

CZBANK 浙商银行

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

A Share Stock Code : 601916

H Share Stock Code : 2016

Interim Report | 2022



IMPORTANT NOTICE

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company warrant that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will take legal responsibilities for such contents on a joint and several basis.
2. This interim report was approved at the sixth meeting of the sixth session of the Board of the Company on August 29, 2022. The Company has 13 Directors, among which 13 Directors attended the meeting in person, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 7 Supervisors of the Company attended the meeting.
3. The Company neither declares interim dividend for 2022 nor makes any transfer from reserves to share capital.
4. Unless otherwise illustrated in this report, the currency for any amount herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.
5. The interim financial report for 2022 of the Company is unaudited.
6. Zhang Rongsen (張榮森, President of the Bank and acting as Chairman), Jing Feng (景峰, Principal in charge of Finance and Director of the Financial Department) warrant that the financial report in the interim report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed “Management Discussion and Analysis – Risk Management” of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments of the Company to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.





..... **OVERALL DEVELOPMENT PLAN**

Embark on a new journey of high-quality development with the vision of becoming “a first-class commercial bank”.

Targets of “a first-class commercial bank”: first-class positive social influence, first-class professional and focused industry competitiveness and first-class corporate cohesion for common progress and prosperity.



..... **MANAGEMENT CONCEPTS**

Culture: Promote core values, namely “respect, gratitude, integrity and responsibility”.

Ecosystem: Establish a five-word ecosystem, namely integrity, simplicity, professionalism, cooperation and honesty.

Practice: Adhere to the keynote of strictness and develop “Four Dos” spirit (do it, do good, do it well and do well in it).



..... **OPERATION APPROACH AND STRATEGY**

“Approach” denotes the twelve-word operation approach: consolidate corporate foundation, adjust corporate structure, control corporate risks, increase corporate profitability.

“Strategy” denotes the four strategic focuses: introduce systematic digital transformation, deepen comprehensive development in all aspects, seek synergetic development of all five segments and embark on a new journey of wealth management.



..... **OPERATING STRATEGY**

Take the assets with low sensitivity to economic cycle as ballast stone, and build a first-class management system with high quality development.



Since the banking sector is a pro-cyclical industry, it has been an important subject for our Company to seek the way to cross the cycle and achieve prudent operation and high-quality development. In the first half of 2022, facing the impacts posed by sluggish recovery of macro economy, recurring outbreaks of the pandemic and the constant exposure of risks in the real estate industry, the Senior Management of the Company took the lead to put forward the operating strategy of “taking the assets with low sensitivity to economic cycle as ballast stone, and building a first-class management system with high quality development.”

WHY DO WE PUT FORWARD SUCH AN OPERATING STRATEGY ?

Taking the assets with low sensitivity to economic cycle as ballast stone is designed to enable the operation of the Bank to stand the test of risk, cross the cycle and smooth the impact of the cycle on operating results.

WHAT ARE “ASSETS WITH LOW SENSITIVITY TO ECONOMIC CYCLE”?



SMALL AND DIVERSIFIED ASSETS



- Retail: credit card business, personal housing mortgage loans, personal consumption loans (excluding syndicated loans)
- Microfinance: the business of small and micro enterprise loans under inclusive finance less than and including RMB10.00 million
- Other businesses that meet “small and diversified” standards, such as supply chain finance business



ASSETS IN LESS CYCLICAL INDUSTRIES



Agriculture, forestry, animal husbandry and fishery, production and supply of electricity, heat, gas and water, transportation, storage and postal services, administration of water conservancy, environment and public facilities, science, education, culture and public health etc.



CUSTOMER SERVICE AGGREGATE (CSA)



- Assets under management (AUM)
- Finance product aggregate (FPA)
- Fixed income, currencies, and commodities (FICC)
- International business
- Full-range products sales



CUSTOMER SERVICE AGGREGATE (CSA)



- Assets under management (AUM): selling wealth management products and providing asset agency services, aiming at serving retail customers of the Bank.
- Finance product aggregate (FPA): including four major businesses, namely bond underwriting, assets construction, trading facilitation and circulation of assets, aiming at serving corporate customers of the Bank.
- Fixed income, currencies, and commodities (FICC): providing agency services such as precious metal agency, credit bonds sales and bond lending.
- International business: international settlement, foreign exchange transaction with customers and cross-border services.
- Full-range products sales: circulation of credit assets with the Bank as the original equity holder, underwriting and distribution of assets by the Bank, as well as interbank assets agency and facilitation, asset custody and other sales businesses.

Among them, the concept of Customer Service Aggregate (CSA) is put forward by the Company for the first time, which has demonstrated our business philosophies such as “returning to the origin of financial services for the real economy”, “providing high-quality and efficient financial services to the society” and “capital light and asset light operation”.

WHAT IS THE RISK CONTROL SYSTEM OF “ASSETS WITH LOW SENSITIVITY TO ECONOMIC CYCLE” LIKE?

By focusing on the “steady, prudent and sustainable” development goal and deeply implanting the risk concept of “low sensitivity to economic cycle” into our mind, we fully implement the five major risk management principles.

- First, the principle of “netting fish in lake with fishes” to move forward the risk checkpoint.
- Second, the “small and diversified” principle to control industry and case concentration.
- Third, the substance over form principle penetrating through underlying assets.
- Fourth, the principle of comprehensive risk management through unified credit.
- Fifth, the financial goodwill principle in serving the real economy.

WHAT IS THE DIGITAL SUPPORTING MECHANISM OF “ASSETS WITH LOW SENSITIVITY TO ECONOMIC CYCLE” LIKE ?

Focusing on assets with low sensitivity to economic cycle and riding on digital transformation to expedite the construction of an highly ecological development mode are abbreviated as “low sensitivity and ecologically sustainable”.

Assets with low sensitivity to economic cycle serve as the tool to implement operating strategy, while it is a necessity to construct an highly ecological development mode from the aspect of operating model.

