Garden Hotel Co., Ltd. was established on February 13, 2003, its legal representative is Chen Guangde (陳廣德), its registered capital is RMB60.875 million, and its business scope covers: licensed item: accommodation service; catering service; high-risk sports (swimming); retail of tobacco products; operation of performance venues. General items: single-purpose commercial prepaid card agent sales; sales of daily necessities; retail of arts and crafts and collectibles (except ivory and its products); food sales (sale of prepackaged food only); hotel management; property management; investment activities with its own funds; daily life services for residents.

Dongguan City Royal Garden Hotel Co., Ltd. is held 50% by Peng Runzhi (彭潤枝) and Liang Yongxiong (梁永雄), respectively, who are also the actual controllers. There is no party acting in concert. The ultimate beneficiary is the company itself. At the end of the Reporting Period, Dongguan City Royal Garden Hotel Co., Ltd. and its related parties held a total of 34,464,914 Shares, accounting for 0.50% of the total Shares. The related parties of Dongguan City Royal Garden Hotel Co., Ltd. include Liang Peiguang (梁沛光), Liang Jiepeng (梁傑鵬) and others, among them, there is related relationship between Liang Jiepeng (梁傑鵬), the Bank's Supervisor, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Dongguan City Royal Garden Hotel Co., Ltd. and its related parties was nil. During the Reporting Period, Dongguan City Royal Garden Hotel Co., Ltd. and its related parties did not pledge their equities in the Bank.

(9) *Fook Man Development Company Limited* (福民發展有限公司)*

Fook Man Development Company Limited was established on April 10, 1984, the person in charge of this enterprise is Tang Wencheng (唐聞成), and its issued share capital is HKD20.05 million. The controlling shareholder of Fook Man Development Company Limited is Dongguan City Group Company (東莞市福民集團公司), and the actual controller is State-owned Assets Supervision and Administration Commission of the People's Government of Dongguan. There is no party acting in concert, and the ultimate beneficiary is the company itself. At the end of the Reporting Period, Fook Man Development Company Limited held a total of 126,262,000 Shares, accounting for 1.83% of the total Shares, and there were no other related parties holding Shares. There is related relationship between Tang Wencheng, the Bank's Director, and the company. Therefore, it is regarded as a substantial Shareholder. At the end of the Reporting Period, the credit balance between the Bank and Fook Man Development Company Limited and its related parties was RMB1,652,214,300.

Chapter V

Changes in Share Capital and Information on Shareholders

(VII) Information on Controlling Shareholders and Actual Controllers

During the Reporting Period, there was no major change in the Bank's shareholding structure and, except HKSCC Nominees Limited, there is no individual Shareholder together with its related parties holding more than 10% of the Shares. Any individual Shareholder and its related parties cannot control the general meeting of Shareholders and the Board of Directors. Therefore, the Bank does not have any controlling Shareholder or actual controller.

(VIII) Pledge and Freezing of Shares

As at the end of the Reporting Period, there were no ordinary Shares held by Shareholders holding more than 5% (including 5%) of the total Shares being pledged or frozen. As at the end of the Reporting Period, so far as the Bank was aware, there was no pledge of the Bank, and no Shareholders had pledged their Shares to the Bank. 1,205,683 Shares of the Bank were judicially frozen, representing 0.02% of the total Shares.

According to Article 43 of the Articles of Association of the Bank, if the equities of the Bank pledged by the Shareholders reach or exceed 50% of equities of the Bank held by such Shareholders, such Shareholders' voting right on the general meeting and the voting rights of the Directors nominated by such Shareholders on the Board meeting shall be restricted. During the Reporting Period, the Bank did not need to restrict the voting rights of relevant shares in general meetings or Board meetings.

(IX) Purchase, Sale or Redemption of Listed Securities or Redeemable Securities of the Group

During the Reporting Period, the Bank or any subsidiary of the Bank did not purchase, sell or redeem any equity securities (whether listed or not) of the Bank or any subsidiary of the Bank.

For the issuance and redemption of the Bank's bonds, please refer to "DEBENTURES ISSUED AND REDEEMED" in the "Other Matters" chapter of this Report.



Chapter VI Corporate Governance

I. ORGANISATIONAL CHART



Note: The above is the organisational structure as of August 2023

II. OVERVIEW OF CORPORATE GOVERNANCE

During the Reporting Period, according to the requirements of the Company Law of the People's Republic of China, the Corporate Governance Standards of Banking and Insurance Institutions of the CBIRC, and the Listing Rules of the Hong Kong Stock Exchange, and adhering to the leadership of the Party, the Bank has established a corporate governance structure consisting of general meetings, the Board of Directors, the Board of Supervisors and the senior management, improved all specialized committees under the Board of Directors, the Board of Supervisors and the senior management, continuously improved the corporate governance organization and enhanced the level of corporate governance.

Save for C.2.1 of code provision of Part 2 of the Corporate Governance Code, the Bank strictly abided by the requirements of code provision of Part 2 of the Corporate Governance Code, as well as the relevant laws and regulations and the Listing Rules and other regulations on inside information management. There is no material difference between the Bank's corporate governance and the requirements of the Company Law of the People's Republic of China.

During the Reporting Period, the Bank convened 1 general meeting, 11 meetings of the Board of Directors (among which were 3 on-site meetings and 8 written resolutions), 4 meetings of the Board of Supervisors, 1 meeting of the chairman and independent non-executive Directors. The convening of such meetings are in compliance with the procedures stipulated in laws and regulations, regulatory requirements and the Articles of Association of the Bank.

III. SHAREHOLDERS' GENERAL MEETING

(I) Convening of General Meeting

During the Reporting Period, the Bank convened one general meeting, namely the 2022 annual general meeting held in the conference room of Dongguan Rural Commercial Bank on 25 May 2023. The convening, notice, holding and voting procedures of the meeting were in compliance with relevant laws and regulations and relevant provisions of the Articles of Association of the Bank. 10 resolutions, including the Resolution in relation to Work Report of the Board of Directors of the Bank for 2022, the Resolution in relation to Work Report of the Board of Supervisors of the Bank for 2022, and the Resolution in relation to the Appointment of Executive Director of the Bank, and 3 reports, including the Work Report of Independent Directors of the Bank for 2022, the Report on the Performance Evaluation Results of Directors, Supervisors and Senior Management of the Bank for 2022, and the Report on Related Party Transactions of the Bank in 2022, were considered and approved at the meeting, safeguarding the legitimate rights and interests of all shareholders, and ensuring that shareholders can exercise their powers in accordance with the law.

Please refer to the announcement published on 25 May 2023 by the Bank on the HKExnews website of the Hong Kong Stock Exchange and the official website of the Bank for information on the attendance at general meeting and the specific voting of various resolutions.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Basic Information

Name	Gender	Date of birth	Position	Term of office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase/ (Decrease) in the number of Shares held during the Reporting Period	Number of Shares held as at the end of the Reporting Period (Shares)
Lu Guofeng	Male	September 1969	Member of the Party Committee Secretary to the Party Committee	April 2023–present	—	—	—	—
Fu Qiang	Male	July 1970	Deputy secretary to the Party Committee Executive Director President	November 2018–present July 2019–present July 2019–present	Domestic Shares	500,000	—	500,000
Ye Jianguang	Male	October 1972	Member of the Party Committee Executive Director Vice President Chief Risk Officer Secretary to the Board of Directors Joint company secretary	August 2016–present March 2019–present December 2017–present March 2019–present May 2021–present April 2021–present	Domestic Shares	500,000	—	500,000
Lai Chun Tung	Male	October 1974	Non-executive Director	December 2009–present	Domestic Shares	1,156,825	—	1,156,825
Wang Junyang	Male	November 1982	Non-executive Director	November 2016–present	—	—	—	—
Cai Guowei	Male	August 1962	Non-executive Director	December 2009–present	Domestic Shares	2,281,622	—	2,281,622
Ye Jinquan	Male	June 1970	Non-executive Director	June 2018–present	Domestic Shares	9,663,060	—	9,663,060
Chen Haitao	Male	September 1967	Non-executive Director	March 2012–present	Domestic Shares	350,000	—	350,000
Zhang Qingxiang	Male	November 1985	Non-executive Director	December 2019–present	Domestic Shares	2,021,371	—	2,021,371
Chen Weiliang	Male	September 1984	Non-executive Director	December 2019–present	Domestic Shares	6,000	—	6,000
Tang Wencheng	Male	May 1979	Non-executive Director	September 2022–present	—	—	—	—
Zeng Jianhua	Male	February 1958	Independent Non-executive Director	September 2022–present	—	—	—	—
Yip Tai Him	Male	August 1970	Independent Non-executive Director	March 2019–present	—	—	—	—

Name	Gender	Date of birth	Position	Term of office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase/ (Decrease) in the number of Shares held during the Reporting Period	Number of Shares held as at the end of the Reporting Period (Shares)
Xu Zhi	Male	June 1972	Independent Non-executive Director	December 2019–present	—	—	—	—
Tan Fulong	Male	June 1973	Independent Non-executive Director	December 2019–present	—	—	—	—
Liu Yuou	Female	August 1971	Independent Non-executive Director	December 2019–present	—	—	—	—
Xu Tingting	Female	June 1983	Independent Non-executive Director	December 2019–present	—	—	—	—
Chen Sheng	Male	September 1974	Member of the Party Committee Chairman of the Board of Supervisors Employee Supervisor	August 2018–present September 2018–present September 2018–present	Domestic Shares	32,210	—	32,210
Deng Yanwen	Female	January 1972	Employee Supervisor	October 2019–present	Domestic Shares	335,412	—	335,412
Wu Lixin	Male	June 1969	Employee Supervisor	October 2019–present	Domestic Shares	335,412	—	335,412
Liang Zhifeng	Male	October 1973	Employee Supervisor	October 2019–present	—	—	—	—
Lu Chaoping	Male	February 1964	Shareholder Supervisor	December 2009–present	—	—	—	—
Wang Zhujin	Male	March 1964	Shareholder Supervisor	October 2019–present	Domestic Shares	500,000	—	500,000
Liang Jiepeng	Male	December 1984	Shareholder Supervisor	October 2019–present	Domestic Shares	2,254,714	—	2,254,714
Zou Zhibiao	Male	October 1989	Shareholder Supervisor	October 2019–present	Domestic Shares	32,210	—	32,210
Wei Haiying	Female	December 1963	External Supervisor	October 2019–present	—	—	—	—
Yang Biao	Male	January 1980	External Supervisor	October 2019–present	—	—	—	—
Zhang Bangyong	Male	February 1979	External Supervisor	October 2019–present	—	—	—	—
Mai Xiuhua	Female	January 1971	External Supervisor	October 2019–present	—	—	—	—
Qian Hua	Male	September 1973	Member of the Party Committee Secretary to the Disciplinary Committee	November 2018–present November 2018–present	Domestic Shares	322,202	—	322,202

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Name	Gender	Date of birth	Position	Term of office	Class of Shares	Number of Shares held as at the beginning of the Reporting Period (Shares)	Increase/ (Decrease) in the number of Shares held during the Reporting Period	Number of Shares held as at the end of the Reporting Period (Shares)
Chen Dongmei	Female	November 1971	Member of the Party Committee Vice President Chief Information Officer Chairman of the Labour Union Committee	September 2016–present December 2017–present April 2019–present May 2020–present	Domestic Shares	420,035	—	420,035
Zhong Guobo	Male	June 1973	Assistant to the President	January 2023–present	Domestic Shares	500,000	—	500,000

Notes:

- (1) The appointment dates of Directors and senior management stated herein represent the dates on which the relevant qualifications of Directors and senior management were approved by the CBIRC or its predecessor.
- (2) The appointment dates of Supervisors take effect from the dates on which his/her appointment was approved at the general meeting or the staff representative meeting.

(II) Changes in Directors, Supervisors and Senior Management

1. Changes in Directors

Pursuant to work arrangement, Mr. Wang Yaoqiu tendered his resignation as the chairman and executive director of the Bank to the Board of Directors of the Bank on 28 April 2023. In accordance with the Company Law of the People's Republic of China, the Corporate Governance Standards of Banking and Insurance Institutions and the Articles of Association of Dongguan Rural Commercial Bank Co., Ltd., the Board of Directors of the Bank considered and approved that Mr. Fu Qiang, the president and Executive Director shall perform the duties of the chairman. At the 2022 annual general meeting of the Bank held on 25 May 2023, Mr. Lu Guofeng was elected as an executive Director of the fourth session of the Board of Directors of the Bank, and a Board meeting was convened after the conclusion of the general meeting to elect Mr. Lu Guofeng as the chairman of the fourth session of the Board of Directors of the Bank. The above appointments will be officially effective after Mr. Lu obtaining the qualification approval from the regulatory authorities. As of the end of June 2023, the fourth session of the Board of Directors of the Bank comprised 16 directors, which was in compliance with relevant laws, regulations and regulatory requirements.

2. Changes in Senior Management

In January 2023, Mr. Zhong Guobo was appointed as the assistant to the president of Dongguan Rural Commercial Bank Co., Ltd..

In August 2023, Ms. Chen Dongmei no longer served as the head of the Information Technology Department.

(III) Changes in Information of Directors and Supervisors

Mr. Tan Fulong ceased to be an expert of Civil, Administrative and Prosecution Expert Consultation Web; besides, he has currently served as a professional for the Third-party Mechanism for the Oversight and Assessment of Compliance by Enterprises Involved in Cases of Dongguan.

Mr. Tang Wencheng no longer serves as the general manager of Dongguan Shuhui Big Data Co., Ltd.* (東莞數匯大數據有限公司).

Mr. Zeng Jianhua has served as an independent director of Minsheng Financial Leasing Co., Ltd.* (民生金融租賃股份有限公司) since May 2023.

(IV) Interests and Short Positions of Directors, Supervisors and Chief Executives

As at the end of the Reporting Period, the interests and short positions of the Directors, Supervisors and chief executives in the Shares, underlying Shares and debentures of the Bank or its associated corporations (within the meaning of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register of interests or short positions kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules are as follows:

Interest in Shares or underlying Shares

Name	Position	Class of shares	Long position/ short position	Capacity	Number of Shares directly or indirectly held (shares) ⁽¹⁾	Approximate % of the relevant class of Shares of the Bank ⁽¹⁾ (%)	Approximate % of total issued Shares of the Bank ⁽¹⁾ (%)
Fu Qiang	Executive Director	Domestic Shares	Long position	Beneficial owner	500,000	0.00871	0.00726
Ye Janguang	Executive Director	Domestic Shares	Long position	Beneficial owner	500,000	0.01742	0.01452
		Domestic Shares	Long position	Interest of spouse	500,000		
Lai Chun Tung	Non-executive Director	Domestic Shares	Long position	Beneficial owner	1,156,825	0.07588	0.06323
		Domestic Shares	Long position	Interest in controlled corporation ⁽²⁾	3,199,118		
Wang Junyang	Non-executive Director	Domestic Shares	Long position	Interest in controlled corporation ⁽³⁾	172,389,749	3.00307	2.50256

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Name	Position	Class of shares	Long position/short position	Capacity	Number of Shares directly or indirectly held (shares) ⁽¹⁾	Approximate % of the relevant class of Shares of the Bank ⁽¹⁾ (%)	Approximate % of total issued Shares of the Bank ⁽¹⁾ (%)
Cai Guowei	Non-executive Director	Domestic Shares	Long position	Beneficial owner	2,281,622	0.04311	0.03593
		Domestic Shares	Long position	Interest of spouse	193,261		
Ye Jinqun	Non-executive Director	Domestic Shares	Long position	Beneficial owner	9,663,060	1.99510	1.66259
		Domestic Shares	Long position	Interest in controlled corporation ⁽⁴⁾	104,864,996		
Chen Haitao	Non-executive Director	Domestic Shares	Long position	Beneficial owner	350,000	0.00610	0.00508
Zhang Qingxiang	Non-executive Director	Domestic Shares	Long position	Beneficial owner	2,021,371	0.07566	0.06305
		Domestic Shares	Long position	Interest of spouse	2,322,102		
Chen Weiliang	Non-executive Director	Domestic Shares	Long position	Beneficial owner	6,000	0.00010	0.00009
Chen Sheng	Employee Supervisor	Domestic Shares	Long position	Beneficial owner	32,210	0.00056	0.00047
Deng Yanwen	Employee Supervisor	Domestic Shares	Long position	Beneficial owner	335,412	0.00584	0.00487
Wu Lixin	Employee Supervisor	Domestic Shares	Long position	Beneficial owner	335,412	0.03372	0.02810
		Domestic Shares	Long position	Interest of spouse	1,600,421		
Liang Zhifeng	Employee Supervisor	Domestic Shares	Long position	Interest of spouse	9,664	0.00017	0.00014
Lu Chaoping	Shareholder Supervisor	Domestic Shares	Long position	Interest in controlled corporation ⁽⁵⁾	6,442,040	0.11222	0.09352
Wang Zhujin	Shareholder Supervisor	Domestic Shares	Long position	Beneficial owner	500,000	0.00871	0.00726
Liang Jiepeng	Shareholder Supervisor	Domestic Shares	Long position	Beneficial owner	2,254,714	0.03928	0.03273
Zou Zhibiao	Shareholder Supervisor	Domestic Shares	Long position	Beneficial owner	32,210	0.00056	0.00047

Notes:

- (1) As of 30 June 2023, the total number of issued ordinary Shares of the Bank was 6,888,545,510, comprised 5,740,454,510 Domestic Shares and 1,148,091,000 H Shares.
- (2) Such 3,199,118 Domestic Shares are held by Dongguan City Sanyang Shiye Development Co., Ltd.* (東莞市三陽實業發展有限公司), a company owned as to 90.00% by Mr. Lai Chun Tung. Accordingly, Mr. Lai is deemed to be interested in all the Domestic Shares held by Dongguan City Sanyang Shiye Development Co., Ltd.* under the SFO.
- (3) Such 172,389,749 Domestic Shares include (i) 150,104,602 Domestic Shares held by Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司), a company owned as to 97.46% by Mr. Wang Junyang; and (ii) 22,285,147 Domestic Shares held by Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司), a company owned as to 8.00% by Mr. Wang Junyang and 42% by Mr. Wang Junyang through Dongguan City Kanghua Development Group Co., Ltd.*. Accordingly, Mr. Wang Junyang is deemed to be interested in all the Domestic Shares held by Dongguan City Kanghua Investment Group Co., Ltd.* and Dongguan City Xingye Group Co., Ltd.* under the SFO.

- (4) Such 104,864,996 Domestic Shares include (i) 69,784,524 Domestic Shares held by Guangdong Haide Group Co., Ltd.* (廣東海德集團有限公司) (“Guangdong Haide”), a company owned, among other shareholders, as to (a) 25% by Mr. Ye Jinquan; (b) 25% by Dongguan City Botong Shiye Investment Co., Ltd.* (東莞市博通實業投資有限公司), which in turn is owned as to 96% by Mr. Ye Jinquan; (c) 25% by Dongguan City Commercial Center Development Co., Ltd.* (東莞市商業中心發展有限公司) (“Dongguan City Commercial Center”), which in turn is owned as to 96% by Mr. Ye Jinquan and (d) 24% by Dongguan City Hengyi Industrial Investment Co., Ltd.* (東莞市恒億實業投資有限公司), which in turn is owned as to 51% by Guangdong Haide and 39% by Mr. Ye Jinquan; and (ii) 35,080,472 Domestic Shares held by Dongguan City Commercial Center. Accordingly, Mr. Ye is deemed to be interested in all the Domestic Shares held by Guangdong Haide and Dongguan City Commercial Center under the SFO.
- (5) Such 6,442,040 Domestic Shares are held by Dongguan City Shenzhou Industrial Development Co., Ltd.* (東莞市神州實業開發有限公司), a company owned as to 90.00% by Mr. Lu Chaoping. Accordingly, Mr. Lu is deemed to be interested in all the Domestic Shares held by Dongguan City Shenzhou Industrial Development Co., Ltd.* under the SFO.

Interest in associates

Name	Position in the Bank	Name of associated corporation	Nature of interest	Number of shares in the associated corporation (Shares)	Approximate percentage of interest in the associated corporation (%)
Wang Junyang	Non-executive Director	Hezhou Babu Dongying County Bank	Interest in controlled corporation ⁽¹⁾	3,125,000	3.12500

Note:

- (1) Such 3,125,000 shares of Hezhou Babu Dongying County Bank are held by Dongguan City Dongcheng Stone Co., Ltd.* (東莞市東成石材有限公司), a company wholly-owned by Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司), which is in turn owned as to 8.00% by Mr. Wang Junyang and 42.00% by Dongguan City Kanghua Investment Development Co., Ltd.* (東莞市康華投資發展有限公司) (a company owned as to 100% by Mr. Wang Junyang). Accordingly, Mr. Wang Junyang is deemed to be interested in the shares of Hezhou Babu Dongying County Bank held by Dongguan City Dongcheng Stone Co., Ltd.* (東莞市東成石材有限公司) under the SFO.

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Bank had any interests or short positions in the Shares, underlying Shares and debentures of the Bank or its associated corporations (as defined in the part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register of interests or short positions referred to therein, or which were required pursuant to the Model Code to be notified to the Bank and the Hong Kong Stock Exchange.

(V) Security Transactions by Directors and Supervisors

The Bank has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the standards of securities transactions by Directors and Supervisors since its listing. Having made specific enquiry to all Directors and Supervisors, all Directors and Supervisors have confirmed that they have complied with the Model Code during the Reporting Period.

(VI) Rights to Acquire Securities of the Bank

None of the Bank, or any of its holding companies (if any) or subsidiaries, or any fellow subsidiaries (if any), is a party to any arrangement enables any Directors, Supervisors or chief executives of the Bank or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Bank or any of its associated corporations (as defined in the SFO) or to acquire benefits by means of acquisition of shares in, or debentures of, the Bank or any other body corporate.

(VII) Directors' Interests in Competing Business

- (1) Mr. Lai Chun Tung, the non-executive Director of the Bank, holds 20% of the equity interest of Dongguan City Zhuorui Small Loans Co., Ltd.* (東莞市卓瑞小額貸款股份有限公司) (“Dongguan Zhuorui”), a company principally engaged in small loans business with registered capital of RMB100.0 million. As Dongguan Zhuorui is engaged in small loans business, it may compete with the business of the Bank.
- (2) Mr. Wang Junyang, the non-executive Director of the Bank, holds 97.46% of the equity interest of Dongguan City Kanghua Investment Group Co., Ltd.* (東莞市康華投資集團有限公司) (“Kanghua Investment”), which in turn holds 80% of the equity interest of Dongguan City Xingye Refinancing Guarantee Co., Ltd.* (東莞市興業融資擔保有限公司) (“Xingye Refinancing”), a company principally engaged in the provision of guarantee and related business with registered capital of RMB250.0 million. In addition, Kanghua Investment indirectly owns 50% of the equity interest in Guangdong Kanglian Investment Group Co., Ltd.* (廣東康聯投資集團有限公司) through its wholly-owned subsidiary, which in turn holds 100% of the equity interest of Dongguan City Kanglian Property Development Co., Ltd.* (東莞市康聯房地產開發有限公司), which in turn holds 80% of the equity interest of Dongguan City Baihui Pawn Co., Ltd.* (東莞市百匯典當有限公司) (“Baihui Pawn”), a company principally engaged in pawn business with registered capital of RMB5.0 million. Mr. Wang Junyang also directly and through Kanghua Investment holds 8% and 42.00% of the equity interest in Dongguan City Xingye Group Co., Ltd.* (東莞市興業集團有限公司) (“Xingye Group”), respectively, which in turn holds 20% of the equity interest in Dongguan City Dongshang Small Loans Co., Ltd.* (東莞市東商小額貸款有限公司) (“Dongshang Small Loans”), a company principally engaged in small loans business with registered capital of RMB200.0 million. As Xingye Refinancing, Baihui Pawn and Dongshang Small Loans are engaged in the provision of guarantee business, pawn business and small loans business, respectively, they may compete with the business of the Bank.
- (3) Mr. Zhang Qingxiang, the non-executive Director of the Bank, holds 51% of the equity interest of Guangdong Yuxinguo Construction Engineering Limited* (廣東裕欣國建築工程有限公司) (“Guangdong Yuxinguo”) which in turn is interested in 20% of the equity interest of Dongguan City Jiaxing Small Loan Co., Ltd.* (東莞市佳興小額貸款股份有限公司) (“Dongguan Jiaxing”), a company principally engaged in small loans business with registered capital of RMB100.0 million. As Dongguan Jiaxing is engaged in small loans business, it may compete with the business of the Bank.

Taking into consideration of the relatively small registered capital of the aforementioned competing businesses, ranging from RMB5.0 million to RMB250.0 million, as compared to that of our Bank and the diverse scope of business of our Bank, the potential competition between our Bank with such competing businesses is minimal. As each of the relevant Directors is a non-executive Director and does not participate in our daily management, the Bank believes that the business operation of the Bank will not be affected by their interest in such competing businesses. In accordance with the Articles of Association of the Bank, if a Director is materially interested in any matters to be considered at the Board of Directors meeting, such Director shall abstain from voting on such resolution.

(VIII) Financial, Business and Family Relationship among Directors, Supervisors and Senior Management

To the best of our knowledge, there is no financial, business, family or other material or relevant relationship among the Directors, Supervisors and senior management of the Bank.

(IX) Directors' and Supervisors' Interests in Contracts, Transactions and Arrangements

Save for the continuing connected transactions exempted from the reporting, annual review, announcement and independent Shareholders' approval under Chapter 14A of the Listing Rules, none of a Director, Supervisor or an entity connected with a Director or a Supervisor has any interest, either directly or indirectly, in any transaction, arrangement and contract of significance of the Group during the Reporting Period.

V. Board of Directors

(I) Composition of the Board of Directors

As at the Latest Practicable Date, the Board of Directors of the Bank consisted of 16 Directors, including 2 executive Directors, namely Mr. Fu Qiang (deputy secretary to the Party Committee, president) and Mr. Ye Jianguang; 8 non-executive Directors, namely Mr. Lai Chun Tung, Mr. Wang Junyang, Mr. Cai Guowei, Mr. Ye Jinqun, Mr. Chen Haitao, Mr. Zhang Qingxiang, Mr. Chen Weiliang and Mr. Tang Wencheng; 6 independent non-executive Directors, namely Mr. Zeng Jianhua, Mr. Yip Tai Him, Mr. Xu Zhi, Mr. Tan Fulong, Ms. Liu Yuou and Ms. Xu Tingting. All communication documents of the Bank containing the names of directors clearly state the categories of directors in compliance with the requirements of the Listing Rules.

Code provision C.2.1 of Part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. References are made to the announcements of the Bank dated 28 April 2023 and 25 May 2023, since the resignation of Mr. Wang Yaoqiu as the chairman of the Bank on 28 April 2023, Mr. Fu Qiang, an executive Director and the president of the Bank, shall perform the duties of the chairman of the Bank until a new chairman is elected and his qualification is approved by the regulatory authorities. On 25 May 2023, the Board of Directors of the Bank unanimously elected Mr. Lu Guofeng as the chairman of the Board of Directors of the Bank. As of the end of the Reporting Period, the qualification of Mr. Lu Guofeng as the chairman has not been approved by the regulatory authorities.

(II) Meetings of the Board of Directors and committees under the Board of Directors

During the Reporting Period, the Bank convened 11 meetings of the Board of Directors, among which 3 were held onsite and 8 were by written resolutions. 145 resolutions including the Resolution in relation to Work Report of the Board of Directors of the Bank for 2022, the Resolution in relation to Operation and Management Work Report of the Bank for 2022, the Resolution in relation to Work Report of Independent Directors of the Bank for 2022, the Resolution in relation to Approval of the Audit Report of the Bank for 2022, and the Resolution in relation to the Work Report of Sannong Financial Services of the Bank for 2022 were considered and approved, and 14 reports including the Report on the Implementation of the Resolutions of the Shareholders' General Meeting and the Board of Directors of the Bank in 2022 were reviewed. The Board of Directors had six specialized committees including the Strategic Decision and Sannong Committee, the Comprehensive Risk Management Committee, the Nomination and Remuneration Committee, the Related Party Transaction Control Committee, the Audit Committee and the Consumer Rights Protection Committee. During the Reporting Period, the six specialized committees under the Board of Directors exercised their powers independently, compliantly and effectively in accordance with laws, and convened 39 meetings in the first half of 2023, at which resolutions including strategic planning, remuneration appraisal, comprehensive risk management, internal control, related party transactions and consumer rights protection were considered. The committees maintained communication with the operational management, and gave full play to their roles in assisting the Board of Directors in making scientific decisions.

VI. THE BOARD OF SUPERVISORS

(I) Composition of the Board of Supervisors

As of the end of the Reporting Period, the Board of Supervisors of the Bank consists of 12 Supervisors, including 4 employee Supervisors, namely Mr. Chen Sheng, Ms. Deng Yanwen, Mr. Wu Lixin and Mr. Liang Zhifeng; 4 external Supervisors, namely Ms. Wei Haiying, Mr. Yang Biao, Mr. Zhang Bangyong and Ms. Mai Xiuhua; and 4 shareholder Supervisors, namely Mr. Lu Chaoping, Mr. Wang Zhujin, Mr. Liang Jiepeng and Mr. Zou Zhibiao.

(II) Meetings of the Board of Supervisors and Committees Thereunder

During the Reporting Period, the Bank convened 4 meetings of the Board of Supervisors, among which 2 were held physically and 2 were by written resolutions. 129 resolutions were considered and approved, and 38 reports were reviewed.

During the Reporting Period, the Board of Supervisors has established two committees, namely the Nomination Committee and Supervisory Committee. During the Reporting Period, the two specialized committees under the Board of Supervisors have legally exercise their functions and powers in an independent, compliance and effective manner, and convened a total of 6 meetings, at which 16 resolutions were considered. These committees have maintained communication with the Board of Directors and the Operational Management, and fully exerted the role of supervision.

VII. SENIOR MANAGEMENT

The senior management of the Bank consists of 1 president, 2 vice presidents and 1 assistant to the president. At the senior management level, the Bank has established Assets and Liabilities Management Committee (資產負債管理委員會), Financial Management Committee (財務管理委員會), Procurement and Tendering Management Committee (採購與招標管理委員會), Product Innovation Committee (產品創新委員會), Loans Review Committee (貸款審查委員會), Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會), Non-performing Asset Management Committee (不良資產管理委員會), Comprehensive Budget Management Committee (全面預算管理委員會), Information Technology Management Committee (信息科技管理委員會), Comprehensive Risk Management Execution Committee (全面風險管理執行委員會), Consignment Asset Management Products Decision Committee (代銷資產管理產品決策委員會), and Emergency Response Management Committee (突發事件應對管理委員會). Each committee is under operation independently according to relevant functions.

VIII. EMPLOYEES

As of the end of the Reporting Period, the Group had 7,839 employees, including 4,627 male employees and 3,212 female employees, with a male-to-female ratio of approximately 1.44:1. The details are as follows:

(I) Employees Functional Structure

Function type	Number	Percentage
Corporate banking business	955	12.18%
Personal banking business	3,072	39.19%
Treasury business	100	1.28%
Finance, accounting and operation	1,355	17.29%
Risk management, internal control and legal compliance	914	11.66%
Information technology	337	4.30%
Administrative management	826	10.54%
Others	280	3.57%
Total	7,839	100.00%

(II) Employee Educational Background Structure

Educational background type	Number	Percentage
Postgraduate and above	319	4.07%
Undergraduate	6,109	77.93%
Associate college	1,115	14.22%
Technical secondary school and below	296	3.78%
Total	7,839	100.00%

(III) Employee Title Structure

Title category	Number	Percentage
Senior title	146	1.86%
Intermediate title	1,372	17.50%
Assistant title	2,110	26.92%
Employee level and below	4,211	53.72%
Total	7,839	100.00%

Note: The number of employees mentioned above refers to the number of in-service employees who have signed labor contracts with the Group, excluding non-active personnel such as retired and early retired personnel, and personnel under labor dispatch or outsourcing arrangement.

(IV) Employee Remuneration Policy

The Bank's remuneration is based on risk compliance, follows the basic principles of total quantity control, distribution according to work volume, priority for efficiency, fairness and sustainable development, and fully reflects external competitiveness, internal fairness, individual incentives, corporate affordability and institutional flexibility, which is in line with the strategic development and operation management needs of the Bank.

The Bank continued to strengthen the construction of the remuneration system and performance incentive and restraint mechanism, and formulated the Dongguan Rural Commercial Bank Co., Ltd. Remuneration Management Measures and the performance appraisal plan for all levels of personnel. The remuneration structure of employees mainly consists of fixed salary, performance-based compensation, floating salary and welfare income, among which performance-based compensation is mainly linked with the completion of the organization's business performance and the result of risk control.

The Bank continued to implement the Dongguan Rural Commercial Bank Deferral Payment of Performance-based Salary Management Measures and the Dongguan Rural Commercial Bank Co., Ltd. Revoked Payment of Performance-based Compensation Management Measures, and continued to improve the mechanism of deferred and revoked payment for performance-based compensation. The scope of deferred payment of performance-based compensation included senior management of the Bank, employees in positions that have significant impact on risks, and other individuals who engage in credit and credit-like business. The Bank divided different provision ratios according to titles, ranks and positions of deferred payment subject, with payment deferral period of 3 years. In particular, the deferral ratio of performance-based compensation for key senior management of the Bank is as high as 51%. In accordance with relevant provisions, the Bank revoked performance-based compensation paid to the senior management and person of key positions due to non-compliance with laws and regulations, disciplinary offences, or exposures to significant risks.

(V) Staff Training

The Bank actively practiced the concept of talent development, responded to the needs of strategic business development, continued to establish a full-coverage, classified and professional talent training system, continued to innovate diversified training methods, accelerated the training of strategic talents, professional talents and young talents, and strived to promote the organic combination of employee growth, business performance and corporate development.

Firstly, we implemented strategic talent training. Focusing on strategic promotion, organizational reform, and cadre growth, the Bank regularly promoted the “Evergreen Foundation (基業長青)” four-level cadre learning and development project and the “G30 Training Camp” financial technology talent training project, prepared and carried out special training camps for product managers, and focused on cultivating a talent team that meets the requirements of the Bank’s high-quality development capabilities.

Secondly, we deepened the training of professional talents. The Bank actively explored the professional and systematic training of business lines, empowered business development with scenario-based training, and enhanced the business efficiency of key positions. On the basis of business knowledge training, the Bank innovatively promoted the “Excellent Plan” training program for outlet leaders and the “T Plan” elite training camp for private banking, providing trainees at different stages with a comprehensive and practical learning journey.

Thirdly, we attached importance to the cultivation of young talents. The Bank iteratively upgraded the training mechanism for new employees, set up two learning stages for teller business and marketing skills, and helped new employees to start working and improve their marketing capabilities through practice-driven learning and practical drills. The “P100” business trainee training system was optimized to improve the mechanism of career development, on-the-job training and interactive communication for new employees.

IX. SUBSIDIARIES AND BRANCHES

(I) Major Subsidiaries

The Bank's major subsidiaries include Zhanjiang RCB, Chaoyang RCB, Huizhou Zhongkai Dongying County Bank, Yunfu Xinxing Dongying County Bank, Dongguan Dalang Dongying County Bank and Hezhou Babu Dongying County Bank.

For details about the major subsidiaries, please refer to the Note 18 "Subsidiaries" to the consolidated financial statements in the "Financial Report" chapter in this Report.

(II) Branches

As of the end of the Reporting Period, the Bank has established 39 tier-one branches and sub-branches, 200 tier-two sub-branches and 265 offices. Details of tier-one branches and sub-branches are as follows:

No.	Name of entity	Address	Tel.
1	Zhongxin sub-branch	No.2 Hongfu East Road, Dongcheng Street, Dongguan City	0769-22866666
2	Zhongtang sub-branch	No.101 Zhongxing Road, Zhongtang Town, Dongguan City	0769-88818522
3	Wangniudun sub-branch	Room 102, No.25 Zhenzhong Road, Wangniudun Town, Dongguan City	0769-88851262
4	Daojiao sub-branch	No.120 Zhenxing Road North, Daojiao Town, Dongguan City	0769-88833111
5	Hongmei sub-branch	Room 102, No.69 Hongmeiqiao East Road, Hongmei Town, Dongguan City	0769-88841546
6	Machong sub-branch	No.5 Zhenxing Road, Machong Town, Dongguan City	0769-88821389
7	Wanjiang sub-branch	No.3 Wanjiang Road North, Xincheng Community, Wanjiang District, Dongguan City	0769-22288628
8	Humen sub-branch	Dushi Huating, No.181 Humen Avenue, Humen Town, Dongguan City	0769-85123142
9	Changan sub-branch	No.286 Changqing South Street, Changan Town, Dongguan City	0769-85310223
10	Houjie sub-branch	No.16 Kangle North Road, Houjie Town, Dongguan City	0769-85588841
11	Shatian sub-branch	No.93 Shatai 1st Road, Hengliu, Shatian Town, Dongguan City	0769-88861903
12	Nancheng sub-branch	No.44 Nancheng Road section, Guantai Road, Dongguan City	0769-22818522
13	Dongcheng sub-branch	No.7 Dongcheng East Road, Dongcheng District, Dongguan City	0769-22239029
14	Liaobu sub-branch	No.2 Jiaoyu Road, Liaobu Town, Dongguan City	0769-83329710
15	Dalingshan sub-branch	Room 101, No.460 Dalingshan Section, Guanchang Road, Dalingshan Town, Dongguan City	0769-83351158

No.	Name of entity	Address	Tel.
16	Dalang sub-branch	No.568 Meijing Central Road, Dalang Town, Dongguan City	0769-83311102
17	Huangjiang sub-branch	No.65 Huangjiang Avenue, Huangjiang Town, Dongguan City	0769-83365136
18	Zhangmutou sub-branch	No.111 Guanzhang West Road, Zhangmutou Town, Dongguan City	0769-87719118
19	Qingxi sub-branch	No.2 Xiangmang Central Road, Qingxi Town, Dongguan City	0769-87730998
20	Tangxia sub-branch	No.17 Yingbin Avenue, Tangxia Town, Dongguan City	0769-87728810
21	Fenggang sub-branch	No.69 Yongsheng Street, Fenggang Town, Dongguan City	0769-87750947
22	Xiegang sub-branch	Rooms 101-601, No.1 Building, No.72 Xiegang Huayuan Avenue, Xiegang Town, Dongguan City	0769-87765178
23	Changping sub-branch	Room 103, No.36 Changping Avenue, Changping Town, Dongguan City	0769-83331409
24	Qiaotou sub-branch	No.197 Qiaoguang Avenue (Qiaotou Section), Qiaotou Town, Dongguan City	0769-83342244
25	Hengli sub-branch	No.580 Zhongshan West Road, Hengli Town, Dongguan City	0769-83373924
26	Dongkeng sub-branch	No.74 Dongkeng Avenue, Dongkeng Town, Dongguan City	0769-83880995
27	Qishi sub-branch	No.8 Jiangbin Road, Qishi Town, Dongguan City	0769-86665038
28	Shipai sub-branch	No.297 Shipai Avenue Central, Shipai Town, Dongguan City	0769-86657030
29	Chashan sub-branch	No.82 Caihong Road, Chashan Town, Dongguan City	0769-86641493
30	Shijie sub-branch	No.4 Dongfeng South Road, Shijie Town, Dongguan City	0769-86636495
31	Gaobu sub-branch	No.13 Office Building, New Century Yilongwan Phase III, Xiansha Village, Gaobu Town, Dongguan City	0769-88871317
32	Donglian sub-branch	Room 101, Building 6, Fortune Center, First International, No. 200 Hongfu Road, Nancheng Street, Dongguan City	0769-22856679
33	Shilong sub-branch	No.8 Fangzheng Central Road, Shilong Town, Dongguan City	0769-86602831
34	Songshanhu Keji sub-branch	Building No.20, Songkeyuan, No.4 Libin Road, Songshan Lake Science and Technology Industrial Park, Dongguan City	0769-22891811
35	Binhai Bay New District sub-branch	Room 106, No.1 Bay Area Avenue, Binhai Bay New District, Dongguan City	0769-88007788
36	Huizhou sub-branch	(Nos.01, 07, 08) 1/F and (No.01-19) 2/F, Haoshi Plaza, No. 8 Yanda Avenue, Huizhou City	0752-2169686
37	Qingxin sub-branch	Shops 101 and 201, 1/F, Block C, Kaixuancheng, No.38 Jianshe Road South, Taihe Town, Qingxin District, Qingyuan City	0763-5206869

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No.	Name of entity	Address	Tel.
38	Nansha branch in Guangdong Pilot Free Trade Zone	Room 311, 312, 313, 314, podium building, Block 17, Zhonghui Bilong Bay, No. 3 Wangjiang 2nd Street, Nansha District, Guangzhou City	020-39391183
39	Hengqin branch in Guangdong Pilot Free Trade Zone	Room 3103, Block 2, No.88 Gangao Avenue, Hengqin New District, Zhuhai City	0756-2992623

Note: The list contains the tier-one branches and sub-branches only and subsidiaries are not included.