Committed to digital transformation and focusing on the digital transformation structure of “CZBank Digital and Intelligent Brain+185N (浙銀數智大腦+185N)”, the Bank builds a “Weihai” ecology and big data risk control mode for assets with low sensitivity to economic cycle. Meanwhile, the Bank spares no efforts to create an online, scenario-based and platform-based digital and integrated financial service ecosystem via both online and offline channels, so as to realize “digital operation and digital value”.

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DEFINITIONS

“Company”, “Bank”, “our Bank”, China Zheshang Bank Co., Ltd.

**“China Zheshang Bank” or
“CZBank”:**

“CBIRC”: China Banking and Insurance Regulatory Commission

“CSRC”: China Securities Regulatory Commission

“Hong Kong Stock Exchange”: The Stock Exchange of Hong Kong Limited

“SFO”: Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Hong Kong Listing Rules”: The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Model Code”: The Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules

“Zheyin Financial Leasing”: Zhejiang Zheyin Financial Leasing Co., Ltd., a holding subsidiary of the Company, in which the Company holds 51% equity interest

“Group”: the Company and its subsidiary

COMPANY PROFILE

1. Company name in Chinese:	浙商银行股份有限公司 (Abbreviation in Chinese: 浙商银行)
Company name in English:	CHINA ZHESHANG BANK CO., LTD. (Abbreviation in English: CZBANK)

2. Legal Representative:	Zhang Rongsen (acting as Legal Representative)
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3. Registered address:	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC
Postcode:	311200
Principal office address:	No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC
Postcode:	310006
E-mail:	ir@czbank.com
Website:	www.czbank.com
Customer service hotline:	95527
Tel for investor relations management:	86-571-88268966
Fax:	86-571-87659826

4. Principal place of business in Hong Kong:	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong, the PRC
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5. Authorized representatives:	Zhang Rongsen, Liu Long
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6. Secretary to the Board and company secretary:	Liu Long
Representative of securities affairs:	Chen Sheng

7. A Shares	
Stock exchange where the securities are listed:	Shanghai Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	601916
H Shares	
Stock exchange where the securities are listed:	Hong Kong Stock Exchange
Stock abbreviation:	CZBANK
Stock code:	2016

COMPANY PROFILE

- 8. Share registrar:**
A Shares: China Securities Depository and Clearing Corporation Limited
Shanghai Branch
NO. 188 South Yanggao Road, Pudong New Area, Shanghai, the PRC
H Shares: Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong, the PRC
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- 9. Legal advisers:**
As to Mainland PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
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- 10. Accounting firms engaged by the Company:**
Domestic auditor: KPMG Huazhen LLP
Office address: 8/F, Tower E2, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, the PRC
Signing certificated accountants: Chen Sijie, Pan Sheng
International auditor: KPMG
Office address: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong, the PRC
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- 11. Newspapers and websites designated for information disclosure:**
Mainland China: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website of the Shanghai Stock Exchange (www.sse.com.cn)
Website of the Company (www.czbank.com)
Hong Kong: Website of the Hong Kong Stock Exchange (www.hkex.com.hk)
Website of the Company (www.czbank.com)
Place for inspection of the report: Office of the Board of the Company (No. 288, Qingchun Road, Hangzhou, Zhejiang Province, the PRC)
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- 12. Other information about the Company:** Uniform social credit code: 91330000761336668H
Financial institution license serial number: B0010H133010001
Registration date: July 26, 2004
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CORPORATE OVERVIEW

As one of the twelve nationwide joint-stock commercial banks, CZBank officially commenced business on August 18, 2004, with its head office in Hangzhou, Zhejiang Province. CZBank is the 13th “A+H” listed bank in China. Since its opening, CZBank has always gained a toehold in Zhejiang and steadily developed its businesses nationwide, and has developed into a high-quality commercial bank with a solid foundation, strong profitability and prudent risk control.

Under the guidance of the vision of being “a first-class commercial bank”, CZBank adheres to its twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”; and the main line of digital reform, taking deepening development in Zhejiang as its first priority and promoting the coordinated development of its five major business segments, so as to embark on a new journey of wealth management. CZBank focuses on four big battles of “reducing risk, expanding sales, stabilizing stock price and introducing strategic investment”, and strengthens its integrity, improves its foundation, and reshapes its image. CZBank will give top priority to stability, carry forward the spirit of “Four Dos”, comprehensively build a five-pronged political ecosystem, comprehensively improve its ability to provide comprehensive financial services, and comprehensively build a system of risk control and oversight, so as to embark on a new journey of high-quality development.

In the first half of 2022, CZBank’s operating income was RMB31.778 billion, representing a period-on-period increase of 22.47%; net profit attributable to shareholders of the Bank was RMB6.974 billion, representing a period-on-period increase of 1.80%. As of the end of the reporting period, the total assets were RMB2.52 trillion, representing an increase of 10.26% compared with that at the end of last year, and total loans and advances to customers were RMB1.47 trillion, representing an increase of 9.41% compared with that at the end of last year; the total liabilities were RMB2.36 trillion, representing an increase of 11.47% compared with that at the end of last year, and balance of customer deposits were RMB1.64 trillion, representing an increase of 15.88% compared with that at the end of last year; the non-performing loan ratio was 1.49% and allowance to non-performing loans was 185.74%, maintaining a stable asset quality; the capital adequacy ratio was 11.75%, the tier-one capital adequacy ratio was 9.64% and the core tier-one capital adequacy ratio was 8.04%, all maintaining at a reasonable level.

CZBank has established 298 branch outlets in 22 provinces, autonomous regions, municipalities directly under the Central Government and the Hong Kong Special Administrative Region, effectively covering the Yangtze River Delta, Bohai Rim, Pearl River Delta Region, Economic Zone on the Western Coast of the Taiwan Straits and certain areas in the Midwestern China. In the “Top 1000 World Banks 2022” ranking by The Banker Magazine of the U.K., we ranked 79th in terms of tier-one capital, up by 20 places from the previous year. China Chengxin International gave Zheshang Bank the highest AAA subject credit rating among financial institutions.

DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

I. OVERALL DEVELOPMENT PLAN

Embark on a new journey of high-quality development with the vision of becoming “a first-class commercial bank”.