X. RISK MANAGEMENT AND INTERNAL CONTROL

During the Reporting Period, the Bank attached great importance to comprehensive risk management, and formulated the Implementation Opinions on Comprehensive Risk Management of the Bank for 2023 based on the actual work, and put forward the key points of the annual risk management plan in terms of top-level design, various types of risk management, emergency response level, group management, digital risk control and risk culture.

According to the Guidelines on the Comprehensive Risk Management of Commercial Banks (《商業銀行全面風險管理指引》) and the Measures for the Risk Management of Off-balance Sheet Business of Commercial Banks (《商業銀行表外業務風險管理辦法》) issued by the CBIRC, the Bank incorporated off-balance sheet business into the scope of comprehensive risk management assessment, continued to identify and evaluate its major risks such as credit risk, liquidity risk, market risk, operational risk, compliance risk, legal risk, money laundering risk, information technology risk, reputation risk and strategic risk, carefully analysed the major issues currently faced and formulated corresponding management measures, and reported to the senior management and the Board of Directors in a timely manner. Upon review by the Board of Directors, the Bank's comprehensive risk management system is adequate and effective, and all types of risks are at low to medium risk levels. At the same time, the comprehensive risk management system that the Bank assisted its subsidiaries in establishing is also effective and in line with their own positioning.

In accordance with the Guidelines for Internal Control of Commercial Banks (《商業銀行內部控制指引》) and relevant regulations and under the guidance of the Audit Committee of the Board of Directors, the Bank organized and carried out the internal control evaluation in 2022. Upon review by the Board of Directors of the Bank, the comprehensive risk management and internal control system established and implemented by the Bank was sufficient and effective, and no major deficiency in internal control were found during the Reporting Period.

Since the comprehensive risk management and internal control system is to manage rather than to eliminate the risk of failure to achieve business objectives, the Board of Directors can only make reasonable rather than absolute assurance that there would be no material misstatements or losses.

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

XI. DIRECTORS' RESPONSIBILITIES FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group. In preparing the interim financial statements of 2023, the International Financial Reporting Standards has been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. The Board of Directors is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board of Directors has continued to adopt the going concern basis in preparing the financial statements.

XII. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 24 April 2023, the Bank obtained the approval on the amendments to the Articles of Association of Dongguan Rural Commercial Bank issued by the Dongguan Branch of the CBIRC, approving the amended Articles of Association considered and approved at the 2022 first extraordinary general meeting. For details of the amendments, please refer to the announcement dated 4 November 2022 and the circular dated 28 November 2022 published on the HKEXnews website of the Hong Kong Stock Exchange and the official website of the Bank.

XIII. CORPORATE CULTURE

Guided by Xi Jinping's Thought on Socialism with Chinese Characteristics for the New Era, the Bank firmly created the Dongguan Rural Commercial Bank culture that responds to the trend of the times and highlights its own characteristics. During the third strategic transformation period, the Bank focused on the vision of "building a regional modern rural commercial banking group", shaped a corporate culture with distinctive characteristics and a positive corporate image, created and enriched the core corporate culture system, and proposed to build a "six in one" core culture covering business philosophy, management criteria, corporate atmosphere, corporate purpose, core values and entrepreneurial spirit, providing strong spiritual impetus for the transformation and upgrading of the Bank. The detailed contents are as follows:

First, we adhere to the business philosophy of "customers are our greatest wealth"; second, we adhere to the management principle of "Governing the Bank with Regulations"; third, we deeply cultivate the corporate atmosphere of "paying tribute to the top, showing love to the bottom, sincerity to people, and giving truth to things"; fourth, we adhere to the corporate purpose of "companion, belief and growth"; fifth, we firmly adhere to the core value of "creating maximum value for inclusive finance"; sixth, we build a corporate spirit of "stable and long-term development with great virtue".

The Bank kept a tight hold on operation and management and upheld the core cultural concept, so as to unify the value consensus and code of conduct of the staff, guide and encourage the cadres and employees to forge ahead, consolidate the everlasting cultural foundation of the Bank.

XIV.COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank adopted and complied with all code provisions set out in Part 2 of the Corporate Governance Code, except for the following:

Code provision C.2.1 of Part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. References are made to the announcements of the Bank dated 28 April 2023 and 25 May 2023, since the resignation of Mr. Wang Yaoqiu as the chairman of the Bank, Mr. Fu Qiang, an executive Director and the president of the Bank, shall perform the duties of the chairman of the Bank until a new chairman is elected and his qualification is approved by the regulatory authorities. On 25 May 2023, the Board of Directors of the Bank unanimously elected Mr. Lu Guofeng as the chairman of the Board of Directors of the Bank. As of the end of the Reporting Period, the qualification of Mr. Lu Guofeng as the chairman has not been approved by the regulatory authorities. Upon obtaining the regulatory approval of the qualification of Mr. Lu Guofeng as the chairman of the Board, the positions of the chairman and the president of the Bank will be assumed by different persons.



Chapter VII

Other Matters

I. 2023 INTERIM PROFIT DISTRIBUTION PLAN

The operating results during the Reporting Period and the financial position as of the end of the Reporting Period are set out in the chapter headed the “Financial Report” in this Report. No interim dividend will be distributed by the Bank for the Reporting Period.

II. BONDS ISSUED AND REDEEMED

During the Reporting Period, there was no issuance and redemption of bonds by the Bank or its subsidiaries.

III. CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND OTHER SIMILAR RIGHTS

The Bank had no convertible security, option, warrant or other similar right during the Reporting Period.

IV. SHARE OPTION SCHEME AND EQUITY INCENTIVE PLAN

During the Reporting Period, the Bank does not have any share option scheme or share incentive scheme, nor did it have any valid options outstanding.

V. SIGNIFICANT ACQUISITIONS, DISPOSALS AND MERGERS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Reporting Period, the Bank did not have any significant acquisitions, disposals or mergers in relation to subsidiaries, associates or joint ventures.

VI. FUTURE PLANS FOR SIGNIFICANT INVESTMENTS AND PURCHASE OF CAPITAL ASSETS

During the Reporting Period, the Bank had no significant investments or plans for purchase of capital assets.

VII. CONTRACTS OF SIGNIFICANCE AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no other significant contractual matters requiring disclosure, other than those disclosed in this Report.

VIII. SIGNIFICANT LITIGATION AND ARBITRATION

The Bank involved in certain legal proceedings in the ordinary course of our business, most of which are initiated to recover non-performing assets. As of the end of June 2023, the Bank’s new loans with a principal amount of more than or equal to RMB10 million in the current year involving RMB752,470,900 as a plaintiff or applicant (including litigation and arbitration), and the new pending cases (including litigation and arbitration) involving RMB1,222,200 as a defendant or respondent. The Bank will follow up on the disposal of the above cases. The above litigations and arbitrations will not have any material adverse impact on the financial or operating results of the Bank.

IX. PUNISHMENT OF THE BANK AND THE DIRECTORS AND SUPERVISORS, SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, none of the Bank, or its Directors, Supervisors and senior management members had been subject to inspection, administrative sanctions, or criticism by the CSRC and public censures by the Hong Kong Stock Exchange, or had been subject to any penalty by other regulatory bodies that caused a significant impact on the Bank's operation.

X. SUBSEQUENT EVENTS

Subsequent to the Reporting Period, the Bank did not have any events or cases that had a significant impact on the Bank.



Chapter VIII Financial Report

Review report to the Board of Directors of Dongguan Rural Commercial Bank Co., Ltd.

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

Introduction

We have reviewed the interim financial report set out on pages 130 to 218 which comprises the consolidated statement of financial position of Dongguan Rural Commercial Bank Co., Ltd. (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board. A review of the interim financial report consists of making 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 report as at 30 June 2023 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certified Public Accountants

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

29 August 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	Six months ended 30 June	
		2023	2022
Interest income	4	11,502,213	11,303,499
Interest expense	4	(6,141,971)	(5,969,021)
Net interest income		5,360,242	5,334,478
Fee and commission income	5	553,472	597,786
Fee and commission expense	5	(104,945)	(115,329)
Net fee and commission income		448,527	482,457
Net trading gains	6	623,612	744,057
Net gains on financial instruments	7	740,365	594,795
Other operating income	8	92,454	56,902
Operating income		7,265,200	7,212,689
Operating expenses	9	(2,156,532)	(2,158,320)
Credit impairment losses	11	(1,141,975)	(1,115,363)
Operating profit		3,966,693	3,939,006
Share of profits of associates	19	31,722	18,725
Profit before tax		3,998,415	3,957,731
Income tax expense	12	(323,138)	(315,663)
Net profit for the period		3,675,277	3,642,068
Net profit attributable to:			
Shareholders of the Bank		3,582,891	3,540,384
Non-controlling interests		92,386	101,684

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

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

	Note	Six months ended 30 June	
		2023	2022
Other comprehensive income items which may be reclassified to profit or loss:			
Changes in fair value of financial assets at fair value through other comprehensive income		320,163	(19,149)
Credit impairment provision for financial assets at fair value through other comprehensive income		(117,786)	(38,548)
Impact on income tax on changes in fair value and credit impairment provision of financial assets at fair value through other comprehensive income		(50,594)	14,424
Items will not be reclassified to profit or loss:			
Changes in fair value of equity instruments designated at fair value through other comprehensive income		(15,878)	3,618
Impact on income tax on changes in fair value of equity instruments designated at fair value through other comprehensive income		3,970	(905)
Other comprehensive income for the period, net of tax		139,875	(40,560)
Total comprehensive income for the period		3,815,152	3,601,508
Total comprehensive income for the period attributable to:			
Shareholders of the Bank		3,700,599	3,489,671
Non-controlling interests		114,553	111,837
Total comprehensive income for the period		3,815,152	3,601,508
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)	13	0.52	0.51

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2023 — unaudited

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

	Notes	As at 30 June 2023	As at 31 December 2022
Assets			
Cash and balances with the central bank	14	37,846,178	40,024,836
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	15	14,180,633	15,515,079
Derivative financial assets		502,049	340,047
Loans and advances to customers	16	343,851,985	321,748,124
Financial investments	17	280,266,701	269,777,909
— Financial investments at fair value through profit or loss		53,727,882	52,182,664
— Financial investments at amortised cost		115,508,694	124,352,911
— Financial investments at fair value through other comprehensive income		111,030,125	93,242,334
Investment in associates	19	507,131	480,421
Property and equipment	20	2,386,776	2,475,704
Right-of-use assets	21	1,011,445	934,118
Goodwill	22	520,521	520,521
Deferred tax assets	23	4,188,447	4,059,547
Other assets	24	950,071	1,813,666
Total assets		686,211,937	657,689,972
Liabilities			
Borrowings from the central bank	25	27,462,039	23,351,892
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	26	21,459,036	44,404,451
Financial liabilities at fair value through profit or loss	27	1,803,286	1,809,212
Derivative financial liabilities		539,798	349,317
Deposits from customers	28	493,666,439	465,688,801
Debt securities issued	29	81,551,252	64,053,467
Taxes payable	30	613,389	457,304
Lease liabilities	21	531,677	456,116
Other liabilities	31	3,003,433	3,299,483
Total liabilities		630,630,349	603,870,043

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Financial Position *(Continued)*

As at 30 June 2023 — unaudited
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	As at 30 June 2023	As at 31 December 2022
Equity			
Share capital	32	6,888,546	6,888,546
Capital reserve		6,230,429	6,230,429
Revaluation reserve	33	722,275	604,567
Surplus reserve	34	8,323,435	8,323,435
General reserve	34	6,915,566	6,915,566
Retained earnings		23,750,384	22,165,171
Total equity attributable to shareholders of the Bank		52,830,635	51,127,714
Non-controlling interests		2,750,953	2,692,215
Total equity		55,581,588	53,819,929
Total liabilities and equity		686,211,937	657,689,972

Approved and authorised for issue by the Board of Directors on 29 August 2023.

Fu Qiang
President

Zhong Guobo
Person-in-charge
of Accounting

Zhong Xuemei
Head of the Accounting
Department

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

	Note	Equity attributable to shareholders of the Bank						Non-controlling interests	Total
		Share capital (Note 32)	Capital reserve	Revaluation reserve (Note 33)	Surplus reserve (Note 34)	General reserve (Note 34)	Retained earnings		
As at 1 January 2023		6,888,546	6,230,429	604,567	8,323,435	6,915,566	22,165,171	2,692,215	53,819,929
Net profit for the period		—	—	—	—	—	3,582,891	92,386	3,675,277
Other comprehensive income		—	—	117,708	—	—	—	22,167	139,875
Total comprehensive income		—	—	117,708	—	—	3,582,891	114,553	3,815,152
Appropriation to surplus reserve		—	—	—	—	—	—	—	—
Appropriation to general reserve		—	—	—	—	—	—	—	—
Dividend distribution	35	—	—	—	—	—	(1,997,678)	(55,815)	(2,053,493)
As at 30 June 2023		6,888,546	6,230,429	722,275	8,323,435	6,915,566	23,750,384	2,750,953	55,581,588
As at 1 January 2022		6,888,546	6,230,429	789,488	7,737,394	6,329,025	19,403,750	2,603,481	49,982,113
Net profit for the period		—	—	—	—	—	3,540,384	101,684	3,642,068
Other comprehensive income		—	—	(50,713)	—	—	—	10,153	(40,560)
Total comprehensive income		—	—	(50,713)	—	—	3,540,384	111,837	3,601,508
Appropriation to surplus reserve		—	—	—	—	—	—	—	—
Appropriation to general reserve		—	—	—	—	—	—	—	—
Dividend distribution	35	—	—	—	—	—	(1,997,678)	(55,721)	(2,053,399)
As at 30 June 2022		6,888,546	6,230,429	738,775	7,737,394	6,329,025	20,946,456	2,659,597	51,530,222

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Cash Flows

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

	Notes	Six months ended 30 June	
		2023	2022
Cash flows from operating activities:			
Profit before tax		3,998,415	3,957,731
Adjust for:			
Credit impairment losses	11	1,141,975	1,115,363
Interest income from financial investments	4	(3,031,236)	(2,989,463)
Interest expense on debt securities issued	4	907,523	903,088
Interest expense on lease liabilities	4	9,663	11,715
Net trading gains	6	(593,655)	(620,702)
Net gains on financial instruments	7	(740,365)	(594,795)
Net gains on disposal of property, equipment and other long-term assets	8	(5,506)	(2,077)
Depreciation and amortisation	9	217,063	227,817
Share of profits of associates	19	(31,722)	(18,725)
Unrealized foreign exchange gains		(134,311)	(427,614)
Others		(11,558)	—
		1,726,286	1,562,338
Net increase in operating assets:			
Net (increase)/decrease in cash and balances with the central bank		(3,938)	757,565
Net decrease/(increase) in financial assets held under resale agreements and deposits and placements with banks and other financial institutions		137,092	(259,602)
Net increase in loans and advances to customers		(22,516,946)	(18,004,250)
Net decrease in other operating assets		135,389	2,307
		(22,248,403)	(17,503,980)
Net increase in operating liabilities:			
Net increase in borrowings from the central bank		4,195,106	9,592,818
Net (decrease)/increase in financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions		(23,554,806)	2,546,680
Net increase in deposits from customers		26,756,967	31,659,729
Net increase in other operating liabilities		830,122	165,629
		8,227,389	43,964,856
Cash (used in)/generated from operating activities		(12,294,728)	28,023,214
Income tax paid		(348,764)	(377,182)
Net cash (used in)/generated from operating activities		(12,643,492)	27,646,032

The notes on pages 137 to 218 form part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

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

	Note	Six months ended 30 June	
		2023	2022
Cash flows from investing activities:			
Cash received from investment income and disposal of financial investments		165,420,939	113,030,912
Net cash received from disposal of property, equipment and other long-term assets		4,812	27,482
Cash dividends received		41,657	35,574
Cash paid to acquire financial investments		(170,649,219)	(123,126,444)
Cash paid to acquire property, equipment and other long-term assets		(55,851)	(191,900)
Net cash used in investing activities		(5,237,662)	(10,224,376)
Cash flows from financing activities:			
Cash received for debt securities issued		64,235,862	36,409,268
Cash payments for debt securities issued		(47,645,600)	(48,559,523)
Cash payments for distribution of dividends		(2,053,489)	(2,052,475)
Cash payments for leases		(69,217)	(71,269)
Net cash generated from/(used in) financing activities		14,467,556	(14,273,999)
Effect of foreign exchange rate changes on cash and cash equivalents		24,119	128,633
Net (decrease)/increase in cash and cash equivalents		(3,389,479)	3,276,290
Cash and cash equivalents at the beginning of the period		26,586,354	24,968,842
Cash and cash equivalents at the end of the period	36	23,196,875	28,245,132

The notes on pages 137 to 218 form part of these financial statements.

Notes to the Consolidated Interim Financial Report

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

1 General information

Dongguan Rural Commercial Bank Co., Ltd. (“the Bank”) primary established in 1952, formerly known as Dongguan Rural Credit Cooperative Union (“Dongguan Cooperative Union”). Subsequently, as per the approval by China Banking and Insurance Regulatory Commission (“CBIRC”, formerly China Banking Regulatory Commission), Dongguan Cooperative Union was restructured into a joint-stock commercial bank, and officially changed its name to Dongguan Rural Commercial Bank Co., Ltd. on 22 December 2009.

The Bank operates under financial services certificate NO. B1054H344190001 issued by CBIRC, and the Business License issued by the State Administration for Industry and Commerce of the People’s Republic of China (registration ID: 914419007829859746). The registered address is Hongfu East Road No. 2, Dongcheng Street, Dongguan, Guangdong. On 29 September 2021, the Bank was listed on The Stock Exchange of Hong Kong Limited with the stock code of 09889.

The Bank and its subsidiaries (collectively referred to as “the Group”) operate in the People’s Republic of China (the “PRC”) and are principally engaged in the following activities: corporate and individual deposits, loans and advances, payment and settlement, treasury and other banking business approved by CBIRC.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorized for issue on 29 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

Notes to the Consolidated Interim Financial Report *(Continued)*

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

2 Basis of preparation *(continued)*

The financial information relating to the financial year ended 31 December 2022, that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

3 Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- **IFRS 17: Insurance Contracts**

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. Amendments to IFRS 17 were issued in June 2020 and December 2021 to address stakeholder concerns and implementation challenges. IFRS 17 sets out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies**

The amendments clarify that an entity will be required to disclose its "material" accounting policy information as opposed to "significant" accounting policies and provide additional guidance on how to identify material accounting policy information. The amendments to IFRS Practice Statement 2 provide additional guidance and examples to explain and illustrate the application of the "four-step materiality process" to accounting policy information.

- **Amendments to IAS 8: Definition of Accounting Estimates**

The amendments now define "accounting estimates" as "monetary amounts in financial statements that are subject to measurement uncertainty" and remove the definition of "a change in accounting estimate". The amendments also clarify that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.

- **Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments specify how entities should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition. As a result, entities will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

Notes to the Consolidated Interim Financial Report (Continued)

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

3 Changes in accounting policies (continued)

- Amendments to IAS 12: International Tax Reform-Pillar Two Model Rules**

The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure from December 31, 2023. The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted at December 31 2022 in any jurisdiction in which the Group operates and no related deferred taxes were recognised at that date, the retrospective application has no impact on the Group's condensed interim financial statements.

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

4 Net interest income

	Six months ended 30 June	
	2023	2022
Interest income		
Balances with the central bank	218,364	219,720
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	222,923	242,678
Loans and advances to customers	8,029,690	7,851,638
Financial investments	3,031,236	2,989,463
Sub-total	11,502,213	11,303,499
Interest expense		
Borrowings from the central bank	(308,468)	(226,980)
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	(446,371)	(568,600)
Deposits from customers	(4,469,946)	(4,258,638)
Debt securities issued	(907,523)	(903,088)
Lease liabilities	(9,663)	(11,715)
Sub-total	(6,141,971)	(5,969,021)
Net interest income	5,360,242	5,334,478

Notes to the Consolidated Interim Financial Report (Continued)

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

5 Net fee and commission income

	Six months ended 30 June	
	2023	2022
Fee and commission income		
Wealth management agency services	151,043	235,527
Custodian and other fiduciary	221,577	168,780
Bank cards	97,082	113,427
Settlement and clearing services	25,213	37,840
Others	58,557	42,212
Sub-total	553,472	597,786
Fee and commission expense		
Settlement and clearing services	(47,782)	(30,249)
Platform cooperation	(23,029)	(37,237)
Transaction services	(27,798)	(32,291)
Others	(6,336)	(15,552)
Sub-total	(104,945)	(115,329)
Net fee and commission income	448,527	482,457

6 Net trading gains

	Six months ended 30 June	
	2023	2022
Net gains on financial assets held for trading	596,373	620,702
Exchange gains	29,743	123,082
Gains on precious metal	214	273
Financial liabilities at fair value through profit or loss	(2,718)	—
Total	623,612	744,057

Notes to the Consolidated Interim Financial Report (Continued)

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

7 Net gains on financial instruments

	Six months ended 30 June	
	2023	2022
Net gains on financial assets at fair value through other comprehensive income	389,603	418,686
Net gains on financial investments at fair value through profit or loss	295,129	77,841
Net gains on derecognition of financial investments measured at amortised cost	23,844	62,694
Dividend income from equity instruments	36,645	35,574
Net losses on financial liabilities at fair value through profit or loss	(4,856)	—
Total	740,365	594,795

8 Other operating income

	Note	Six months ended 30 June	
		2023	2022
Government grants	(a)	66,805	32,517
Rental income		16,988	14,440
Gains on disposal of property, equipment and other long-term assets		5,506	2,077
Others		3,155	7,868
Total		92,454	56,902

- (a) Government grants comprise incentives for inclusive loans support tool to small and micro enterprises and job stabilization subsidies from Ministry of Finance (“MOF”) and Municipal Governments.

Notes to the Consolidated Interim Financial Report (Continued)

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

9 Operating expenses

	Note	Six months ended 30 June	
		2023	2022
Staff costs	10	1,565,017	1,528,993
General and administrative expenses		312,394	337,548
Depreciation and amortisation		217,063	227,817
Taxes and surcharges		59,677	61,528
Auditors' remuneration		2,381	2,434
— Audit service		2,324	1,500
— Non-audit service		57	934
Total		2,156,532	2,158,320

10 Staff costs

	Six months ended 30 June	
	2023	2022
Salaries, bonuses, allowances and subsidies	1,119,709	1,132,509
Social benefits and others	362,646	313,664
Enterprise annuity scheme	60,355	60,220
Labour union funds and employee education funds	22,307	22,600
Total	1,565,017	1,528,993

Notes to the Consolidated Interim Financial Report (Continued)

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

11 Credit impairment losses

	Six months ended 30 June	
	2023	2022
Loans and advances to customers		
— Measured at amortised cost	1,111,294	981,479
— Measured at fair value through other comprehensive income	(12,752)	(55,858)
Financial investments		
— Measured at amortised cost	(6,954)	186,455
— Measured at fair value through other comprehensive income	38,499	(34,854)
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	(4,206)	6,823
Loan commitments and guarantee contracts	19,105	473
Other assets	(3,011)	30,845
Total	1,141,975	1,115,363

12 Income tax expense

	Note	Six months ended 30 June	
		2023	2022
Current income tax		498,662	522,114
Deferred income tax	23	(175,524)	(206,451)
Total		323,138	315,663

Notes to the Consolidated Interim Financial Report (Continued)

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

12 Income tax expense (continued)

The actual amount of tax paid by the Group is different from the amount calculated based on the profit before tax of the Group and statutory tax rate applicable to the Group. The major adjustments are as follows:

	Notes	Six months ended 30 June	
		2023	2022
Profit before tax		3,998,415	3,957,731
Income tax calculated at statutory tax rate of 25%		999,604	989,433
Tax effect of non-taxable income	(a)	(672,376)	(675,707)
Share of profits of associates		(7,931)	(4,681)
Non-deductible expenses		13,079	15,296
Tax effect of unused tax losses not recognised		(5,640)	—
Effect of preferential tax rate applicable to a subsidiary	(b)	(751)	(402)
Adjustments for current tax of prior periods		(2,847)	(8,276)
Income tax expense		323,138	315,663

- (a) The non-taxable income of the Group includes interest income from PRC treasury bonds, municipal government bonds and dividend income.
- (b) According to *Announcement on the Continuation of the Enterprise Income Tax Policy for the Western Development* (Cai Shui Fa [2020] No. 23), Hezhou Babu Dongying County Bank Company Limited, the Group's subsidiary, is entitled to a preferential income tax rate of 15% from 1 January 2021 to 31 December 2030.

Notes to the Consolidated Interim Financial Report (Continued)

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

13 Basic and diluted earnings per share

- (a) Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares issued by the Bank during the period.

	Six months ended 30 June	
	2023	2022
Net profit attributable to the shareholders of the Bank (RMB'000)	3,582,891	3,540,384
Weighted average number of ordinary shares (thousand shares)	6,888,546	6,888,546
Basic earnings per share (RMB)	0.52	0.51

(b) Diluted earnings per share

There were no potential dilutive ordinary shares outstanding during the current and prior periods. Accordingly, diluted earnings per share were same as basic earnings per share.

14 Cash and balances with the central bank

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Cash		2,574,990	4,336,151
Mandatory reserve deposits with the central bank	(a)	25,803,269	25,782,716
Surplus reserve deposits	(b)	9,352,774	9,777,726
Other deposits with the central bank	(c)	103,044	114,955
Sub-total		37,834,077	40,011,548
Accrued interest		12,101	13,288
Total		37,846,178	40,024,836

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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14 Cash and balances with the central bank (continued)

- (a) Mandatory reserve deposits with the central bank represent the general reserve that the Group maintains with the People's Bank of China ("PBOC") in accordance with relevant regulations. As at each of the balance sheet dates, the deposit ratios for the reserve of the Bank were as follows, respectively:

	As at 30 June 2023	As at 31 December 2022
Mandatory reserve rate for deposits denominated in RMB	5.50%	5.75%
Mandatory reserve rate for deposits denominated in foreign currencies	6.00%	6.00%

The mandatory reserve deposits with the central bank cannot be used for daily operating activities. The ratios for RMB deposits in the reserve of the Bank's subsidiaries are in accordance with regulations of the PBOC.

- (b) Surplus reserve deposits with the central bank are mainly for the purpose of clearing and settlement.
- (c) Other deposits with the central bank primarily represent fiscal deposits that are not available for use in the Group's daily operations, and are non-interest bearing from government.

15 Financial assets held under resale agreements and deposits and placements with banks and other financial institutions

The Group	<i>Note</i>	As at 30 June 2023	As at 31 December 2022
Deposits with domestic banks and other financial institutions		6,269,848	5,759,262
Deposits with overseas banks and other financial institutions		609,802	658,713
Placements with domestic banks and other financial institutions		6,790,000	6,738,230
Bonds held under resale agreements	(a)	536,461	2,390,500
Sub-total		14,206,111	15,546,705
Accrued interest		20,761	18,819
Provision for impairment losses		(46,239)	(50,445)
Total		14,180,633	15,515,079

- (a) As at the end of the reporting period, the Group did not use financial assets held under resale agreements as mortgaged or pledged assets for repurchase agreements with other financial institutions.

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16 Loans and advances to customers

(a) Loans and advances to customers are summarised as follows:

The Group	As at 30 June 2023	As at 31 December 2022
Loans and advances to customers measured at amortised cost		
Corporate loans and advances		
— Corporate loans	199,496,586	185,397,315
— Discounted bills	9,110,632	3,772,333
Sub-total	<u>208,607,218</u>	<u>189,169,648</u>
Personal loans and advances		
— Business loans	42,165,209	38,675,434
— Property mortgages	39,858,540	38,939,465
— Personal consumption loans	32,425,127	30,053,733
— Credit cards	5,679,042	6,760,399
Sub-total	<u>120,127,918</u>	<u>114,429,031</u>
Accrued interest	<u>659,956</u>	<u>670,422</u>
Total loans and advances to customers measured at amortised cost	329,395,092	304,269,101
Impairment provision for loans and advances measured at amortised cost	(11,869,550)	(10,919,999)
Net book value of loans and advances to customers at amortised cost	317,525,542	293,349,102
Loans and advances to customers at fair value through other comprehensive income		
Corporate loans and advances		
— Inter-bank discounted bills	22,767,903	24,988,370
— Forfaiting	3,558,540	3,410,652
Net loans and advances to customers	<u>343,851,985</u>	<u>321,748,124</u>

As at 30 June 2023, the credit impairment losses rate for loans and advances to customers at amortised cost of the Group was 3.60%. (31 December 2022: 3.59%).

Notes to the Consolidated Interim Financial Report (Continued)

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

16 Loans and advances to customers (continued)

- (b) Changes in provision for impairment losses of loans and advances to customers by assessment type:

The Group Loans and advances to customers measured at amortised cost	Notes	Stage 1	Stage 2	Stage 3	Total
		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1 January 2023		4,034,119	1,222,647	5,663,233	10,919,999
Net transfers in:					
— Stage 1		12,415	—	—	12,415
— Stage 2		—	(229,999)	—	(229,999)
— Stage 3		—	—	217,584	217,584
Originated or purchased		1,591,062	—	—	1,591,062
Remeasurement	(i)	131,867	495,188	626,472	1,253,527
Repayment or transfer out		(833,616)	(193,166)	(488,189)	(1,514,971)
Write-off	(ii)	—	—	(380,067)	(380,067)
As at 30 June 2023		4,935,847	1,294,670	5,639,033	11,869,550
As at 1 January 2022		2,544,128	2,665,306	3,819,461	9,028,895
Net transfers in:					
— Stage 1		(2,422)	—	—	(2,422)
— Stage 2		—	(1,537,587)	—	(1,537,587)
— Stage 3		—	—	1,540,009	1,540,009
Originated or purchased		1,669,690	—	—	1,669,690
Remeasurement	(i)	892,869	1,067,045	2,404,605	4,364,519
Repayment or transfer out		(1,070,146)	(972,117)	(1,480,347)	(3,522,610)
Write-off	(ii)	—	—	(620,495)	(620,495)
As at 31 December 2022		4,034,119	1,222,647	5,663,233	10,919,999

For the period ended 30 June 2023 and the year ended 31 December 2022, all the movements in expected credit losses allowance on loans and advances to customers at fair value through other comprehensive income are in stage 1.

- (i) Remeasurement are caused by parameter changes or transfers between stages.
- (ii) The contractual amount outstanding on loans and advances to customers that were written off during the period ended 30 June 2023 that are still subject to enforcement activity is RMB380 million (31 December 2022: RMB620 million).

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16 Loans and advances to customers (continued)

(c) Loans and advances to customers by assessment type:

The Group	Carrying amounts			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
As at 30 June 2023				
Total loans and advances to customers measured at amortised cost	318,141,124	3,674,181	7,579,787	329,395,092
Provision for impairment losses	(4,935,847)	(1,294,670)	(5,639,033)	(11,869,550)
Net loans and advances to customers measured at amortised cost	<u>313,205,277</u>	<u>2,379,511</u>	<u>1,940,754</u>	<u>317,525,542</u>
Total loans and advances to customers at fair value through other comprehensive income	<u>26,326,443</u>	—	—	<u>26,326,443</u>
Net loans and advances to customers	<u>339,531,720</u>	<u>2,379,511</u>	<u>1,940,754</u>	<u>343,851,985</u>
As at 31 December 2022				
Total loans and advances to customers measured at amortised cost	293,271,521	3,485,316	7,512,264	304,269,101
Provision for impairment losses	(4,034,119)	(1,222,647)	(5,663,233)	(10,919,999)
Net loans and advances to customers measured at amortised cost	<u>289,237,402</u>	<u>2,262,669</u>	<u>1,849,031</u>	<u>293,349,102</u>
Total loans and advances to customers at fair value through other comprehensive income	<u>28,399,022</u>	—	—	<u>28,399,022</u>
Net loans and advances to customers	<u>317,636,424</u>	<u>2,262,669</u>	<u>1,849,031</u>	<u>321,748,124</u>

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17 Financial investments

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Financial investments at fair value through profit or loss	17(a)	53,727,882	52,182,664
Financial investments at amortised cost	17(b)	115,508,694	124,352,911
Financial investments at fair value through other comprehensive income	17(c)	111,030,125	93,242,334
Total		280,266,701	269,777,909

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

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Debt securities listed in Mainland China	(i)		
— Government bonds		9,120,584	14,484,140
— Financial institution bonds		9,701,553	7,147,457
— Corporate bonds		463,778	569,449
— Interbank certificates of deposits		5,789,221	4,286,825
Sub-total		25,075,136	26,487,871
Fund Investments		26,453,968	22,278,539
Trust beneficiary rights	(ii)	2,198,778	3,416,254
Sub-total		28,652,746	25,694,793
Total		53,727,882	52,182,664

(i) Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed in Mainland China”.

(ii) As at the end of the reporting period, trust beneficiary rights are invested in loan, foreclosed assets.

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17 Financial investments (continued)

(b) Financial investments at amortised cost

The Group	As at 30 June 2023	As at 31 December 2022
Debt securities listed in Mainland China		
— Government bonds	83,669,219	89,289,318
— Financial institution bonds	29,775,204	32,039,068
— Corporate bonds	312,890	1,125,375
— Interbank certificates of deposits	448,552	345,344
Sub-total	114,205,865	122,799,105
Certificate treasury bonds	277,745	241,840
Accrued interest	1,474,071	1,767,907
Provision for impairment losses	(448,987)	(455,941)
Total	115,508,694	124,352,911

(i) Analyzed by movements in loss allowance:

The Group	Note	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023		450,707	5,234	—	455,941
Net transfers in:					
— Stage 1		—	—	—	—
— Stage 2		—	—	—	—
— Stage 3		—	—	—	—
Originated or purchased		71,110	—	—	71,110
Remeasurement	(1)	(5,366)	192	—	(5,174)
Repayment or transfer out		(72,890)	—	—	(72,890)
As at 30 June 2023		443,561	5,426	—	448,987
As at 1 January 2022		231,000	179,917	—	410,917
Net transfers in:					
— Stage 1		—	—	—	—
— Stage 2		—	—	—	—
— Stage 3		—	—	—	—
Originated or purchased		177,896	—	—	177,896
Remeasurement	(1)	125,375	(207)	—	125,168
Repayment or transfer out		(83,564)	(174,476)	—	(258,040)
As at 31 December 2022		450,707	5,234	—	455,941

(1) Remeasurement are caused by parameter changes or transfers between stages.

Notes to the Consolidated Interim Financial Report (Continued)

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17 Financial investments (continued)

(c) Financial investments at fair value through other comprehensive income

The Group	As at 30 June 2023	As at 31 December 2022
Debt securities listed in Mainland China		
— Government bonds	89,516,504	62,308,628
— Financial institution bonds	17,138,641	25,161,016
— Corporate bonds	1,566,711	2,601,205
— Interbank certificates of deposit	749,839	1,029,710
Sub-total	108,971,695	91,100,559
Trust beneficiary rights	21,086	30,777
Equity instruments designated at fair value through other comprehensive income		
— Listed equity investments	92,635	46,634
— Unlisted equity investments	656,592	648,603
Sub-total	749,227	695,237
Accrued interest	1,288,117	1,415,761
Total	111,030,125	93,242,334

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17 Financial investments (continued)

(c) Financial investments at fair value through other comprehensive income (continued)

(i) Analyzed by movements in loss allowance:

The Group	Note	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023		225,116	36,620	1,749,963	2,011,699
Net transfers in:					
— Stage 1		—	—	—	—
— Stage 2		—	—	—	—
— Stage 3		—	—	—	—
Originated or purchased		66,294	—	—	66,294
Remeasurement	(1)	(1,644)	312	17,720	16,388
Repayment or transfer out		(89,561)	(18,074)	(8,085)	(115,720)
Write-off		—	—	(71,997)	(71,997)
As at 30 June 2023		200,205	18,858	1,687,601	1,906,664
As at 1 January 2022		116,573	85,870	2,296,561	2,499,004
Net transfers in:					
— Stage 1		4,710	—	—	4,710
— Stage 2		—	(4,710)	—	(4,710)
— Stage 3		—	—	—	—
Originated or purchased		116,077	—	—	116,077
Remeasurement	(1)	38,294	19,731	(49,087)	8,938
Repayment or transfer out		(50,538)	(64,271)	(150,875)	(265,684)
Write-off		—	—	(346,636)	(346,636)
As at 31 December 2022		225,116	36,620	1,749,963	2,011,699

(1) Remeasurement are caused by parameter changes or transfers between stages.

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For the six months ended 30 June 2023 - unaudited
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18 Subsidiaries

	As at 30 June 2023	As at 31 December 2022
Investment cost	3,735,487	3,735,487

Subsidiaries invested by the Bank are set out below:

Name of entity	Notes	Date and place of incorporation/ establishment	Authorized/ paid-in capital	Percentage of equity interest		Percentage of voting rights		Principal activities
				30 June 2023	31 December 2022	30 June 2023	31 December 2022	
Huizhou Zhongkai Dongying County Bank Company Limited		13 December 2010 Huizhou, Guangdong	RMB300,000,000	51.00%	51.00%	51.00%	51.00%	Banking
Yunfu Xinxing Dongying County Bank Company Limited		23 December 2011 Yunfu, Guangdong	RMB100,000,000	51.00%	51.00%	51.00%	51.00%	Banking
Hezhou Babu Dongying County Bank Company Limited		8 August 2012 Hezhou, Guangxi	RMB100,000,000	51.00%	51.00%	51.00%	51.00%	Banking
Dongguan Dalang Dongying County Bank Company Limited	(a)	25 June 2012 Dongguan, Guangdong	RMB100,000,000	35.00%	35.00%	51.00%	51.00%	Banking
Zhanjiang Rural Commercial Bank Co., Ltd.	(b)	26 October 2019 Zhanjiang, Guangdong	RMB1,655,000,000	49.41%	49.41%	49.41%	49.41%	Banking
Guangdong Chaoyang Rural Commercial Bank Co., Ltd.		27 December 2020 Shantou, Guangdong	RMB1,202,000,000	67.03%	67.03%	67.03%	67.03%	Banking

- (a) Dongguan Dalang Dongying County Bank Company Limited (“Dalang Dongying”) is a joint venture formed by the Bank and other 12 legal person shareholders, and the Bank holds 35% of its equity interests. The shareholders holding 16% of equity interest in Dalang Dongying agreed to vote in the direction of the Bank. Accordingly, the Bank effectively controls over Dalang Dongying through 51% of the voting rights.
- (b) The business combination of Zhanjiang Rural Commercial Bank Co., Ltd. (“Zhanjiang RCB”) was completed on 26 October 2019. Upon the acquisition, the Bank holds 49.41% shares and the remaining shareholdings are widely dispersed. Therefore, the Bank controls Zhanjiang RCB.