Targets of “a first-class commercial bank”: first-class positive social influence, first-class professional and focused industry competitiveness and first-class corporate cohesion for common progress and prosperity.

II. MANAGEMENT CONCEPTS

Culture: Promote core values, namely “respect, gratitude, integrity and responsibility”.

Ecosystem: Establish a five-word ecosystem, namely integrity, simplicity, professionalism, cooperation and honesty.

Practice: Adhere to the keynote of strictness and develop “Four Dos” spirit (do it, do good, do it well and do well in it).

III. OPERATION APPROACH AND STRATEGY

Twelve-word operation approach: consolidate corporate foundation, adjust corporate structure, control corporate risks, increase corporate profitability.

Four strategic focuses: introduce systematic digital transformation, deepen comprehensive development in all aspects, seek synergetic development of all five segments and embark on a new journey of wealth management.

IV. OPERATING STRATEGY

Take the assets with low sensitivity to economic cycle as ballast stone, and build a first-class management system with high quality development.

V. CORE COMPETITIVENESS

Clear and specific strategic positioning. Guided by the spirit of General Secretary Xi’s important instructions and the vision of being “a first-class commercial bank”, the Company adheres to its twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”; and to the main line of digital reform, take deepening development in Zhejiang as its first priority and promote the coordinated development of its five major business segments, achieve a new start in wealth management and, so as to comprehensively embark on a new journey of high-quality development.

Sound and organized corporate governance. The Company strengthens the establishment of modern corporate systems in all aspects and has improved the level of corporate governance continuously, resulting in a more diversified equity structure and better governance systems. The Board of Directors, the Board of Supervisors and General Meetings and its Senior Management with specified and definite duties and responsibilities have formed a corporate governance structure appropriate for the Company. Through more standard information disclosure, we have improved the quality of information disclosure and made full use of the supervision role of the market.

DEVELOPMENT STRATEGIES AND CORE COMPETITIVENESS

Rapid and sustainable growth capability. Benefiting from its strategic national layout, efficient operation and management and the local market support from Zhejiang province, the Company has developed itself into a fast-growing national joint-stock commercial bank with a solid foundation, strong profitability and prudent risk control. Both the profitability and scale of the Bank grow in a rapid and sustainable manner, indicating a broad prospect in the medium to long term.

Financial technology with distinctive edges. Implementing technology-driven transformation, the Company has systematically initiated the digital reform, built the “185N” reform system architecture, launched the “Weihai” digital brand and has taken the lead in exploring the deepened integration of the cutting-edge technologies with banking business, such as blockchain, Internet of Things (“IOT”), so as to build major landmark applications and establish itself into a leading innovative brand in the financial technology industry.

Improving business system. To improve its competitiveness, the Company has focused on the coordinated development of its five major business segments, namely great retail, great asset management, great corporate, great investment banking and great cross-border, providing customers with comprehensive, three-dimensional and systematic financial services to achieve the diversified operation, global layout, integrated operation, comprehensive services and high-quality development.

Leading professional services for the small and micro enterprises. Adhering to the principle of commercially sustainable development, the Company has a foothold on professional operating mode, and utilizes the internet technology and thinking actively. The professional service ability of the Company has been highly recognized by the customers and the market. Being a pioneer in the small and micro enterprise business in the industry, the Company has formed various distinctive advantages in the aspect of mechanism, product, process, and risk control.

Distinctive corporate businesses. The Company is committed to creating value for customers and providing quality services. Focusing on the needs of enterprise customers, such as reducing financing costs and improving service efficiency, blockchain, Internet of Things and other technologies are used to build supply chain finance, intelligent manufacturing services, science and innovation finance, and comprehensive financial service systems, so as to provide personalized and customized services for customers, achieve win-win results between banks and enterprises, and help the development of the real economy.

Prudent and steady risk management. Oriented with serving the real economy, the Company adheres to a prudent and healthy risk appetite and the principle of “small and diversified” in granting credit in an appropriate manner, builds an asset structure with weak sensitive assets of economic cycle as ballast stone, implements a distinctive risk control officer assignment system, and continuously improves the risk management system to maintain stable quality of assets.

Scientific and reasonable talent reserves. The Company strengthens the construction of its cadre team. The management of the Company has extraordinary strategic vision and business management capability, as well as extensive experience in business operation, financial management, risk control and information technology. The employees of the Company are young, energetic, highly-educated with strong professional competence.

Refreshed corporate culture. The Company adheres to the entrepreneurial spirit of “seeing the action, seeing the heart, and seeing the future”, proposes the target of “first-class positive social influence, first-class professional and focused industry competitiveness, first-class corporate cohesion for common prosperity and progress” and the basic cultural elements of “service, compliance, excellence and harmony”, takes the “CZBank Convention” as a cultural consensus, works hard in the implementation of the four key projects, namely, culture shaping, culture rooting, culture nourishing and culture promotion, to build the “four beams and eight pillars” of its corporate culture system.

FINANCIAL SUMMARY

(The financial data and indicators set forth in this report are prepared in accordance with IFRSs and are consolidated data of the Bank and its subsidiary and presented in RMB, unless otherwise specified.)

KEY FINANCIAL DATA AND INDICATORS

Operating results (RMB million)	January to June 2022	January to June 2021	Increase (decrease) (%)	January to June 2020
Operating income	31,778	25,948	22.47	25,181
Profit before income tax	8,489	8,151	4.15	7,905
Net profit attributable to shareholders of the Bank	6,974	6,851	1.80	6,775

Scale indicators (RMB million)	June 30, 2022	December 31, 2021	Increase (decrease) (%)	December 31, 2020
Total assets	2,521,244	2,286,723	10.26	2,048,225
Total loans and advances to customers	1,474,061	1,347,239	9.41	1,197,698
Total liabilities	2,362,892	2,119,840	11.47	1,915,682
Customer deposits	1,640,464	1,415,705	15.88	1,335,636
Equity attributable to shareholders of the Bank	155,527	164,169	(5.26)	130,512
Net assets per share at the end of the period attributable to shareholders of the Bank ⁽¹⁾ (RMB)	6.14	5.84	5.14	5.43

Per share (RMB)	January to June 2022	January to June 2021	Increase (decrease) (%)	January to June 2020
Basic earnings per share attributable to shareholders of the Bank ⁽²⁾	0.29	0.28	3.57	0.27
Diluted earnings per share attributable to shareholders of the Bank	0.29	0.28	3.57	0.27

Profitability indicators (%)	January to June 2022	January to June 2021	Increase/ decrease	January to June 2020
Return on average total assets ⁽³⁾	0.60	0.67	Decrease by 0.07 percentage point	0.73
Return on average equity ⁽⁴⁾	10.29	11.00	Decrease by 0.71 percentage point	11.37
Net interest margin*	2.28	2.27	Increase by 0.01 percentage point	2.29
Net interest spread*	2.08	2.08	Balanced	2.03
Net non-interest income to operating income	26.88	21.47	Increase by 5.41 percentage points	26.98
Cost-to-income ratio ⁽⁵⁾	24.09	25.20	Decrease by 1.11 percentage points	23.58

FINANCIAL SUMMARY

Asset quality indicators (%)	June 30, 2022	December 31, 2021	Increase/ decrease	December 31, 2020
Non-performing loan ratio ⁽⁶⁾	1.49	1.53	Decrease by 0.04 percentage point	1.42
Allowance to non-performing loans ⁽⁷⁾	185.74	174.61	Increase by 11.13 percentage points	191.01
Allowance to total loans ⁽⁸⁾	2.77	2.68	Increase by 0.09 percentage point	2.72

Capital adequacy indicators (%)	June 30, 2022	December 31, 2021	Increase/ decrease	December 31, 2020
Core tier-one capital adequacy ratio	8.04	8.13	Decrease by 0.09 percentage point	8.75
Tier-one capital adequacy ratio	9.64	10.80	Decrease by 1.16 percentage points	9.88
Capital adequacy ratio	11.75	12.89	Decrease by 1.14 percentage points	12.93

Notes:

* Annualized return rate.

- (1) Net assets per share attributable to shareholders of the Bank = (Equity attributable to shareholders of the Bank minus other equity instruments) divided by the total number of ordinary shares at the end of the period.
- (2) Basic earnings per share attributable to shareholders of the Bank = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by weighted average number of ordinary shares outstanding.
- (3) Return on average total assets = Net profit divided by the average balance of total assets at the beginning and at the end of the period.
- (4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by average balance of equity attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).
- (5) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (6) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (7) Allowance to non-performing loans = Balance of the allowance for ECLs of loans divided by balance of non-performing loans. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to non-performing loans shall not be less than 140%.
- (8) Allowance to total loans = Balance of the allowance for ECLs of loans divided by total loans and advances to customers. There is no difference between the indicator for the Group and the Bank, while the regulatory requirements specify that a legal person's allowance to total loans shall not be less than 2.1%.

EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER DOMESTIC AND INTERNATIONAL ACCOUNTING POLICIES

The net profit attributable to shareholders of the Bank for the reporting period ended June 30, 2022 and the equity attributable to shareholders of the Bank as at the end of the reporting period presented in the financial statements prepared by the Group under the China Accounting Standards are the same with that presented in the financial statements prepared by the Group under the International Financial Reporting Standards.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) ANALYSIS OF OVERALL OPERATION PERFORMANCE

Stable increase in business scale

As at the end of the reporting period, total assets of the Group amounted to RMB2,521.244 billion, representing an increase of RMB234.521 billion or 10.26% as compared to that at the end of last year, of which total loans and advances to customers amounted to RMB1,474.061 billion, representing an increase of RMB126.822 billion or 9.41% as compared to that at the end of last year. Total liabilities amounted to RMB2,362.892 billion, representing an increase of RMB243.052 billion or 11.47% as compared to that at the end of last year, of which customer deposits amounted to RMB1,640.464 billion, representing an increase of RMB224.759 billion or 15.88% as compared to that at the end of last year.

Positive trend in operating profitability

During the reporting period, operating income of the Group amounted to RMB31.778 billion, representing a period-on-period increase of RMB5.830 billion or 22.47%, of which net interest income amounted to RMB23.237 billion, representing a period-on-period increase of RMB2.859 billion or 14.03%, and net non-interest income amounted to RMB8.541 billion, representing a period-on-period increase of RMB2.971 billion or 53.34%. Net profit attributable to shareholders of the Bank amounted to RMB6.974 billion, representing a period-on-period increase of RMB123 million or 1.80%.

Maintaining sound asset quality

As at the end of the reporting period, the non-performing loan ratio was 1.49%, representing a decrease of 0.04 percentage point as compared to that at the end of last year; allowance to non-performing loan ratio was 185.74%, representing an increase of 11.13 percentage points as compared to that at the end of last year; the allowance to total loans ratio was 2.77%, representing an increase of 0.09 percentage point as compared to that at the end of last year.

Maintaining capital adequacy ratio at reasonable level

As at the end of the reporting period, the capital adequacy ratio of the Group amounted to 11.75%, representing a decrease of 1.14 percentage points as compared with that at the end of last year. The tier-one capital adequacy ratio amounted to 9.64%, representing a decrease of 1.16 percentage points as compared with that at the end of last year, and the core tier-one capital adequacy ratio amounted to 8.04%, representing a decrease of 0.09 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) ANALYSIS OF FINANCIAL STATEMENTS

1. Analysis of Consolidated Statement of Profit or Loss

In the first half of 2022, the Group has deeply implemented the decisions and deployment of the State and the requirements of the regulatory authorities of PRC under the guidance of the vision of being “a first-class commercial bank”, focused on four strategic priorities, took new steps towards high-quality development with our five major business segments that were advancing coordinately. In the first half of 2022, the Group achieved a net profit attributable to shareholders of the Bank of RMB6.974 billion, representing an increase of 1.80% on a period-on-period basis; the return on average total assets was 0.60% and the return on average equity was 10.29%. Operating income was RMB31.778 billion, representing an increase of 22.47% on a period-on-period basis, including net interest income of RMB23.237 billion, representing an increase of 14.03% on a period-on-period basis; net non-interest income of RMB8.541 billion, representing an increase of 53.34% on a period-on-period basis. Operating expenses were RMB7.988 billion, representing an increase of 14.72% on a period-on-period basis; cost-to-income ratio was 24.09%, representing a decrease of 1.11 percentage points on a period-on-period basis. Provision for expected credit losses was RMB15.301 billion, representing an increase of 41.23% on a period-on-period basis. The income tax expense was RMB1.316 billion, representing an increase of 13.16% on a period-on-period basis.