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19 Investment in associates

The Group	Six months ended 30 June 2023	Year ended 31 December 2022
Opening balance	480,421	455,392
Share of net profits	31,722	34,852
Dividends received	(5,012)	(9,823)
Ending balance	507,131	480,421

The Group's investments in associates are ordinary shares of non-listed companies, and the results of these associates and their assets and liabilities are summarised below:

Investee	Notes	Place of registration	Assets	Net assets	Revenue for the current period/year	Net profit for the current period/year	Shareholding	Share of net profits
As at 30 June 2023								
Ya'an Rural Commercial Bank Co., Ltd.	(a)	Ya'an, Sichuan	30,882,607	2,237,211	562,937	153,218	15.00%	22,983
Guangdong Lechang Rural Commercial Bank Co., Ltd.	(b)	Lechang, Guangdong	10,823,474	989,789	128,099	46,470	8.00%	3,718
Guangdong Xuwen Rural Commercial Bank Co., Ltd.	(c)	Xuwen, Guangdong	12,531,581	921,559	191,108	63,231	7.94%	5,021
As at 31 December 2022								
Ya'an Rural Commercial Bank Co., Ltd.	(a)	Ya'an, Sichuan	28,598,602	2,136,291	1,162,011	146,255	15.00%	21,938
Guangdong Lechang Rural Commercial Bank Co., Ltd.	(b)	Lechang, Guangdong	10,724,521	930,220	243,616	69,666	8.00%	5,573
Guangdong Xuwen Rural Commercial Bank Co., Ltd.	(c)	Xuwen, Guangdong	11,451,170	861,184	353,778	92,450	7.94%	7,341

- (a) One of the nine members of the board of directors of Ya'an Rural Commercial Bank Co., Ltd. ("Ya'an RCB") is a representative of the Group, therefore the Group is able to exercise significant influence over Ya'an RCB and accounts for Ya'an RCB as an associate.
- (b) One of the nine members of the board of directors of Guangdong Lechang Rural Commercial Bank Co., Ltd. ("Lechang RCB") is a representative of the Group, therefore the Group is able to exercise significant influence over Lechang RCB and accounts for Lechang RCB as an associate.
- (c) One of the nine members of the board of directors of Guangdong Xuwen Rural Commercial Bank Co., Ltd. ("Xuwen RCB") is a representative of the Group, therefore the Group is able to exercise significant influence over Xuwen RCB and accounts for Xuwen RCB as an associate.

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20 Property and equipment

The Group	Buildings	Motor vehicles	Machinery and equipment	Construction in progress	Total
Cost					
As at 1 January 2023	2,679,498	38,662	1,127,418	862,967	4,708,545
Addition	13	3,997	8,091	13,848	25,949
Transfers in/(out)	—	—	4,845	(4,845)	—
Disposal	—	(1,770)	(40,408)	—	(42,178)
As at 30 June 2023	2,679,511	40,889	1,099,946	871,970	4,692,316
Accumulated depreciation					
As at 1 January 2023	(1,162,927)	(37,265)	(1,031,792)	—	(2,231,984)
Depreciation	(80,591)	(1,259)	(30,489)	—	(112,339)
Disposal	—	1,770	37,870	—	39,640
As at 30 June 2023	(1,243,518)	(36,754)	(1,024,411)	—	(2,304,683)
Provision for impairment losses					
As at 1 January 2023	(857)	—	—	—	(857)
Charge for the period	—	—	—	—	—
As at 30 June 2023	(857)	—	—	—	(857)
Net book value					
As at 30 June 2023	1,435,136	4,135	75,535	871,970	2,386,776

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20 Property and equipment (continued)

The Group	Buildings	Motor vehicles	Machinery and equipment	Construction in progress	Total
Cost					
As at 1 January 2022	2,594,558	40,766	1,086,632	876,447	4,598,403
Addition	74,634	1,566	43,363	104,523	224,086
Transfers in/(out)	106,492	212	11,299	(118,003)	—
Disposal	(96,186)	(3,882)	(13,876)	—	(113,944)
As at 31 December 2022	2,679,498	38,662	1,127,418	862,967	4,708,545
Accumulated depreciation					
As at 1 January 2022	(1,030,922)	(38,503)	(981,193)	—	(2,050,618)
Depreciation	(148,871)	(2,630)	(60,882)	—	(212,383)
Disposal	16,866	3,868	10,283	—	31,017
As at 31 December 2022	(1,162,927)	(37,265)	(1,031,792)	—	(2,231,984)
Provision for impairment losses					
As at 1 January 2022	(857)	—	—	—	(857)
Charge for the year	—	—	—	—	—
As at 31 December 2022	(857)	—	—	—	(857)
Net book value					
As at 31 December 2022	1,515,714	1,397	95,626	862,967	2,475,704

As at 30 June 2023, buildings at original costs of RMB403 million (31 December 2022: RMB403 million), with net values at RMB86 million (31 December 2022: RMB94 million), which the Group is still in the process of applying for the ownership certificates.

All properties of the Group are located in the mainland of China.

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21 Right-of-use assets and lease liabilities

The Group	Property	Equipment	Land use rights	Total
Right-of-use assets				
Cost				
As at 1 January 2023	679,926	5,358	769,283	1,454,567
Increase	179,239	730	—	179,969
Decrease	(152,316)	(1,152)	—	(153,468)
As at 30 June 2023	706,849	4,936	769,283	1,481,068
Accumulated depreciation				
As at 1 January 2023	(314,155)	(2,809)	(201,130)	(518,094)
Increase	(56,380)	(1,144)	(8,335)	(65,859)
Decrease	115,533	1,152	—	116,685
As at 30 June 2023	(255,002)	(2,801)	(209,465)	(467,268)
Provision for impairment losses				
As at 1 January 2023	—	—	(2,355)	(2,355)
Increase	—	—	—	—
Decrease	—	—	—	—
As at 30 June 2023	—	—	(2,355)	(2,355)
Net book value				
As at 30 June 2023	451,847	2,135	557,463	1,011,445
Lease liabilities				
Net book value				
As at 30 June 2023	529,490	2,187	—	531,677

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21 Right-of-use assets and lease liabilities (continued)

The Group	Property	Equipment	Land use rights	Total
Right-of-use assets				
Cost				
As at 1 January 2022	673,193	9,186	757,908	1,440,287
Increase	139,620	2,421	53,239	195,280
Decrease	(132,887)	(6,249)	(41,864)	(181,000)
As at 31 December 2022	679,926	5,358	769,283	1,454,567
Accumulated depreciation				
As at 1 January 2022	(320,627)	(4,540)	(189,635)	(514,802)
Increase	(102,072)	(4,500)	(15,956)	(122,528)
Decrease	108,544	6,231	4,461	119,236
As at 31 December 2022	(314,155)	(2,809)	(201,130)	(518,094)
Provision for impairment losses				
As at 1 January 2022	—	—	(2,355)	(2,355)
Increase	—	—	—	—
Decrease	—	—	—	—
As at 31 December 2022	—	—	(2,355)	(2,355)
Net book value				
As at 31 December 2022	365,771	2,549	565,798	934,118
Lease liabilities				
Net book value				
As at 31 December 2022	453,510	2,606	—	456,116

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22 Goodwill

	Note	As at 30 June 2023	As at 31 December 2022
Zhanjiang Rural Commercial Bank Co., Ltd. ("Zhanjiang RCB")		181,381	181,381
Guangdong Chaoyang Rural Commercial Bank Co., Ltd. ("Chaoyang RCB")		339,140	339,140
Impairment allowance	(i)	—	—
		520,521	520,521

(i) Impairment assessment

For the business combination of Zhanjiang RCB and Chaoyang RCB, the recoverable amount of the asset group is based on the six-year budget and ten-year budget approved by the management respectively, which is then estimated based on a fixed growth rate (as described in the table below) and calculated using the cash flow forecast method.

Cash flow projections periods of the Group are determined based on the forecast of the local economic situation, the banking industry, and with reference to the Group's past operating experience. The Group estimated that Zhanjiang City and Shantou City, where the two banks are located, will experience a relatively high growth for a period more than 5 years until the economic growths of these two cities reach a stable level. In addition, the development of the banking industry is highly in line with the local economic development. Accordingly, the Group has incorporating the aforementioned factors into the cash projection by using six and ten years for Zhanjiang RCB and Chaoyang RCB respectively to reflect management's estimation of the future local economic forecasts and the related banking business growth.

	Zhanjiang RCB		Chaoyang RCB	
	As at 30 June 2023	As at 31 December 2022	As at 30 June 2023	As at 31 December 2022
Stable period growth rate	3.00%	3.00%	3.00%	3.00%
Pre-tax discount rate	15.24%	15.24%	16.00%	16.00%

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22 Goodwill (continued)

(i) Impairment assessment (continued)

The growth rate is the weighted average growth rate used by the Group to forecast the cash flow after six years for Zhanjiang RCB and ten years for Chaoyang RCB respectively. The management uses the cost of equity as the discount rate which can reflect the specific risks of the relevant asset group. The above assumptions are used to analyse the recoverable amounts of the asset group within the business division.

The Directors and management have considered and assessed reasonably possible changes for key assumptions and have not identified other instances that could cause the carrying amount of the CGUs to exceed its recoverable amount.

23 Deferred income tax

Deferred tax assets and liabilities can be offset only when the Group has the right to offset income tax assets and liabilities within the Group and the deferred tax assets and liabilities are associated with the same tax authority.

(1) Main items of deferred tax assets and liabilities and their movements are as follows:

The Group	Allowance for impairment losses	Changes in fair value of financial investments	Employee benefits payable	Accelerated depreciation of property and equipment	Deductible tax losses	Fair value gain from business combination	Lease liabilities/ Right-of-use assets	Total
As at 1 January 2023	2,642,715	1,180,762	311,377	(32,163)	30,681	(95,738)	21,913	4,059,547
Recognised in profit or loss	251,570	(116,285)	45,572	2,785	(11,524)	6,007	(2,601)	175,524
Recognised in other comprehensive income	29,447	(76,071)	—	—	—	—	—	(46,624)
As at 30 June 2023	<u>2,923,732</u>	<u>988,406</u>	<u>356,949</u>	<u>(29,378)</u>	<u>19,157</u>	<u>(89,731)</u>	<u>19,312</u>	<u>4,188,447</u>
As at 1 January 2022	2,196,506	899,834	349,699	(33,141)	28,081	(109,858)	—	3,331,121
Recognised in profit or loss	325,883	337,810	(38,322)	978	2,600	14,120	21,913	664,982
Recognised in other comprehensive income	120,326	(56,882)	—	—	—	—	—	63,444
As at 31 December 2022	<u>2,642,715</u>	<u>1,180,762</u>	<u>311,377</u>	<u>(32,163)</u>	<u>30,681</u>	<u>(95,738)</u>	<u>21,913</u>	<u>4,059,547</u>

Notes to the Consolidated Interim Financial Report (Continued)

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23 Deferred income tax (continued)

- (2) The deferred tax assets and liabilities before offsetting and the corresponding temporary differences are as follows:

The Group	As at 30 June 2023		As at 31 December 2022	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets:				
Allowance for impairment losses	11,694,928	2,923,732	10,570,860	2,642,715
Changes in fair value of financial investments	3,953,624	988,406	4,723,048	1,180,762
Employee benefits payable	1,427,796	356,949	1,245,508	311,377
Deductible tax losses	76,628	19,157	122,724	30,681
Lease liabilities	554,048	138,512	455,972	113,993
Sub-total	17,707,024	4,426,756	17,118,112	4,279,528
Deferred tax liabilities:				
Fair value gain from business combination	(358,924)	(89,731)	(382,952)	(95,738)
Accelerated depreciation of property and equipment	(117,512)	(29,378)	(128,652)	(32,163)
Right-of-use assets	(476,800)	(119,200)	(368,320)	(92,080)
Sub-total	(953,236)	(238,309)	(879,924)	(219,981)
Total	(16,753,788)	4,188,447	16,238,188	4,059,547

As at 30 June 2023, the Group did not recognise deferred income tax asset in respect of cumulative tax loss of approximately RMB1,165 million (31 December 2022: RMB1,187 million). The outcome of their actual utilisation may be different from management's estimation. These tax losses will expire in 2024, 2025 and 2026.

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24 Other assets

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Long-term deferred expenses		166,015	172,336
Research and development expenditure		136,546	130,792
Receivables from disposal of long-term assets		115,929	132,126
Prepayments		106,685	163,714
Foreclosed assets	(a)	86,310	86,310
Interest receivable	(b)	78,820	80,626
Clearing and settlement		58,124	117,689
Precious metals		55,377	760,683
Intangible assets — software	(c)	31,817	45,535
Investment properties	(d)	9,731	10,565
Others		104,717	113,290
Total		950,071	1,813,666

(a) Foreclosed assets

The Group	As at 30 June 2023	As at 31 December 2022
Property and equipment	274,986	274,986
Land use rights	107,461	107,461
Sub-total	382,447	382,447
Provision for impairment losses	(296,137)	(296,137)
Total	86,310	86,310

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24 Other assets (continued)

(b) Interest receivable

The Group	As at 30 June 2023	As at 31 December 2022
Loans and advances to customers	88,448	86,953
Financial investments	142,437	151,776
Provision for impairment losses	(152,065)	(158,103)
Total	78,820	80,626

(c) Intangible assets — software

The Group	As at 30 June 2023	As at 31 December 2022
Cost		
Opening balance	196,594	184,777
Addition	2,875	11,893
Decrease	—	(76)
Ending balance	199,469	196,594
Accumulated amortisation		
Opening balance	(151,059)	(121,215)
Amortisation	(16,593)	(29,847)
Decrease	—	3
Ending balance	(167,652)	(151,059)
Net book value		
Ending balance	31,817	45,535

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For the six months ended 30 June 2023 - unaudited
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24 Other assets (continued)

(d) Investment properties

The Group	As at 30 June 2023	As at 31 December 2022
Cost		
Opening balance	67,237	67,237
Ending balance	67,237	67,237
Accumulated depreciation		
Opening balance	(56,672)	(55,005)
Depreciation	(834)	(1,667)
Ending balance	(57,506)	(56,672)
Net book value		
Ending balance	9,731	10,565

25 Borrowings from the central bank

The Group	As at 30 June 2023	As at 31 December 2022
Medium-term lending facility	16,800,000	12,800,000
Refinancing loans	9,744,703	9,725,117
Re-discounted bills	734,351	558,831
Sub-total	27,279,054	23,083,948
Accrued interest	182,985	267,944
Total	27,462,039	23,351,892

As at the end of the reporting period, borrowings from the central bank were refinancing loans, re-discounted bills and medium-term lending facility. The collateral provided by the Group under borrowing agreements are disclosed in Note 38 to this report.

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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26 Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions

The Group	Note	As at 30 June 2023	As at 31 December 2022
Deposits from domestic banks		6,972,671	7,009,437
Deposits from other domestic financial institutions		1,636,556	5,881,907
Placements from domestic banks		4,062,658	2,000,000
Bonds sold under repurchase agreements	(a)	5,148,890	22,592,631
Bills sold under repurchase agreements	(a)	3,571,139	6,828,782
Sub-total		21,391,914	44,312,757
Accrued interest		67,122	91,694
Total		21,459,036	44,404,451

(a) The securities provided by the Group as collateral under repurchase agreements are disclosed in Note 38 to this report.

27 Financial liabilities at fair value through profit or loss

	Note	As at 30 June 2023	As at 31 December 2022
Sold financing bonds		707,849	—
Gold deposit		34,234	18,979
Gold leasing		—	729,030
Others	(a)	1,061,203	1,061,203
Total		1,803,286	1,809,212

(a) On 20 December 2022, the Group has worked with Guangdong Utrust Investment Holdings Co., Ltd. (“Utrust Holdings”) in using the small and medium banks development supporting Special Bonds issued by Guangdong Provincial Government to replenish capital of Guangdong Puning Rural Commercial Bank Co., Ltd. (“Puning RCB”), and entered into transaction agreements in relation to the transfer of the shares of Puning RCB (“Subject Shares”) and the trust beneficial interest (“Subject Beneficial Interest”) with Utrust Holdings. Based on the transaction agreements, the Group shall acquire, by tranches, Subject Shares and the Subject Beneficial Interest held by Utrust Holdings. The total consideration payable by the Group to Utrust Holdings for the acquisition of the Subject Shares and the Subject Beneficial Interest should in any event be capped at the Special Bonds principal and interest plus the corresponding taxes and fees, less the disposal proceeds received. As at 30 June 2023, according to the value analysis report conducted by an independent asset appraisal company, the shortfall for the transaction agreements is RMB1.06 billion.

Notes to the Consolidated Interim Financial Report (Continued)

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28 Deposits from customers

The Group	As at 30 June 2023	As at 31 December 2022
Corporate demand deposits	98,736,812	101,798,785
Corporate time deposits	90,420,753	79,565,638
Individual demand deposits	123,991,737	122,182,086
Individual time deposits	164,350,158	147,879,965
Other deposits	8,390,097	7,736,080
Sub-total	485,889,557	459,162,554
Accrued interest	7,776,882	6,526,247
Total	493,666,439	465,688,801

29 Debt securities issued

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Financial bonds for small and micro enterprise	(a)	2,999,364	4,998,866
Sannong financial bond	(b)	1,999,900	1,999,663
Green financial bond	(c)	999,931	999,851
Tier-2 capital bond	(d)	3,998,634	3,998,567
Interbank certificates of deposit	(e)	71,354,504	51,895,941
Sub-total		81,352,333	63,892,888
Accrued interest		198,919	160,579
Total		81,551,252	64,053,467

- (a) The Bank issued a 3-year fixed rate special financial bond for small and micro enterprises (“financial bonds for small and micro enterprise”) amounting to RMB2 billion in March 2020 at a coupon rate of 2.94% per annum, which was redeemed at maturity on 12 March 2023. In February and March 2021, the Bank issued the first phase and second phase of 3-year fixed rate financial bonds for small and micro enterprise amounting to RMB2 billion and RMB1 billion with nominal annual interest rate of 3.58% and 3.52%, respectively. These bonds pay interest annually.
- (b) The Bank issued a 3-year fixed rate specialized financial bond for Sannong (“Sannong financial bond”) amounting to RMB2 billion in September 2020 at a coupon rate of 3.62% per annum, and the bond pays interest annually.
- (c) The Bank issued a 3-year fixed rate green financial bond with a total amount of RMB1 billion in December 2020 at a coupon rate of 3.75% per annum, and the bond pays interest annually.
- (d) The Bank issued a 10-year fixed-rate Tier-2 capital bond with a total amount of RMB4 billion in December 2022 at a coupon rate of 4.30% per annum, and the bond pays interest annually.

Notes to the Consolidated Interim Financial Report (Continued)

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29 Debt securities issued (continued)

(e) Interbank certificates of deposit are as follows:

	As at 30 June 2023	As at 31 December 2022
Reference rates of return	1.99%–2.70%	1.83%–2.65%
Original maturity	3 to 12 months	3 to 12 months

As at 30 June 2023 and 31 December 2022, the Group did not have any overdue principal and interest on interbank certificates of deposit or other defaults.

30 Taxes payable

The Group	As at 30 June 2023	As at 31 December 2022
Income tax	237,874	87,975
Land appreciation tax	95,098	95,339
VAT and others	280,417	273,990
Total	613,389	457,304

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31 Other liabilities

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Employee benefits payable	(a)	1,982,803	2,163,740
Purchases payable		280,948	292,831
Accrued expenses		204,578	346,851
Provisions	(b)	172,280	153,175
Clearing and settlement		107,394	116,497
Outstanding payments of foreclosed assets		88,715	88,976
Others		166,715	137,413
Total		3,003,433	3,299,483

(a) Employee benefits payable

The Group	As at 30 June 2023	As at 31 December 2022
Salaries, bonuses, allowances and subsidies	1,607,068	1,770,022
Labour union funds and employee education funds	142,418	145,648
Enterprise annuity scheme	125,655	91,583
Social benefits and others	107,662	156,487
Total	1,982,803	2,163,740

(b) Provisions

The Group	Note	As at 30 June 2023	As at 31 December 2022
Loan commitments and financial guarantee contracts	(1)	172,280	153,175

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31 Other liabilities (continued)

(b) Provisions (continued)

(1) Analysis of movements in provisions of loan commitments and financial guarantee contracts measured using the ECL model.

The Group	Note	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2023		110,206	41,310	1,659	153,175
Net transfers in:					
— Stage 1		14	—	—	14
— Stage 2		—	(37,498)	—	(37,498)
— Stage 3		—	—	37,484	37,484
Originated or purchased		55,025	—	—	55,025
Remeasurement	(i)	1,070	6,818	884	8,772
Decrease		(41,623)	(2,508)	(561)	(44,692)
As at 30 June 2023		124,692	8,122	39,466	172,280

The Group	Note	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2022		83,354	1,675	9,660	94,689
Net transfers in:					
— Stage 1		(436)	—	—	(436)
— Stage 2		—	342	—	342
— Stage 3		—	—	94	94
Originated or purchased		91,750	—	—	91,750
Remeasurement	(i)	(5,067)	39,512	1,069	35,514
Decrease		(59,395)	(219)	(9,164)	(68,778)
As at 31 December 2022		110,206	41,310	1,659	153,175

(i) Remeasurement are caused by parameter changes or transfers between stages.