Changes of the main items in the consolidated statement of profit or loss

In RMB million, except percentages

Item	January to June 2022	January to June 2021	Amount of increase (decrease)	Increase (decrease) (%)
Net interest income	23,237	20,378	2,859	14.03
Net non-interest income	8,541	5,570	2,971	53.34
Operating income	31,778	25,948	5,830	22.47
Less: operating expenses	7,988	6,963	1,025	14.72
Less: expected credit losses	15,301	10,834	4,467	41.23
Profit before taxation	8,489	8,151	338	4.15
Less: income tax expense	1,316	1,163	153	13.16
Net profit	7,173	6,988	185	2.65
Attributable to: Shareholders of the Bank	6,974	6,851	123	1.80
Non-controlling interests	199	137	62	45.26

(1) Net interest income

In the first half of 2022, net interest income was RMB23.237 billion, representing an increase of RMB2.859 billion or 14.03% on a period-on-period basis, accounting for 73.12% of operating income; interest income was RMB49.752 billion, representing an increase of RMB4.601 billion or 10.19% on a period-on-period basis; interest expense was RMB26.515 billion, representing an increase of RMB1.742 billion or 7.03% on a period-on-period basis. Net interest spread was 2.08%, remaining constant on a period-on-period basis, and net interest margin was 2.28%, representing an increase of 0.01 percentage point on a period-on-period basis.

MANAGEMENT DISCUSSION AND ANALYSIS

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In RMB million, except percentages

Item	January to June 2022			January to June 2021		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	1,424,817	37,097	5.25	1,268,847	34,105	5.42
Investments ⁽¹⁾	550,701	10,542	3.86	446,692	9,306	4.20
Due from banks and other financial institutions ⁽²⁾	151,879	1,171	1.55	105,645	757	1.44
Balances with central bank ⁽³⁾	131,896	942	1.44	133,910	983	1.48
Total interest-earning assets	2,259,293	49,752	4.44	1,955,094	45,151	4.66
Item	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Customer deposits	1,489,652	16,826	2.28	1,339,627	16,625	2.50
Due to banks and other financial institutions ⁽⁴⁾	374,755	4,237	2.28	259,778	3,051	2.37
Due to central bank	54,361	734	2.72	59,316	835	2.84
Debt securities issued ⁽⁵⁾	344,629	4,649	2.72	273,398	4,191	3.09
Lease liabilities	2,952	69	4.71	2,975	71	4.81
Total Interest-bearing liabilities	2,266,349	26,515	2.36	1,935,094	24,773	2.58
Net interest income		23,237			20,378	
Net interest spread			2.08			2.08
Net interest margin ⁽⁶⁾			2.28			2.27

Notes:

- (1) including financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income and finance lease receivables.
- (2) including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets purchased under resale agreements.
- (3) including statutory deposit reserves and surplus deposit reserves.
- (4) including deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements.
- (5) including issued inter-bank certificates of deposits, financial bonds and subordinated bonds.
- (6) Net interest margin: the income generated from the business of financial assets measured at fair value through profit or loss was not classified as interest income categorized by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of changes in interest income and interest expense

In RMB million

Item	Comparison between January to June 2022 and January to June 2021		
	Factors for increase (decrease)		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	4,192	(1,200)	2,992
Investments	2,166	(930)	1,236
Due from banks and other financial institutions	330	84	414
Balances with central bank	(15)	(26)	(41)
Changes in interest income	6,673	(2,072)	4,601
Interest-bearing liabilities			
Customer deposits	1,860	(1,659)	201
Due to banks and other financial institutions	1,351	(165)	1,186
Due to central bank	(70)	(31)	(101)
Debt securities issued	1,091	(633)	458
Lease liabilities	(1)	(1)	(2)
Changes in interest expense	4,231	(2,489)	1,742
Changes in net interest income	2,442	417	2,859

Notes:

- (1) Change in volume represents the average balance for the reporting period minus the average balance for the same period of last year, multiplied by the average yield or average interest-bearing rate for the same period of last year.
- (2) Change in interest rate represents the average yield or average interest-bearing rate for the reporting period minus the average yield or average interest-bearing rate for the same period of last year, multiplied by the average balance for the reporting period.
- (3) Net increase or decrease represents interest income (expense) for the reporting period minus interest income (expense) for the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB37.097 billion, representing an increase of RMB2.992 billion or 8.77% on a period-on-period basis, mainly due to the increase in the size of loans and advances to customers.

In RMB million, except percentages

	January to June 2022			January to June 2021		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	1,052,349	24,733	4.74	922,183	22,366	4.89
Personal loans and advances	372,468	12,364	6.69	346,664	11,739	6.83
Total loans and advances to customers	1,424,817	37,097	5.25	1,268,847	34,105	5.42

Notes:

(1) Included discounted bills.

Interest income from investments

Interest income from investments was RMB10.542 billion, representing an increase of RMB1.236 billion or 13.28% on a period-on-period basis, mainly due to the increase in the size of investments.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB16.826 billion, representing a slight increase of RMB201 million or 1.21% on a period-on-period basis, primarily due to the increase in size of customer deposits and decrease in cost ratio.

In RMB million, except percentages

	January to June 2022			January to June 2021		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	802,038	10,667	2.68	635,111	8,766	2.78
Demand	510,154	3,846	1.52	411,340	2,859	1.40
Subtotal	1,312,192	14,513	2.23	1,046,451	11,625	2.24
Personal deposits						
Time	117,938	2,071	3.54	237,493	4,479	3.80
Demand	59,522	242	0.82	55,683	521	1.89
Subtotal	177,460	2,313	2.63	293,176	5,000	3.44
Total	1,489,652	16,826	2.28	1,339,627	16,625	2.50

Note:

(1) Other deposits include remittance payables, temporary deposits and outward remittance, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB4.237 billion, representing an increase of RMB1.186 billion or 38.87% on a period-on-period basis, primarily due to the increase in deposits from banks.

Interest expense on debt securities issued

Interest expense on debt securities issued amounted to RMB4.649 billion, representing an increase of RMB458 million or 10.93% on a period-on-period basis, primarily due to the increase in debt securities issued.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) Net non-interest income

Net non-interest income in the first half of 2022 amounted to RMB8.541 billion, representing an increase of RMB2.971 billion or 53.34% on a period-on-period basis. Among which, the net fee and commission income was RMB2.632 billion, representing an increase of RMB635 million on a period-on-period basis, while other net non-interest income was RMB5.909 billion, representing an increase of RMB2.336 billion on a period-on-period basis.

Net fee and commission income

In RMB million, except percentages

Item	January to June 2022	January to June 2021	Amount of increase (decrease)	Increase (decrease) (%)
Agency and entrusted service	874	661	213	32.22
Commitment and guarantee service	823	480	343	71.46
Underwriting and consultation service	547	458	89	19.43
Settlement and clearing service	285	246	39	15.85
Custodian and fiduciary service	256	247	9	3.64
Fee from bank cards	115	126	(11)	(8.73)
Others	75	91	(16)	(17.58)
Total fee and commission income	2,975	2,309	666	28.84
Less: fee and commission expense	343	312	31	9.94
Net fee and commission income	2,632	1,997	635	31.80

Fee income from the agency and entrusted business was RMB874 million, representing an increase of RMB213 million on a period-on-period basis, primarily due to the growth in business such as fund agency and asset management in the first half of the year.

Fee income from commitment and guarantee service was RMB823 million, representing an increase of RMB343 million on a period-on-period basis, primarily due to the increased scale of the guarantee commitment business.

MANAGEMENT DISCUSSION AND ANALYSIS

Other net non-interest income

In RMB million, except percentages

Item	January to June 2022	January to June 2021	Amount of increase (decrease)	Increase (decrease) (%)
Net trading gains	4,361	2,831	1,530	54.04
Net gains on financial investments	1,309	541	768	141.96
Other operating income	239	201	38	18.91
Total	5,909	3,573	2,336	65.38

Other net non-interest income was RMB5.909 billion, representing an increase of RMB2.336 billion or 65.38% on a period-on-period basis, primarily due to the increase in investments income on trading financial assets from the change in market interest rates on a period-on-period basis.

(5) Operating expense

In RMB million, except percentages

Item	January to June 2022	January to June 2021	Amount of increase (decrease)	Increase (decrease) (%)
Staff costs	5,048	4,446	602	13.54
General and administrative expenses	1,658	1,203	455	37.82
Depreciation and amortization	851	827	24	2.90
Taxes and surcharges	334	423	(89)	(21.04)
Others	97	64	33	51.56
Total	7,988	6,963	1,025	14.72

Operating expense amounted to RMB7.988 billion, representing an increase of RMB1.025 billion on a period-on-period basis, primarily due to our business expansion, the increased number of our outlets and staff, and the increase in general and administrative expenses.

(6) Expected credit losses

In RMB million

Item	January to June 2022	January to June 2021
Deposits with banks and other financial institutions	–	(4)
Placements with banks and other financial institutions	33	26
Financial assets purchased under resale agreements	6	–
Loans and advances to customers	8,849	7,171
Financial investments	5,916	3,437
Finance lease receivables	253	211
Off-balance sheet items	139	(187)
Other assets	105	180
Total	15,301	10,834

MANAGEMENT DISCUSSION AND ANALYSIS

(7) Income tax expense

The income tax expense was RMB1.316 billion, representing a period-on-period increase of RMB153 million or 13.16%, and the effective tax rate was 15.50%. For the reconciliation statement of the income tax expense calculated at statutory tax rate and the actual income tax expense, please see “Note III to Financial Statements – 8 Income Tax Expense”.

(8) Segment information

Segment operating results by business line

In RMB million, except percentages

Item	January to June 2022		January to June 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking business	15,955	50.21	12,852	49.53
Retail banking business	6,794	21.38	6,193	23.87
Treasury business	8,014	25.22	6,175	23.80
Other business	1,015	3.19	728	2.80
Total operating income	31,778	100.00	25,948	100.00

Segment operating results by geographic region

In RMB million, except percentages

Item	January to June 2022		January to June 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Yangtze River Delta Region	18,360	57.78	15,543	59.90
Bohai Rim Region	5,258	16.54	3,585	13.82
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	2,796	8.80	2,004	7.72
Midwestern China Region	5,364	16.88	4,816	18.56
Total operating income	31,778	100.00	25,948	100.00

For details of business segment and regional division, please see “Note V to Financial Statements – Segment Reporting”.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Analysis on Consolidated Statement of Financial Position

In the first half of 2022, the Group closely adhered to the national policies. Under the guidance of the twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”, we focused on our main responsibilities and principal businesses to lay the assets less sensitive to the economic cycle as a ballast stone. Thereby, the scale of various businesses grew steadily, the business structure was continuously optimized and the operating quality and profitability was effectively improved.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB2,521.244 billion, representing an increase of RMB234.521 billion or 10.26% as compared to that at the end of last year, of which net loans and advances to customers amounted to RMB1,434.565 billion, representing an increase of RMB122.676 billion or 9.35% as compared to that at the end of last year. Financial investments amounted to RMB679.980 billion, representing an increase of RMB28.158 billion or 4.32% as compared to that at the end of last year. In terms of the structure, net loans and advances to customers accounted for 56.90% of total assets, decreased by 0.47 percentage point as compared to that at the end of last year, and the financial investments accounted for 26.97%, decreased by 1.53 percentage points as compared to that at the end of last year.