Notes to the Consolidated Interim Financial Report (Continued)

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32 Share capital

	Number of shares (in thousands)	Nominal amount
As at 30 June 2023 and 31 December 2022	6,888,546	6,888,546

The share capital of the Bank consists of authorised share capital issued and fully paid, with par value of RMB1 per share.

33 Revaluation reserve

	As at 30 June 2023	As at 31 December 2022
As at January 1	604,567	789,488
Changes in fair value recognized in other comprehensive income	424,650	227,933
Transfer to profit or loss upon disposal	(295,104)	(461,451)
Changes in impairment losses recognized in other comprehensive income	27,398	(13,043)
Less: Deferred income tax	(39,236)	61,640
At the end of the reporting period	722,275	604,567

34 Surplus reserves and general reserve

The Group	Surplus reserves (a)	General reserve (b)
1 January 2023	8,323,435	6,915,566
Appropriation to surplus reserves	—	—
Appropriation to general reserve	—	—
30 June 2023	8,323,435	6,915,566
1 January 2022	7,737,394	6,329,025
Appropriation to surplus reserves	586,041	—
Appropriation to general reserve	—	586,541
31 December 2022	8,323,435	6,915,566

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34 Surplus reserves and general reserve (continued)

(a) Surplus reserves

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

Pursuant to the PRC Company Law and the Articles of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC Generally Accepted Accounting Principles (“GAAP”) until the balance reaches 50% of its registered capital as statutory surplus reserve. The Bank may also appropriate to the discretionary surplus reserve in accordance with the resolution of the shareholders.

(b) General reserve

Pursuant to Caijin [2012] No. 20 “Requirements on Impairment Allowance for Financial Institutions” (the “Requirement”) issued by the MOF, effective 1 July 2012, in addition to impairment allowances, the Group are required to establish and maintain a general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve should not be less than 1.5% of the aggregate amount of risk assets on an annual basis as defined by the Requirement.

35 Dividends

	Notes	Six months ended 30 June	
		2023	2022
Dividends on ordinary shares declared			
Cash dividend related to 2022	(1)	1,997,678	—
Cash dividend related to 2021	(2)	—	1,997,678

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

- Making up prior year’s cumulative losses, if any;
- Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank.

(1) Distribution of final dividend for 2022

A dividend of RMB0.29 per share (tax inclusive) in respect of the year ended 31 December 2022, with a total of RMB1,998 million was approved in the annual general meeting on 25 May 2023.

(2) Distribution of final dividend for 2021

A dividend of RMB0.29 per share (tax inclusive) in respect of the year ended 31 December 2021, with a total of RMB1,998 million was approved in the annual general meeting on 23 May 2022.

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36 Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise the following amounts which have original maturities of less than three months and are used to meet short-term cash commitments:

The Group	As at 30 June 2023	As at 31 December 2022
Cash	2,574,990	4,336,151
Surplus reserve deposits with the central bank	9,352,774	9,777,726
Deposits with banks and other financial institutions	6,232,650	5,691,977
Placements with banks and other financial institutions	4,500,000	4,390,000
Financial assets held under resale agreements	536,461	2,390,500
Total	23,196,875	26,586,354

37 Structured entities

(a) Consolidated structured entities

Structured entities consolidated by the Group include non-principal guaranteed Wealth-Management Products and asset management plans, issued and managed and/or 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 total consolidated structured entities were RMB8,272 million (31 December 2022: RMB7,702 million).

(b) Non-principal-guaranteed Wealth-Management Products ("WMPs") issued by the Group

Non-principal-guaranteed WMPs are not subject to any guarantee by the Group of the principal invested or interest to be paid.

The WMPs invest in a range of primarily fixed rate assets, most typically money market instruments, debt securities and other debt assets. As the manager of these WMPs, the Group invests, on behalf of the investors in these WMPs, the funds raised as described in the investment plan related to each WMP and receives fee and commission income.

Certain non-principal-guaranteed WMPs issued, managed and actually controlled by the Bank are consolidated in the financial information of the Group. As at 30 June 2023, the consolidated non-principal-guaranteed WMPs amounted to RMB4,487 million (31 December 2022: RMB3,490 million), the unconsolidated non-principal-guaranteed WMPs amounted to RMB33,597 million (31 December 2022: RMB39,792 million).

For the period ended 30 June 2023 and 30 June 2022, the Group's interest in WMPs included fee and commission income of RMB151 million and RMB236 million, respectively.

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37 Structured entities (continued)

(c) Unconsolidated structured entities set up in third-party organisations

The Group invests in other unconsolidated structured entities which are sponsored and managed by other entities for investment returns, and records trading gains or losses and interest income therefrom. As at 30 June 2023 and 31 December 2022, the carrying amounts of the Group's interests in structured entities set up in third-party organisations by directly holding the investment were as follows:

The Group	Notes	As at 30 June 2023	As at 31 December 2022
Financial investments at fair value through profit or loss	17(a)		
— Fund investments		26,453,968	22,278,539
— Trust beneficiary rights		2,198,778	3,416,254
Financial investments at fair value through other comprehensive income	17(c)		
— Trust beneficiary rights		21,086	30,777
Total		28,673,832	25,725,570

For the period ended 30 June 2023 and the year ended 31 December 2022, the maximum exposures of the above structured entities were their carrying amount.

38 Contingent liabilities and commitments

(a) Financial guarantees and other credit commitments

	As at 30 June 2023	As at 31 December 2022
Unused limit of credit cards	9,486,013	9,594,259
Bank acceptances	7,802,031	6,838,020
Guarantees	4,901,227	3,873,420
Letters of credit	1,116,551	634,248
Total	23,305,822	20,939,947

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38 Contingent liabilities and commitments (continued)

(b) Credit risk weighted amounts of financial guarantees and credit commitments

	As at 30 June 2023	As at 31 December 2022
Financial guarantees and credit commitments	6,971,439	5,996,448

Credit risk weighted amounts refer to amounts which depend on the status of counterparties and the maturity characteristics, and are calculated in accordance with the CBIRC guidance. Risk weightings used for contingent liabilities and credit commitments range from 0% to 100%.

(c) Capital commitments

	As at 30 June 2023	As at 31 December 2022
Contracted, but not provided for	346,390	603,106

(d) Legal proceedings

The litigation cases of the Group are not expected to have a significant impact on the Group.

(e) Collateral

Assets as collateral

The fair value of the Group's assets pledged as collateral under borrowings from the central bank are as follows:

	As at 30 June 2023	As at 31 December 2022
Debt securities	32,575,737	27,120,853
Loans	149,220	126,700
Bills	734,351	558,831
Total	33,459,308	27,806,384

The liabilities of above collateral were presented in Note 25.

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38 Contingent liabilities and commitments (continued)

(e) Collateral (continued)

Assets as collateral (continued)

The fair value of the Group's assets pledged as collateral under repurchase agreements are as follows:

	As at 30 June 2023	As at 31 December 2022
Debt securities	5,703,598	21,530,939
Bills	3,567,767	6,793,204
Total	9,271,365	28,324,143

The liabilities of above collateral were presented in Note 26. All repurchase agreements are due within 12 months from their effective dates.

Collateral accepted

The Group accepts bonds and bills as collateral in relevant securities borrowing and lending and repurchase agreement businesses. As at 30 June 2023 and 31 December 2022, the Group did not hold any collateral that can be resold or re-pledged.

(f) Redemption commitments of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certain government bonds. The investors of the government bonds have a right to redeem the bonds they hold at any time before their maturities, while the Group is obligated to meet redemption requests. The early redemption proceeds for these government bonds are the principal of the bonds plus unpaid interest accrued in accordance with the early redemption agreement.

As at 30 June 2023, the balance of the principals of the Group's government bonds with early redemption obligations was RMB1,684 million (31 December 2022: RMB1,499 million). The original maturities of these government bonds range from 3 to 5 years. Management expects the Group's exposure to early redemptions of these bonds will not be material. The MOF will not provide funding for the early redemptions of these government bonds on a back-to-back basis but will settle the principal and interest upon maturity.

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39 Related party transactions

(a) Related parties of the Group

(i) Major shareholder

Major shareholder in the Bank is shown as follows:

Shareholding (%)	As at 30 June 2023	As at 31 December 2022
Name of shareholder		
Guangdong Canvest Investment Co., Ltd.	4.34%	4.34%

(ii) Other related parties

Other related parties could be natural persons or legal persons, including directors, supervisors, senior managers of the Bank and their close family members; Entities controlled or jointly controlled by directors, supervisors, senior managers of the Bank and their closely related family members, and entities controlled or jointly controlled by the major shareholder of the Group as set out in Note 39(a)(i).

(b) Related party transactions and balances

(i) Transactions and balances with major shareholder

As at each of the balance sheet dates, the Group had the following transactions and balances with major shareholder:

	As at 30 June 2023	As at 31 December 2022
Loans and advances to customers	41,000	42,000
Deposits from customers	120,621	1,404

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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39 Related party transactions (continued)

(b) Related party transactions and balances (continued)

(i) Transactions and balances with major shareholder (continued)

The balances with related parties are based on normal commercial terms and market price.

	Six months ended 30 June	
	2023	2022
Interest income	1,014	1,082
Interest expense	14	6
Fee and commission income	1	1

Range of rates	Six months ended 30 June	
	2023	2022
Loans and advances to customers	5.15%	5.22%
Deposits from customers	0.20%	0.35%

(ii) Transactions and balances with subsidiaries

As at each of the balance sheet dates, the Group had the following transactions and balances with subsidiaries:

	As at 30 June 2023	As at 31 December 2022
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	106,674	53,384
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	236,140	213,375
Debt securities issued	—	51,507

Notes to the Consolidated Interim Financial Report (Continued)

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39 Related party transactions (continued)

(b) Related party transactions and balances (continued)

(ii) Transactions and balances with subsidiaries (continued)

The balances with related parties are based on normal commercial terms and market price.

	Six months ended 30 June	
	2023	2022
Interest income	140	1
Interest expense	1,280	895
Fee and commission expense	116	—

Range of rates	Six months ended 30 June	
	2023	2022
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	0.39%	0.39%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	0.72%–1.50%	1.80%–2.80%
Debt securities issued	3.58%	3.58%

(iii) Transactions and balances with associates

As at each of the balance sheet dates, the Group had the following transactions and balances with associates:

	As at 30 June 2023	As at 31 December 2022
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	8,820	3,801
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	10,000	—

Notes to the Consolidated Interim Financial Report (Continued)

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39 Related party transactions (continued)

(b) Related party transactions and balances (continued)

(iii) Transactions and balances with associates (continued)

The balances with related parties are based on normal commercial terms and market price.

	Six months ended 30 June	
	2023	2022
Interest income	8	—
Interest expense	3	1,400

Range of rates	Six months ended 30 June	
	2023	2022
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	0.28%–0.31%	0.28%–0.31%
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	1.95%	1.60%–4.00%

(iv) Transaction and balances with other related parties

As at each of the balance sheet dates, the Group had the following transactions and balances with other related parties:

	Note	As at 30 June 2023	As at 31 December 2022
Loans and advances to customers		16,485,482	15,166,819
Deposits from customers		3,051,993	2,529,562
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions		70,085	—
Non-principal-guaranteed WMPs issued by the Bank		121,648	142,716
Right-of-use assets	(1)	3,354	3,040
Lease liabilities	(1)	3,405	3,075
Off-balance sheet items			
Credit Commitment		1,057,137	55,352

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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39 Related party transactions (continued)

(b) Related party transactions and balances (continued)

(iv) Transaction and balances with other related parties (continued)

The balances with related parties are based on normal commercial terms and market price.

	Six months ended 30 June	
	2023	2022
Interest income	382,673	363,685
Interest expense	12,217	13,277
Fee and commission income	122	153
Leasing expenses	956	428

Range of rates	Six months ended 30 June	
	2023	2022
Loans and advances to customers	2.75%-6.60%	3.28%-7.04%
Deposits from customers	0.05%-5.30%	0.35%-5.50%
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions	0.30%	—
Financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions	0.20%	1.80%-2.74%
Management fee rate of non-principal-guaranteed WMPs issued by the Bank	0.10%-0.50%	0.10%-0.50%

- (1) During the periods ended 30 June 2023 and 2022, the Bank entered into RMB1.27 million and RMB0.43 million lease contracts with related parties respectively. The lease term ranges from 1 year to 10 years. These leases were accounted for under IFRS 16 and the respective right-of-use assets and lease liabilities were recognised in the consolidated statements of financial position.

Notes to the Consolidated Interim Financial Report (Continued)

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

39 Related party transactions (continued)

(c) Remuneration of key management personnel

Key management personnel refer to those persons who have the authority and responsibility to plan, conduct and control the Bank's activities.

The remuneration of key management personnel in each of the reporting periods is as follows:

	Six months ended 30 June	
	2023	2022
Salaries and fees	6,459	6,913
Subsidies and physical benefits	355	398
Discretionary bonuses	2,847	2,632
Pension plan contributions	460	521
Total	10,121	10,464

The Group has implemented the deferred emoluments regulation. The deferred emoluments have not been paid to them, and whether and how individuals will eventually be fully remunerated will be confirmed in accordance with the Group's policy based on the Group's actual operation and risk determination in the future.

(d) Loans and advances with directors, supervisors and entities that are controlled, jointly controlled or significantly influenced by either such directors, supervisors or their close relatives

	As at 30 June 2023	As at 31 December 2022
Directors	19,800	19,900
Supervisors	20,000	20,000
Enterprises controlled, jointly controlled or significantly influenced by directors or their close relatives	14,885,795	13,487,927
Enterprises controlled, jointly controlled or significantly influenced by supervisors or their close relatives	1,293,221	1,421,149
Total	16,218,816	14,948,976

Notes to the Consolidated Interim Financial Report *(Continued)*

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40 Segmental analysis

(a) Business segments

The Group manages its operations from both business and regional perspectives. From a business perspective, the Group mainly provides financial services through four business segments, which are listed below:

- Corporate banking: Corporate banking business segment covers financial products and services to corporate customers, governments and financial institutions. These products and services include corporate loans and advances, trade finance, deposits, and various other corporate intermediary businesses.
- Personal banking: Personal banking business segment covers financial products and services to individual customers. These products and services include personal loans and advances, deposits, bank cards, and various other individual intermediary businesses.
- Treasury: Treasury segment covers the Group's money market transactions, repurchase transactions, debt instrument investments, wealth management products and precious metals.
- Others: The others segment covers the remaining businesses of the Group that cannot be directly attributable to the above segments, and some assets, liabilities, income or expenses of the Head Office that have not been properly allocated.

From a regional perspective, all businesses of the Group are conducted in Mainland China.

Notes to the Consolidated Interim Financial Report (Continued)

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

40 Segmental analysis (continued)

(a) Business segments (continued)

	Six months ended 30 June 2023				
	Corporate banking	Personal banking	Treasury	Others	Total
External interest income	6,100,005	2,109,860	3,292,348	—	11,502,213
External interest expense	(2,179,095)	(2,286,529)	(1,676,347)	—	(6,141,971)
Inter-segment net interest income or expense	(256,569)	2,614,268	(2,357,699)	—	—
Net interest income	3,664,341	2,437,599	(741,698)	—	5,360,242
Net fee and commission income	51,540	313,694	61,898	21,395	448,527
Net trading gains	96,181	1,189	526,242	—	623,612
Net gains on financial instruments	404	—	678,768	61,193	740,365
Other operating income	57,355	1,551	447	33,101	92,454
Operating income	3,869,821	2,754,033	525,657	115,689	7,265,200
Operating expense	(824,667)	(981,348)	(274,997)	(75,520)	(2,156,532)
— Depreciation and amortisation	(64,429)	(115,981)	(33,856)	(2,797)	(217,063)
Credit impairment losses	(75,233)	(1,042,415)	(24,327)	—	(1,141,975)
Share of profits of associates	—	—	—	31,722	31,722
Profit before tax	2,969,921	730,270	226,333	71,891	3,998,415
Capital expenditure	82,047	147,695	43,114	3,561	276,417
	As at 30 June 2023				
	Corporate banking	Personal banking	Treasury	Others	Total
Segment assets	203,846,219	119,079,545	357,076,229	2,021,497	682,023,490
Unallocated assets					4,188,447
Total assets					686,211,937
Segment liabilities	197,254,184	299,614,271	133,196,176	565,718	630,630,349

Notes to the Consolidated Interim Financial Report (Continued)

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

40 Segmental analysis (continued)

	Six months ended 30 June 2022				
	Corporate banking	Personal banking	Treasury	Others	Total
External interest income	5,689,299	2,280,286	3,333,914	—	11,303,499
External interest expense	(2,099,278)	(2,034,920)	(1,834,823)	—	(5,969,021)
Inter-segment net interest income or expense	(204,324)	2,257,076	(2,052,752)	—	—
Net interest income	3,385,697	2,502,442	(553,661)	—	5,334,478
Net fee and commission income	45,713	416,138	27,973	(7,367)	482,457
Net trading gains	34,611	17,485	691,961	—	744,057
Net gains on financial instruments	—	—	505,368	89,427	594,795
Other operating income	20,597	14	—	36,291	56,902
Operating income	3,486,618	2,936,079	671,641	118,351	7,212,689
Operating expense	(766,594)	(904,752)	(431,169)	(55,805)	(2,158,320)
— Depreciation and amortisation	(63,121)	(104,562)	(57,541)	(2,593)	(227,817)
Credit impairment losses	(518,247)	(414,670)	(182,446)	—	(1,115,363)
Share of profits of associates	—	—	—	18,725	18,725
Profit before tax	2,201,777	1,616,657	58,026	81,271	3,957,731
Capital expenditure	77,435	128,272	70,590	3,181	279,478
	As at 30 June 2022				
	Corporate banking	Personal banking	Treasury	Others	Total
Segment assets	178,264,763	109,433,836	334,672,979	2,654,810	625,026,388
Unallocated assets					3,551,091
Total assets					628,577,479
Segment liabilities	187,389,358	267,077,384	121,881,124	699,391	577,047,257

Notes to the Consolidated Interim Financial Report *(Continued)*

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41 Financial risk management

Overview

The Group's operating activities expose it to a variety of financial risks. The Group analyses and evaluates its risk exposures, and accepts and manages a certain level of such risks or combined risks. Financial risk management is critical to the financial industry in which the Group operates, and business operations inevitably involve financial risks. The Group's aim is to achieve an appropriate balance between risk and return to minimise potential adverse effects on the Group.

The Group's risk management policies are designed to identify and analyse related risks, so as to set appropriate risk limits and control processes, and to monitor risks and their limits through reliable processes.

The Board of Directors of the Group is responsible for setting out the overall risk preference, reviewing and approving the Group's risk management objectives and strategies. Senior management is responsible for developing and implementing appropriate risk management policies and procedures based on risk management objectives and strategies. The Board of Supervisors is responsible for supervising and inspecting the risk management and internal control and spurring remedial measures where necessary.

The major financial risks faced by the Group are credit risk, market risk and liquidity risk, and market risk mainly comprises interest rate risk and exchange risk.

41.1 Credit risk

41.1.1 Credit risk management

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable or unwilling to meet its obligations under a contract. The concentrations of credit risk will increase when counterparties are within similar industry segments or geographical regions. On-balance-sheet credit exposure includes loans and advances to customers, financial investments, deposits and placements with banks and certain other financial assets. There is also off-balance-sheet credit exposure, such as credit commitments, letters of credit, guarantees, and acceptance notes. Currently, the Group's principal business is primarily concentrated in Dongguan City of Guangdong Province in China, which indicates that the Group is more susceptible to changes in regional economic conditions. As a result, the management monitors its credit risk prudently. The Risk Management Department at Head Office of the Group is responsible for the daily management of the Group's overall credit risk, and reports to the Group's senior management timely.