Assets utilization

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	1,474,061		1,347,239	
Less: allowance for ECLs of loans ⁽¹⁾	39,496		35,350	
Net loans and advances to customers	1,434,565	56.90	1,311,889	57.37
Financial investments ⁽²⁾	679,980	26.97	651,822	28.50
Cash and balances with central bank	151,645	6.01	141,510	6.19
Precious metal	6,947	0.28	5,899	0.26
Due from banks and other financial institutions ⁽³⁾	140,752	5.58	74,505	3.26
Other assets	107,355	4.26	101,098	4.42
Total assets	2,521,244	100.00	2,286,723	100.00

Notes:

- (1) Allowance for ECLs of loans represents allowance made for ECLs of loans and advances to customers measured at amortized cost.
- (2) The financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (3) Due from banks and other financial institutions include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and advances to customers

The Group actively implemented the plans of the CCP Central Committee, the State Council and the regulatory authorities in relation to serving the real economy, adhered to the origin of financial services for the real economy, continued to strengthen credit investment to small and micro enterprises, manufacturing enterprises, green and carbon finance and other key areas and industries supported by the State, improved the quality and profitability of services for the real economy. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB1,474.061 billion, representing an increase of RMB126.822 billion or 9.41% as compared to that at the end of last year.

Loans and advances to customers structure by business type

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans and advances	990,787	67.22	882,990	65.54
Discounted bills	93,759	6.36	78,855	5.85
Personal loans and advances	384,780	26.10	381,494	28.32
Changes in fair value through other comprehensive income	536	0.04	238	0.02
Accrued interest	4,199	0.28	3,662	0.27
Total	1,474,061	100.00	1,347,239	100.00

Corporate loans and advances

The Group fully leveraged its differentiated and distinctive competitive advantages to continuously improve its customer service capabilities and customer acquisition capabilities, strengthened the cooperation with clients and continued to optimise the structure of corporate loans. As at the end of the reporting period, total corporate loans and advances amounted to RMB990.787 billion, representing an increase of 12.21% as compared to that at the end of last year.

Discounted bills

Through measures such as optimization of structure and acceleration of turnover, the Group improved the overall returns on bill assets. As at the end of the reporting period, discounted bills amounted to RMB93.759 billion, representing an increase of 18.90% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Personal loans and advances

The Group vigorously developed its wealth management business, focused on developing its private bank business, continued to develop its personal consumer credit business, improved its retail customer operation capabilities, expanded its customer base, continued to optimise the structure of personal loans and promoted the growth of the personal loan business. As at the end of the reporting period, total personal loans and advances amounted to RMB384.780 billion, representing an increase of 0.86% as compared to that at the end of last year.

Financial investments

The Group improved the efficiency of fund utilisation and optimized investment portfolio and structure on the basis of ensuring liquidity and risk control. As at the end of the reporting period, balance of financial investments amounted to RMB679.980 billion, representing an increase of 4.32% as compared to that at the end of last year.

Financial investment composition

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Fund investments	106,510	15.66	88,881	13.64
Bond investments	486,887	71.60	466,736	71.60
Trust schemes and asset management plans	91,107	13.40	98,122	15.05
Other financial investments	6,491	0.96	6,945	1.07
Accrued interest	8,263	1.22	7,813	1.20
Allowance for ECLs	(19,278)	(2.84)	(16,675)	(2.56)
Total	679,980	100.00	651,822	100.00

Note: Other financial investments include equity investments, other debt instruments and other equity instrument investments.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB2,362.892 billion, representing an increase of RMB243.052 billion or 11.47% as compared to that at the end of last year.

Liabilities Composition

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Due to central bank	56,483	2.39	50,990	2.41
Customer deposits	1,640,464	69.43	1,415,705	66.79
Due to banks and other financial institutions	292,041	12.36	277,997	13.11
Financial liabilities at fair value through profit or loss	12,132	0.51	12,512	0.59
Debt securities issued	319,610	13.53	318,908	15.04
Others	42,162	1.78	43,728	2.06
Total liabilities	2,362,892	100.00	2,119,840	100.00

Note: Due to banks and other financial institutions include deposits from banks and other financial institutions, placements from banks and other financial institutions, and financial assets sold under repurchase agreements.

Customer deposits

Apart from enhancing the management of debt quality, the Group strengthened the customer base, and continued to optimize the deposit structure and controlled its costs. As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB1,640.464 billion, representing an increase of RMB224.759 billion or 15.88% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by RMB230.690 billion or 19.04% as compared to that at the end of last year; and personal deposits decreased by RMB11.647 billion or 6.28% as compared to that at the end of last year. With respect to term structures, time deposits increased by RMB161.254 billion or 21.17% as compared to that at the end of last year; and demand deposits increased by RMB57.789 billion or 9.10% as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Structure of customer deposits by business type

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	636,559	38.80	566,580	40.02
Time	805,608	49.12	644,897	45.56
Sub-total	1,442,167	87.92	1,211,477	85.58
Personal deposits				
Demand	56,435	3.44	68,625	4.85
Time	117,370	7.15	116,827	8.25
Sub-total	173,805	10.59	185,452	13.10
Other deposits	4,485	0.27	1,758	0.12
Accrued interest	20,007	1.22	17,018	1.20
Total	1,640,464	100.00	1,415,705	100.00

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB155.527 billion in total, representing a decrease of RMB8.642 billion or 5.26% as compared to that at the end of last year. Please see "Financial Statements-Consolidated Statement of Changes in Shareholders' Equity".