Notes to the Consolidated Interim Financial Report (*Continued*)

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

41 Financial risk management (*continued*)

41.1 Credit risk (*continued*)

41.1.1 Credit risk management (*continued*)

The Group adopts standardised management for the whole business procedure of credit business, including credit investigation and declaration, credit review and approval, loan issuance, post-lending monitoring and NPL management. It comprehensively improves the credit risk management level by strictly regulating credit operation procedures, strengthening end-to-end loan management from pre-lending investigation, rating and assigning credit limits, review and approval, loan drawdown review, to post-lending monitoring, improving the risk mitigation effect of collateral, accelerating the recovering and disposal of NPLs, and promoting the upgrading of credit management system.

For the period ended 30 June 2023 and the year ended 31 December 2022, the domestic economy was hit by various unexpected factors, and as a result, negative impact on the asset quality of the Group's credit assets and investments. In response to the government's policies, the Group delivered timely relief solutions to assist existing customers who had been affected by economic downswing, and at the same time, further enhanced its credit risk monitoring and early warning management system to step up credit risk monitoring. The Group and the Bank actively respond to the change of the credit environment by conducting regular analysis on credit risk situations and matters and taking precautionary risk control measures with a forward-looking vision.

The Non-performing Assets Management Committee is responsible for supervising the recovery and disposal of NPLs. The Group manages its NPLs mainly by the following methods: (1) collection; (2) restructuring; (3) disposal of collateral or seeking recourse against guarantors; (4) litigation or arbitration. If the Group, after executing all necessary procedures, still considers that it is not reasonably possible to expect to recover the whole or part of a loan, it shall be written off. For the period ended 30 June 2023 and the year ended 31 December 2022, the loans and advances to customers written off by the Group amounted to RMB380 million and RMB620 million respectively.

In addition to risks arising from credit assets, the Group manages the credit risk of treasury operations by carefully selecting banks and other financial institutions with appropriate credit levels as counterparties, balancing credit risk and investment return, comprehensively referring to internal and external credit rating information, grading credit, and using a timely credit line management system to review and adjust the credit line. In addition, the Group provides off-balance-sheet commitments and guarantees for its customers. There is a possibility that the Group will make payments on behalf of customers due to their default, and bear the risk similar to loans. Therefore, the Group adopts risk control procedures and policies similar to the credit business to reduce the credit risk.

Notes to the Consolidated Interim Financial Report (*Continued*)

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41 Financial risk management (*continued*)

41.1 Credit risk (*continued*)

41.1.2 Measurement of credit risk

(a) Loans

In accordance with the Guidelines for the Classification of Loan Risks issued by CBIRC, the Group establishes a management system regarding to the classification of loan risks, and implements five-level classification management. Loans are classified into five categories based on their risk levels, namely pass, special-mention, sub-standard, doubtful and loss, the latter three of which are regarded as non-performing loans. The primary factors considered in impairment assessment for loans include probability of loan repayment and recoverability of principal and interest, which reflect borrowers' repayment ability, repayment record and intention, profitability, guarantees or collateral and legal responsibility of repayment.

The five categories into which the Group classifies its loans and advances to customers are set out below:

- Pass: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
- Special-mention: Although there is no doubt on the borrower's ability to repay at this point in time, there exist potential factors that may adversely affect its ability to repay in the future.
- Sub-standard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal operating revenues to repay the principal and interest. There is possibility of some loss even when guarantee is executed and collateral is realized.
- Doubtful: Borrowers cannot repay principal and interest in full and there is possibility of substantial loss even when guarantee is executed and collateral is realized.
- Loss: After exhausting all possible means of recovery or necessary legal procedures, there is still no recovery of principal and interests, or the recovery is negligible.

(b) Bonds and other notes

The Group manages its credit risk exposures to bonds and other notes by setting restriction of investment size, issuer profile and rating and also post-investment management.

Notes to the Consolidated Interim Financial Report (*Continued*)

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41 Financial risk management (*continued*)

41.1 Credit risk (*continued*)

41.1.2 Measurement of credit risk (*continued*)

(c) *Other financial investments*

Other financial investments mainly comprise trust beneficiary rights, fund investments and direct financing instruments for WMPs. The Group has rating-based access policies in place towards the cooperating trust companies, securities companies and fund companies. Subsequent risk management is carried out on a regular basis.

(d) *Interbank transactions*

The Group reviews and monitors credit risk of individual financial institutions periodically and credit quota has been maintained for each bank and other institutions that have transactions with the Group.

(e) *Financial guarantees and credit commitments*

The primary purpose of financial guarantees and credit commitments is to ensure that customers can acquire the funds needed. Guarantees, acceptances of bills and letters of credit represent irrevocable commitments of the Group to fulfil the obligations of payment to a third party when the customers are unable to do so, with the same credit risk as loans. The amount of potential credit risk faced by the Group is equal to the total amount of its financial guarantees and credit commitments.

41.1.3 Risk limit control and mitigation measures

The Group prudently manages and controls the concentration of credit risk, including single borrower, group, industry and region. The Group has established related mechanism to set up credit risk limit which is bearable for single borrower, and makes an assessment on credit risk limit at least once a year.

The Group has established a series of policies and taken various measures to mitigate the credit risk. Obtaining collateral, deposits and corporates' or individuals' guarantee are important means for the Group to control the credit risk.

The collateral policy established by the Group stipulates the type of specific collateral that is acceptable, mainly including:

- Housing;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.3 Risk limit control and mitigation measures (continued)

The fair value of collateral or pledge is generally determined with the help of specialised valuation agencies recognized by the Group. In order to reduce the credit risk, the Group has defined the maximum loan-to-value ratio (the ratio of the loan amount to the fair value of collateral or pledge) for different collateral or pledge. The main types of collateral or pledge for loans and advances and the corresponding maximum loan-to-value ratio are as follows:

Collateral	Maximum loan-to-value ratio	Pledge	Maximum loan-to-value ratio
Real estate — residential	70%	Wealth Management Products	95%
Real estate — commercial	70%	Certificates of deposit	95%
Machineries	30%	Treasury bonds (certificate bonds and saving bonds)	95%
Means of transportation	40%	Bank acceptance bills	90%
Mining right	40%	Precious metal	80%
Forest rights	40%	Inventories	30%
Rural land use rights	50%	Shares of public company listed on main boards	60%
		Intellectual properties	20%

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

Notes to the Consolidated Interim Financial Report *(Continued)*

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41 Financial risk management *(continued)*

41.1 Credit risk *(continued)*

41.1.4 Policies on provision for credit impairment losses

The Group uses the “ECL model” to make provision for the impairment of financial assets measured at amortised cost and those designated at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

(a) Division of stages

For financial instruments included in the measurement of ECL, the Group applies the “three-stage” impairment model to measure the loss allowance and recognise the ECL in assessing whether the credit risk on a financial instrument has increased significantly since initial recognition.

- Stage 1: If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss stage is classified as Stage 1.
- Stage 2: If the credit risk has increased significantly since initial recognition but it is not considered that the credit has been impaired on the financial instrument, the loss stage is classified as Stage 2.
- Stage 3: If the credit has been impaired on the financial instrument, the loss stage is classified as Stage 3.

The loss allowance for the financial instruments at Stage 1 is determined at the amount of the ECL on the financial instrument within the next 12 months. The loss allowance for the financial instruments at Stage 2 and Stage 3 is determined at the amount of the ECL on the financial instrument within the lifetime.

Various factors, such as five-level classification, number of overdue days and changes in credit ratings, will be taken into account when the credit risk increases significantly during assessment. These three stages are transferable. Financial instruments in the Stage 1 should be downgraded into Stage 2 in case of significant deterioration of credit risk.

Notes to the Consolidated Interim Financial Report *(Continued)*

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41 Financial risk management *(continued)*

41.1 Credit risk *(continued)*

41.1.4 Policies on provision for credit impairment losses *(continued)*

(b) Judgement criteria for significant increase in credit risk

When one or more of the following quantitative and qualitative criteria or limit indicators are triggered, the Group considers that the credit risk of financial instrument has been significantly increased:

- The debtor breaches the contract and the principal or interest of the contract was overdue for more than 30 days.
- The significant negative influences appears in business, financing or economic position and indication for cash flow or liquidity problems for debtor.
- The principal or interest of bills, financial investments and financial assets with banks and other financial institutions was overdue for not more than 30 days.
- The debtor's external credit rating (issuer rating) is lower than the AA and higher than the CCC investment grade, comparing with its initial recognition date.
- There are significant changes in the economic, technical or legal environment in which the debtor is located in the current period or in the near future, and the Group will be affected adversely.

Due to the sustained slowdown in macroeconomic growth, in response to the government's relief policies, the Group delivered relief measures to assist existing customers who had been affected. The Group prudently assesses the repayment ability of customers who apply for loan relief measures, and adopts measures, including deferred interest repayment, repayment plan adjustment, etc., for those meeting the policy standards, and at the same time, the Group also evaluates whether the credit risks of these customers have increased significantly.

Notes to the Consolidated Interim Financial Report *(Continued)*

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41 Financial risk management *(continued)*

41.1 Credit risk *(continued)*

41.1.4 Policies on provision for credit impairment losses *(continued)*

(c) Definition of default and incurred loss

A financial asset will be defined as defaulted if it meets one or more of the following quantitative and qualitative criteria or limit indicators. These criteria are consistent with the definition of incurred loss:

- The debtor breached the contract and the principal or interest of the contract was overdue for more than 90 days.
- The principal or interest of bills, financial investments and financial assets with banks and other financial institutions was overdue for more than 30 days.
- The debtor's external credit rating (issuer rating) is lower than the CCC (inclusive) investment grade, or a default has occurred, comparing with its initial recognition date.
- The debtor is likely to go bankrupt or face other financial restructuring.
- The issuer of the financial instruments held by the Group is experiencing significant financial difficulty.
- The Group, for economic or legal reasons, grants a concession to the debtor who has financial difficulty.
- The active market for relevant financial assets disappears due to the financial difficulty of the borrower.

The above criteria apply to all financial instruments held by the Group; the definition of default is consistently applied to the ECL calculation process of the Group, including the model building of probability of default (PD), exposure at default (EAD) and loss given default (LGD).

When a financial instrument does not qualify for default for six consecutive months, the Group no longer considers it as an asset in default (it has been reversed). The Group adopts an observation period of six months based on relevant analyses in which the Group has considered the possibility of a financial instrument being reclassified as the default status in various scenarios after it has been reversed.

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.4 Policies on provision for credit impairment losses (continued)

- (d) *Calculation of credit impairment losses: description of parameters, assumptions, and estimation techniques*

The Group calculates the provision for impairment losses of different types of assets as 12-month ECL or lifetime ECL based on whether there was significant increase in credit risk and whether credit impairment occurred for assets. ECL is the product of exposure at default (EAD), probability of default (PD) and loss given default (LGD) after term adjustment and discount. Relevant definitions are as follows:

PD refers to the possibility that borrowers are unable to perform their repayment obligation in the next 12 months or during the rest of the lifetime.

LGD refers to the percentage of the risk exposure loss in the event of default. LGD varies with the type of the counterparty in the transaction, and the accessibility of collateral and other credit supports.

EAD refers to the repayment due to the Group when default occurs in the next 12 months or during the rest of the lifetime. The Group's EAD is determined based on the expected repayment arrangements and different types of products will have different EAD. For loans repaid on an instalment basis or in a lump sum, the Group determines the EAD based on the repayment plan as agreed in the contract.

The Group determines the ECL by estimating the PD, LGD and EAD of an individual loan in each period. It multiplies these three values and adjusts their existence (in case of no early repayment or default). This approach can effectively calculate the ECL of each future period. The calculation results of all periods are then discounted to the reporting date and summed up. Discount rates used to calculate the ECL are the actual interest rate or the approximation thereof.

In reporting periods, there was no significant change in the above estimation techniques or key assumptions.

Notes to the Consolidated Interim Financial Report (*Continued*)

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41 Financial risk management (*continued*)

41.1 Credit risk (*continued*)

41.1.4 Policies on provision for credit impairment losses (*continued*)

(e) *Forward-looking information in the credit impairment losses model*

Through data analysis, the Group identifies key economic indicators that affect the credit risk and ECL of each business types, such as producer price index (PPI), stock of social financing scale (CNY loans), industrial added value, China real estate climate index, year-on-year (YOY) growth rate of money supply (M2).

The Group considers internal and external data, expert forecasts and statistical analysis to determine the relationship between these economic indicators and PD. The Group regularly conducts the forecast on three types of domestic macro scenarios and macro-economic indicators such as optimistic, basic and pessimistic for asset impairment model.

(f) *Grouping for ECL provision*

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

The characteristics for grouping are as follows:

Personal loans

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

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage 3

Credit risk team monitors and reviews the grouping appropriateness regularly.

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.5 Maximum exposures to credit risk before considering collateral held or other credit enhancements

The Group	Note	As at 30 June 2023				Total
		Stage 1	Stage 2	Stage 3	Not Applicable	
Assets						
Balances with the central bank		35,271,188	—	—	—	35,271,188
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions		14,180,633	—	—	—	14,180,633
Derivative financial assets		—	—	—	502,049	502,049
Loans and advances to customers		339,531,720	2,379,511	1,940,754	—	343,851,985
Financial investments						
— Financial investments at fair value through profit or loss		—	—	—	53,727,882	53,727,882
— Financial investments at amortised cost		115,501,439	7,255	—	—	115,508,694
— Financial investments at fair value through other comprehensive income		110,107,519	67,285	106,094	749,227	111,030,125
Other financial assets	(i)	389,790	32,450	79,627	—	501,867
Sub-total		614,982,289	2,486,501	2,126,475	54,979,158	674,574,423
Off-balance sheet items						
Unused limit of credit cards		9,468,765	5,836	11,412	—	9,486,013
Bank acceptances		7,780,248	21,783	—	—	7,802,031
Guarantees		4,833,226	8,001	60,000	—	4,901,227
Letters of credit		1,116,551	—	—	—	1,116,551
Sub-total		23,198,790	35,620	71,412	—	23,305,822
Total		638,181,079	2,522,121	2,197,887	54,979,158	697,880,245

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For the six months ended 30 June 2023 - unaudited
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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.5 Maximum exposures to credit risk before considering collateral held or other credit enhancements (continued)

The Group	Note	As at 31 December 2022			Not Applicable	Total
		Stage 1	Stage 2	Stage 3		
Assets						
Balances with the central bank		35,688,685	—	—	—	35,688,685
Financial assets held under resale agreements and deposits and placements with banks and other financial institutions		15,515,079	—	—	—	15,515,079
Derivative financial assets		—	—	—	340,047	340,047
Loans and advances to customers		317,636,424	2,262,669	1,849,031	—	321,748,124
Financial investments						
— Financial investments at fair value through profit or loss		—	—	—	52,182,664	52,182,664
— Financial investments at amortised cost		124,345,914	6,997	—	—	124,352,911
— Financial investments at fair value through other comprehensive income		92,214,128	131,789	201,180	695,237	93,242,334
Other financial assets	(i)	499,895	20,964	88,350	—	609,209
Sub-total		585,900,125	2,422,419	2,138,561	53,217,948	643,679,053
Off-balance sheet items						
Unused limit of credit cards		9,562,511	7,221	24,527	—	9,594,259
Bank acceptances		6,830,010	8,010	—	—	6,838,020
Guarantees		3,805,419	8,001	60,000	—	3,873,420
Letters of credit		634,248	—	—	—	634,248
Sub-total		20,832,188	23,232	84,527	—	20,939,947
Total		606,732,313	2,445,651	2,223,088	53,217,948	664,619,000

(i) Other financial assets include interest receivable and other receivables.

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers

(a) Industry analysis

The Group	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage	Amount	Percentage
Corporate loans and advances				
Manufacturing	54,229,763	15.25%	46,271,637	13.91%
Wholesale and retail	40,173,484	11.29%	34,720,332	10.44%
Leasing and commercial services	36,090,805	10.15%	35,855,433	10.78%
Construction	22,894,647	6.44%	24,204,722	7.28%
Real estate	20,021,921	5.63%	16,165,085	4.86%
Production and supply of power, gas and water	6,864,500	1.93%	6,268,004	1.88%
Finance	5,718,381	1.61%	5,579,271	1.68%
Transportation, logistics and postal services	5,603,625	1.58%	4,612,260	1.39%
Education	3,885,086	1.09%	3,921,895	1.18%
Water, environment and public utilities management	3,541,178	1.00%	2,901,710	0.87%
Hotels and catering industries	2,629,178	0.74%	2,540,994	0.76%
Health, social security and welfare	2,594,211	0.73%	2,294,669	0.69%
Agriculture, forestry, animal husbandry and fishery	1,839,529	0.52%	2,002,141	0.60%
Information transmission, software and IT services	978,740	0.28%	905,328	0.27%
Scientific research and technical services and geological prospecting	883,978	0.25%	575,550	0.17%
Residential services and other services	510,716	0.11%	227,719	0.07%
Culture, sports and entertainment	127,559	0.04%	114,998	0.03%
Mining	10,400	0.00%	7,900	0.00%
Public management and social organisations	9,517	0.00%	—	—
Sub-total	208,607,218	58.64%	189,169,648	56.86%

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For the six months ended 30 June 2023 - unaudited
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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(a) Industry analysis (continued)

The Group	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage	Amount	Percentage
Personal loans and advances				
Business loans	42,165,209	11.85%	38,675,434	11.63%
Property mortgages	39,858,540	11.20%	38,939,465	11.71%
Personal consumption loans	32,425,127	9.12%	30,053,733	9.03%
Credit cards	5,679,042	1.60%	6,760,399	2.03%
Sub-total	120,127,918	33.77%	114,429,031	34.40%
Inter-bank discounted bills and forfaiting	26,326,443	7.40%	28,399,022	8.54%
Accrued interest	659,956	0.19%	670,422	0.20%
Total loans and advances to customers	355,721,535	100.00%	332,668,123	100.00%

(b) Type of collateral analysis

The Group	As at 30 June 2023	As at 31 December 2022
Collateralised loans	184,278,325	170,426,153
Guaranteed loans	93,861,005	84,448,418
Pledged loans	45,302,980	41,939,301
Unsecured loans	31,619,269	35,183,829
Sub-total	355,061,579	331,997,701
Accrued interest	659,956	670,422
Total	355,721,535	332,668,123

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(c) Concentration analysis by geographical regions

The Group	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage	Amount	Percentage
Dongguan	284,090,662	79.86%	264,363,531	79.47%
Zhanjiang	17,794,040	5.00%	17,099,446	5.14%
Others	53,176,877	14.95%	50,534,724	15.19%
Sub-total	355,061,579	99.81%	331,997,701	99.80%
Accrued interest	659,956	0.19%	670,422	0.20%
Total	355,721,535	100.00%	332,668,123	100.00%

Concentration analysis of overdue loans and advances to customers by geographical regions

The Group	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage	Amount	Percentage
Dongguan	3,174,822	66.05%	2,606,982	42.01%
Zhanjiang	486,668	10.13%	599,956	9.67%
Others	1,145,015	23.82%	2,999,219	48.32%
Total	4,806,505	100.00%	6,206,157	100.00%

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(d) Analysis by overdue days and impairment evaluation

- (1) The maximum credit risk exposures of loans and advances are analysed by overdue days as follows:

The Group Loans and advances	As at 30 June 2023			
	Stage 1	Stage 2	Stage 3	Total
Overdue days				
Not overdue	344,142,189	2,833,736	3,939,105	350,915,030
Between 0 and 30 days	325,378	333,980	35,633	694,991
Between 30 and 60 days	—	461,656	740,076	1,201,732
Between 60 and 90 days	—	44,809	178,399	223,208
More than 90 days/Default	—	—	2,686,574	2,686,574
Total	344,467,567	3,674,181	7,579,787	355,721,535
Provision for ECL	(4,935,847)	(1,294,670)	(5,639,033)	(11,869,550)
Net amount	339,531,720	2,379,511	1,940,754	343,851,985

The Group Loans and advances	As at 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Overdue days				
Not overdue	321,018,663	2,661,364	2,781,939	326,461,966
Between 0 and 30 days	651,880	225,028	1,850,645	2,727,553
Between 30 and 60 days	—	567,699	396,262	963,961
Between 60 and 90 days	—	31,225	161,491	192,716
More than 90 days/Default	—	—	2,321,927	2,321,927
Total	321,670,543	3,485,316	7,512,264	332,668,123
Provision for ECL	(4,034,119)	(1,222,647)	(5,663,233)	(10,919,999)
Net amount	317,636,424	2,262,669	1,849,031	321,748,124

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(d) Analysis by overdue days and impairment evaluation (continued)

(2) Overdue loans and advances to customers are set out by collateral type and overdue days as follows:

The Group	As at 30 June 2023				Total
	Overdue between 1 and 90 days (inclusive)	Overdue between 90 days and 1 year (inclusive)	Overdue between 1 and 3 years (inclusive)	Overdue for more than 3 years	
Collateralised loans	709,334	583,791	638,648	25,152	1,956,925
Guaranteed loans	1,038,446	111,882	254,509	5,703	1,410,540
Unsecured loans	370,251	272,535	269,460	39,949	952,195
Pledged loans	1,900	237,000	224,100	23,845	486,845
Total	2,119,931	1,205,208	1,386,717	94,649	4,806,505

The Group	As at 31 December 2022				Total
	Overdue between 1 and 90 days (inclusive)	Overdue between 90 days and 1 year (inclusive)	Overdue between 1 and 3 years (inclusive)	Overdue for more than 3 years	
Guaranteed loans	2,013,196	50,357	287,059	6,299	2,356,911
Collateralised loans	1,078,920	436,292	668,361	93,203	2,276,776
Unsecured loans	555,114	263,499	249,154	18,885	1,086,652
Pledged loans	237,000	—	226,484	22,334	485,818
Total	3,884,230	750,148	1,431,058	140,721	6,206,157

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.6 Loans and advances to customers (continued)

(e) Loans and advances to customers impaired/at Stage 3

The total amounts of loans and advances to customers impaired/at Stage 3 are set out as follows:

The Group	As at 30 June 2023	As at 31 December 2022
Corporate loans and advances	5,894,128	5,980,622
Personal loans and advances	1,685,659	1,531,642
Total	7,579,787	7,512,264
Fair value of collateral		
— Corporate loans and advances	2,185,055	2,214,508
— Personal loans and advances	756,453	758,700
Total	2,941,508	2,973,208

The fair value of collateral is determined based on the latest available external valuation prices, adjusted for the current experiences of collateral realisation and market conditions.

Concentration of loans and advances to customers impaired/at Stage 3 by geographical regions

The Group	As at 30 June 2023		As at 31 December 2022	
	Amount	Percentage	Amount	Percentage
Dongguan	4,710,933	62.15%	5,063,202	67.40%
Zhanjiang	242,041	3.19%	190,002	2.53%
Others	2,626,813	34.66%	2,259,060	30.07%
Total	7,579,787	100.00%	7,512,264	100.00%

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.7 Foreclosed assets

Foreclosed assets are disposed once they are sold and gains from the sale can be used to decrease the balance of liabilities. Usually the Group does not use recovered foreclosed assets for business activities. As at the end of the reporting period, foreclosed assets were listed under other assets.

41.1.8 Debt instrument investments

The credit risks of debt instrument investments are classified mainly based on their external credit ratings.

(a) Debt instrument investments classified by borrower credit ratings

The exposures of financial investments at amortised cost are analysed as follows:

	Note	As at 30 June 2023			Total
		Stage 1	Stage 2	Stage 3	
Credit ratings					
AA to AAA		11,565,738	—	—	11,565,738
CCC+ to AA-		—	—	—	—
CCC and below		—	—	—	—
Unrated	(i)	104,379,262	12,681	—	104,391,943
Total		115,945,000	12,681	—	115,957,681
Provision for impairment losses		(443,561)	(5,426)	—	(448,987)
Net book value		115,501,439	7,255	—	115,508,694
	Note	As at 31 December 2022			Total
		Stage 1	Stage 2	Stage 3	
Credit ratings					
AA to AAA		13,699,014	—	—	13,699,014
CCC+ to AA-		—	—	—	—
CCC and below		—	—	—	—
Unrated	(i)	111,097,607	12,231	—	111,109,838
Total		124,796,621	12,231	—	124,808,852
Provision for impairment losses		(450,707)	(5,234)	—	(455,941)
Net book value		124,345,914	6,997	—	124,352,911

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41 Financial risk management (continued)

41.1 Credit risk (continued)

41.1.8 Debt instrument investments (continued)

(b) The exposures of financial investments at fair value through other comprehensive income are analysed as follows:

	Note	As at 30 June 2023			
		Stage 1	Stage 2	Stage 3	Total
Credit ratings					
AA to AAA		13,152,595	—	—	13,152,595
CCC+ to AA-		—	67,285	—	67,285
CCC and below		—	—	—	—
Default		—	—	85,007	85,007
Unrated	(i)	96,954,924	—	21,087	96,976,011
Net book value		110,107,519	67,285	106,094	110,280,898

	Note	As at 31 December 2022			
		Stage 1	Stage 2	Stage 3	Total
Credit ratings					
AA to AAA		17,362,167	—	—	17,362,167
CCC+ to AA—		—	131,789	—	131,789
CCC and below		—	—	—	—
Default		—	—	170,404	170,404
Unrated	(i)	74,851,961	—	30,776	74,882,737
Net book value		92,214,128	131,789	201,180	92,547,097

(i) The Group's unrated debt instrument investments comprise mainly of treasury bonds, local government bonds, financial bonds issued by policy banks and trust beneficiary rights.

41.2 Fair value of financial assets and liabilities

(a) Fair value hierarchy

The Group classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are not based on observable market data.

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value

The tables below summarise the carrying amount and fair values of financial assets and liabilities not measured at fair value. Financial assets and liabilities with similar carrying amount and fair values, such as balances with the central bank, financial assets held under resale agreements and deposits and placements with banks and other financial institutions, loans and advances to customers, borrowings from the central bank, due to customers, financial assets sold under repurchase agreements and deposits and placements from banks and other financial institutions, and certificates of interbank deposit, are not included.

The Group	As at 30 June 2023				
	Carrying amount	Fair value	Including:		
			Level 1	Level 2	Level 3
Financial asset					
Financial investments at amortised cost	<u>115,508,694</u>	<u>118,083,964</u>	<u>—</u>	<u>117,781,972</u>	<u>301,992</u>
Financial liability					
Debt securities issued	<u>81,551,252</u>	<u>81,661,223</u>	<u>—</u>	<u>81,661,223</u>	<u>—</u>
The Group	As at 31 December 2022				
	Carrying amount	Fair value	Including:		
			Level 1	Level 2	Level 3
Financial asset					
Financial investments at amortised cost	<u>124,352,911</u>	<u>125,343,679</u>	<u>—</u>	<u>125,083,220</u>	<u>260,459</u>
Financial liability					
Debt securities issued	<u>64,053,467</u>	<u>64,076,932</u>	<u>—</u>	<u>64,076,932</u>	<u>—</u>

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value

The Group	As at 30 June 2023			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	—	502,049	—	502,049
Loans and advances to customers at fair value through other comprehensive income	—	—	26,326,443	26,326,443
Financial investments at fair value through profit or loss				
— Debt securities	—	25,075,136	—	25,075,136
— Fund investments	—	26,453,968	—	26,453,968
— Trust beneficiary rights	—	—	2,198,778	2,198,778
Financial investments at fair value through other comprehensive income				
— Debt securities	—	110,174,805	85,007	110,259,812
— Trust beneficiary rights	—	—	21,086	21,086
— Listed equity investment	92,635	—	—	92,635
— Unlisted equity investment	—	61,196	595,396	656,592
Total	92,635	162,267,154	29,226,710	191,586,499
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	742,083	1,061,203	1,803,286
Derivative financial liabilities	—	539,798	—	539,798
Total	—	1,281,881	1,061,203	2,343,084

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

The Group	As at 31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	—	340,047	—	340,047
Loans and advances to customers at fair value through other comprehensive income	—	—	28,399,022	28,399,022
Financial investments at fair value through profit or loss				
— Debt securities	—	26,487,871	—	26,487,871
— Fund investments	—	22,278,539	—	22,278,539
— Trust beneficiary rights	—	—	3,416,254	3,416,254
Financial investments at fair value through other comprehensive income				
— Debt securities	—	92,345,916	170,404	92,516,320
— Trust beneficiary rights	—	—	30,777	30,777
— Listed equity investment	46,634	—	—	46,634
— Unlisted equity investment	—	63,463	585,140	648,603
Total	46,634	141,515,836	32,601,597	174,164,067
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	748,009	1,061,203	1,809,212
Derivative financial liabilities	—	349,317	—	349,317
Total	—	1,097,326	1,061,203	2,158,529

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41 Financial risk management *(continued)*

41.2 Fair value of financial assets and liabilities *(continued)*

(c) Financial instruments measured at fair value *(continued)*

The fair values of financial assets and liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;
- If not traded in active markets, fair values of financial assets and financial liabilities are determined by using valuation techniques. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and generally accepted pricing models.

The Group has established an independent valuation process for financial assets and liabilities. Financial Market Department and Investment Banking and Wealth Management Department are responsible for carrying out the valuation of financial assets and financial liabilities. Valuation methods, parameters, assumptions and results are independently verified by the Department of Comprehensive Risk Management and Compliance; valuation results are obtained following the valuation process and accounted for in accordance with the accounting rules by the Operation Management Department; information on financial assets and liabilities for disclosure purposes is prepared by the Financial Accounting Department based on the independently reviewed valuation results. Valuation policies and procedures for various kinds of financial instruments are approved by the Group's Risk Management Committee. Any changes in valuation policies and procedures are required to be submitted to the Risk Management Committee for approval before being put into practice. For the period ended 30 June 2023 and the year ended 31 December 2022, there were no significant transfers between the fair value levels.

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

Information about the Level 3 fair value measurement using material unobservable inputs is as follows:

The Group	As at 30 June 2023		
	Fair value	Valuation technique	Unobservable inputs Item
Loans and advances to customers at fair value through other comprehensive income	26,326,443	Discounted cash flow	Risk-adjusted discount rate cash flow
Financial investments at fair value through profit or loss — Trust beneficiary rights	2,198,778	Discounted cash flow	Risk-adjusted discount rate cash flow
Financial investments at fair value through other comprehensive income			
— Debt securities	85,007	Discounted cash flow	Risk-adjusted discount rate cash flow
— Trust beneficiary rights	21,086	Discounted cash flow	Risk-adjusted discount rate cash flow
— Unlisted equity investments	595,396	Market approach	Price to book ratio (P/B) Haircuts for low liquidity

Notes to the Consolidated Interim Financial Report (Continued)

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

The Group	As at 31 December 2022		
	Fair value	Valuation technique	Unobservable inputs Item
Loans and advances to customers at fair value through other comprehensive income	28,399,022	Discounted cash flow	Risk-adjusted discount rate cash flow
Financial investments at fair value through profit or loss — Trust beneficiary rights	3,416,254	Discounted cash flow	Risk-adjusted discount rate cash flow
Financial investments at fair value through other comprehensive income			
— Debt securities	170,404	Discounted cash flow	Risk-adjusted discount rate cash flow
— Trust beneficiary rights	30,777	Discounted cash flow	Risk-adjusted discount rate cash flow
— Unlisted equity investments	585,140	Market approach	Price to book ratio (P/B) Haircuts for low liquidity

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

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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

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

The Group	As at 30 June 2023			
	Effect on net profit		Effect on revaluation reserve	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Loans and advances to customers at fair value through other comprehensive income	—	—	66,909	(66,400)
Financial investments at fair value through profit or loss — Trust beneficiary rights	34,542	(32,972)	—	—
Financial investments at fair value through other comprehensive income — Debt securities	—	—	1,231	(1,469)
— Trust beneficiary rights	—	—	216	(212)
— Unlisted equity investments	—	—	5,904	(5,904)

Notes to the Consolidated Interim Financial Report (Continued)

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

41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

The Group	As at 31 December 2022			
	Effect on net profit		Effect on revaluation reserve	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Loans and advances to customers at fair value through other comprehensive income	—	—	98,050	(97,021)
Financial investments at fair value through profit or loss				
— Trust beneficiary rights	39,480	(37,507)	—	—
Financial investments at fair value through other comprehensive income				
— Debt securities	—	—	2,518	(2,442)
— Trust beneficiary rights	—	—	429	(419)
— Unlisted equity investments	—	—	5,798	(5,790)

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

The movement of Level 3 fair value measurements is as follows:

The Group	1 January 2023	Transfer into Level 3	Purchases, sales and settlements		Total gains or losses		30 June 2023	Unrealised gains or losses included in profit or loss for assets and liabilities held at the end of the period
			Purchases	Decrease	Recorded in profit or loss	Recorded in other comprehensive income		
Assets								
Loans and advances to customers at fair value through other comprehensive income	28,399,022	—	19,241,012	(21,351,754)	20,782	17,381	26,326,443	—
Financial investments at fair value through profit or loss — Trust beneficiary rights	3,416,254	—	—	(1,251,781)	34,305	—	2,198,778	34,305
Financial investments at fair value through other comprehensive income								
— Debt securities	170,404	—	1,298	(150,000)	71,997	(8,692)	85,007	—
— Trust beneficiary rights	30,777	—	—	(8,748)	(845)	(98)	21,086	—
— Unlisted equity investments	585,140	—	—	—	—	10,256	595,396	—
Sub-total	786,321	—	1,298	(158,748)	71,152	1,466	701,489	—
Total	32,601,597	—	19,242,310	(22,762,283)	126,239	18,847	29,226,710	34,305

Notes to the Consolidated Interim Financial Report (Continued)

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

41 Financial risk management (continued)

41.2 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

	1 January 2022	Transfer into Level 3	Purchases, sales and settlements		Total gains or losses		31 December 2022	Unrealised gains or losses included in profit or loss for assets and liabilities held at the end of the year
			Purchases	Decrease	Recorded in profit or loss	Recorded in other comprehensive income		
Assets								
Loans and advances to customers at fair value through other comprehensive income	27,858,949	—	28,399,217	(27,950,305)	92,919	(1,758)	28,399,022	—
Financial investments at fair value through profit or loss — Trust beneficiary rights	4,811,520	—	371,114	(1,827,900)	61,520	—	3,416,254	61,520
Financial investments at fair value through other comprehensive income								
— Debt securities	148,495	—	49,343	(27,434)	—	—	170,404	—
— Trust beneficiary rights	28,966	—	—	(116,308)	—	118,119	30,777	—
— Unlisted equity investments	577,551	—	—	—	—	7,589	585,140	—
Sub-total	755,012	—	49,343	(143,742)	—	125,708	786,321	—
Total	33,425,481	—	28,819,674	(29,921,947)	154,439	123,950	32,601,597	61,520

Notes to the Consolidated Interim Financial Report *(Continued)*

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

41 Financial risk management *(continued)*

41.3 Capital management

The Group's capital management objectives are as follows:

- maintain an adequate capital base to support the development of its business;
- support the Group's financial stability and profitable growth;
- allocate capital through an efficient and risk based approach to optimize risk-adjusted return to shareholders; and
- safeguard the long-term sustainability of the Group's franchise so that it can continue to provide sufficient owner returns and benefits for other stakeholders.

Capital adequacy ratio and the use of regulatory capital are monitored quarterly by the Bank's management with employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis.

The Bank calculated the capital adequacy ratio based on the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) issued by CBIRC in June 2012. According to the approach, the Bank calculated the credit risk-weighted assets measurement by the weighted method, market risk-weighted assets measurement by the standard method, and operation risk-weighted assets measurement by the basic indicator method.

As at the end of the reporting period, the capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Rules for Regulating the Capital Adequacy of Commercial Banks (Trial)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. At present, the Bank fully complies with all statutory and regulatory requirements.

Notes to the Consolidated Interim Financial Report (Continued)

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

41 Financial risk management (continued)

41.3 Capital management (continued)

The capital adequacy ratio of 30 June 2023 and 31 December 2022 under the Rules for Regulating the Capital Adequacy of Commercial Banks (Trial) is as follows:

	As at 30 June 2023	As at 31 December 2022
Core tier 1 capital	53,860,407	52,125,369
Core tier 1 capital deductions	(552,338)	(566,056)
Net core tier 1 capital	53,308,069	51,559,313
Other tier 1 capital	137,303	133,021
Net tier 1 capital	53,445,372	51,692,334
Tier 2 capital	8,659,049	8,432,236
Net capital	62,104,421	60,124,570
Total risk-weighted assets	392,383,495	376,335,100
Core tier 1 capital adequacy ratio	13.59%	13.70%
Tier 1 capital adequacy ratio	13.62%	13.74%
Capital adequacy ratio	15.83%	15.98%

Notes to the Consolidated Interim Financial Report (Continued)

For the six months ended 30 June 2023 - unaudited
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42 Comparative figure

To conform with the presentation of the financial statements, the Group made reclassification adjustments to certain figures for comparative period.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2023

Up to the date of issue of these financial statements, a number of amendments, new standards and interpretations are issued which are not yet effective for the six months ended 30 June 2023, and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statements</i> <i>“Classification of liabilities as current or non-current”</i>	January 1, 2024
Amendments to IAS 1, <i>Presentation of financial statements</i> <i>“Non-current liabilities with covenants”</i>	January 1, 2024
Amendments to IFRS 16, <i>Lease Liability in a Sale and Leaseback</i>	January 1, 2024
Amendments to IFRS 7 and IAS 7, <i>“Supplier finance arrangements”</i>	January 1, 2024
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture</i>	To be determined

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

Unreviewed Supplementary Information

INFORMATION ON LEVERAGE RATIO

Accounting Items Corresponding to Leverage Regulatory Items and Differences between Regulatory Items and Accounting Items

(Unit: RMB'000)

No.	Item	June 30, 2023
1	Consolidated total assets	686,211,937
2	Consolidated adjustments	0
3	Adjustments on client assets	0
4	Derivatives adjustments	115,879
5	Securities financing transaction adjustments	2,170,631
6	Off-balance sheet item adjustments	12,373,157
7	Other adjustments	(552,338)
8	Adjusted balance of on-balance and off-balance sheet assets	700,319,265

Notes:

- (1) The consolidated total assets and off-balance sheet item adjustments and other adjustments are reviewed data on a Group consolidated basis, and others are based on off-site supervision statement of the CBIRC on a Group consolidated basis.
- (2) Adjusted balance of on-and off-balance sheet assets = consolidated total assets + consolidated adjustments + adjustments on client assets + derivatives adjustments + securities financing transaction adjustments + off-balance sheet item adjustments + other adjustments.

Unreviewed Supplementary Information (Continued)

Leverage Ratio Level, Net Tier 1 Capital, Adjusted On-Balance and Off-Balance Sheet Assets and Related Details

(Unit: RMB'000)

Item	June 30, 2023
On-balance sheet assets (except derivatives and securities financing transactions)	666,565,312
Less: Tier 1 capital deductions	(552,338)
Adjusted balance of on-balance sheet assets (excluding derivatives and securities financing transactions)	666,012,974
Replacement cost of various derivatives (net of qualifying margin)	298,719
Potential exposures of various derivatives	149,155
Total collateral been deducted from the balance sheet	—
Less: Assets receivable due to provision of qualified margin	—
Less: Derivative product asset balance formed from transactions with central counterparties when providing clearing services to clients	—
Notional principal for selling credit derivatives	—
Less: Deductible balance of sold credit derivatives assets	—
Derivative asset balance	447,875
Balance of accounting asset for securities financing transactions	19,314,628
Less: balance of securities financing transaction assets that can be deducted	—
Counterparty credit exposure for securities financing transactions	2,170,631
Asset balance of securities financing transactions formed by agency securities financing transactions	—
Asset balance of securities financing transactions	21,485,259
Off-balance sheet item balance	23,305,822
Less: Balance of off-balance sheet items decreased due to credit conversion	(10,932,665)
Adjusted off-balance sheet item balance	12,373,157
Net Tier 1 capital	53,445,372
Adjusted balance of on-and off-balance sheet assets	700,319,265
Leverage ratio	7.63%

Notes:

- (1) Net Tier 1 capital, Tier 1 capital deductions, off-balance sheet item balance and adjusted off-balance sheet item balance are reviewed data of the Group, on-balance sheet assets (except derivatives and securities financing transactions) are calculated based on the reviewed data of the consolidated financial statements in accordance with relevant regulatory standard, and other items are based on off-site supervision statement of the National Administration of Financial Regulation on a Group consolidated basis.
- (2) The leverage ratio is calculated by dividing the net Tier 1 capital by the adjusted balance of on-and off-balance sheet assets.



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