MANAGEMENT DISCUSSION AND ANALYSIS

(III) ANALYSIS OF THE LOAN QUALITY

1. Loans distribution by risk classification

In RMB million, except percentages

Item	June 30, 2022		December 31, 2021	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	1,403,227	95.20	1,292,789	95.96
Special mention	44,130	2.99	29,883	2.22
Non-performing	21,969	1.49	20,667	1.53
Substandard	7,435	0.51	5,275	0.39
Doubtful	11,253	0.76	12,452	0.92
Loss	3,281	0.22	2,940	0.22
Changes in fair value through other comprehensive income	536	0.04	238	0.02
Accrued interest	4,199	0.28	3,662	0.27
Total loans and advances to customers	1,474,061	100.00	1,347,239	100.00

The loan quality of our Group was kept at a stable level. As at the end of the reporting period, according to the risk classification of the supervision system, the pass loans amounted to RMB1,403.227 billion, representing an increase of RMB110.438 billion as compared with that at the end of last year, accounting for 95.20% of total loans and advances to customers. Loans classified as special mention were RMB44.130 billion, representing an increase of RMB14.247 billion as compared with that at the end of last year, accounting for 2.99% of total loans and advances to customers. The non-performing loans were RMB21.969 billion, representing an increase of RMB1.302 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.49%, representing a decrease of 0.04 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Distribution of loans and non-performing loans by business type

In RMB million, except percentages

Item	June 30, 2022				December 31, 2021			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	990,787	67.22	16,454	1.66	882,990	65.54	16,581	1.88
Personal loans and advances	384,780	26.10	5,515	1.43	381,494	28.32	4,086	1.07
Discounted bills	93,759	6.36	0	0.00	78,855	5.85	0	0.00
Changes in fair value through other comprehensive income	536	0.04	N/A	N/A	238	0.02	N/A	N/A
Accrued interest	4,199	0.28	N/A	N/A	3,662	0.27	N/A	N/A
Total loans and advances to customers	1,474,061	100.00	21,969	1.49	1,347,239	100.00	20,667	1.53

As at the end of the reporting period, our corporate non-performing loans amounted to RMB16.454 billion, representing a decrease of RMB0.127 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.66%, representing a decrease of 0.22 percentage point as compared with that at the end of last year. The personal non-performing loans were RMB5.515 billion, representing an increase of RMB1.429 billion as compared with that at the end of last year, with a non-performing loan ratio of 1.43%, representing an increase of 0.36 percentage point as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Distribution of loans and non-performing loans by industry

In RMB million, except percentages

Item	June 30, 2022				December 31, 2021			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans and advances	990,787	67.22	16,454	1.66	882,990	65.54	16,581	1.88
Leasing and commercial services	214,700	14.56	2,116	0.99	189,602	14.07	2,586	1.36
Manufacturing	200,926	13.63	7,726	3.85	174,473	12.96	6,927	3.97
Real estate	178,150	12.09	1,612	0.90	168,724	12.52	1,052	0.62
Wholesale and retail trade	156,662	10.63	1,433	0.91	127,356	9.45	1,641	1.29
Administration of water conservancy, environment and public facilities	60,016	4.07	6	0.01	50,091	3.72	264	0.53
Construction	58,236	3.95	568	0.98	57,425	4.26	761	1.33
Financing	27,537	1.87	0	0.00	30,277	2.25	0	0.00
Electricity, heat, gas and water production and supply	13,696	0.93	125	0.91	14,999	1.11	37	0.25
Transportation, storage and postal service	13,066	0.89	72	0.55	11,466	0.85	64	0.56
Accommodation and Catering	11,877	0.81	99	0.83	12,493	0.93	160	1.28
Mining	10,068	0.68	191	1.90	8,113	0.60	332	4.09
Others ⁽¹⁾	45,853	3.11	2,506	5.47	37,971	2.82	2,757	7.26
Personal loans and advances	384,780	26.10	5,515	1.43	381,494	28.32	4,086	1.07
Discounted bills	93,759	6.36	0	0.00	78,855	5.85	0	0.00
Changes in fair value through other comprehensive income	536	0.04	N/A	N/A	238	0.02	N/A	N/A
Accrued interest	4,199	0.28	N/A	N/A	3,662	0.27	N/A	N/A
Total loans and advances to customers	1,474,061	100.00	21,969	1.49	1,347,239	100.00	20,667	1.53

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education; health, social security and social welfare.

In the first half of 2022, our Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. Differential risk prevention and control strategies were formulated for areas such as real estate with a view to optimising the allocation of credit resources continually.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Distribution of loans and non-performing loans by geographic region

In RMB million, except percentages

Item	June 30, 2022				December 31, 2021			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta Region	795,226	53.94	13,549	1.70	731,277	54.28	14,519	1.99
Midwestern China Region	270,122	18.33	5,431	2.01	242,868	18.03	3,216	1.32
Bohai Rim Region	216,321	14.68	1,773	0.82	193,924	14.39	2,207	1.14
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	187,657	12.73	1,216	0.65	175,270	13.01	725	0.41
Changes in fair value through other comprehensive income	536	0.04	N/A	N/A	238	0.02	N/A	N/A
Accrued interest	4,199	0.28	N/A	N/A	3,662	0.27	N/A	N/A
Total loans and advances to customers	1,474,061	100.00	21,969	1.49	1,347,239	100.00	20,667	1.53

As at the end of the reporting period, the region where the Group incurred a relatively large volume of non-performing loans was the Yangtze River Delta Region. Taking into account economic characters of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks and support regional development.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Distribution of loans and non-performing loans by security type

In RMB million, except percentages

Item	June 30, 2022				December 31, 2021			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Mortgage loans	650,388	44.12	6,742	1.04	599,867	44.52	5,913	0.99
Pledged loans	101,869	6.91	1,592	1.56	100,573	7.47	777	0.77
Guaranteed loans	284,962	19.33	9,123	3.20	199,474	14.81	10,197	5.11
Unsecured loans	338,348	22.96	4,512	1.33	364,570	27.06	3,780	1.04
Discounted bills	93,759	6.36	0	0.00	78,855	5.85	0	0.00
Changes in fair value through other comprehensive income	536	0.04	N/A	N/A	238	0.02	N/A	N/A
Accrued interest	4,199	0.28	N/A	N/A	3,662	0.27	N/A	N/A
Total loans and advances to customers	1,474,061	100.00	21,969	1.49	1,347,239	100.00	20,667	1.53

The secured loan structure of the Group basically remained stable. As at the end of the reporting period, the mortgage loans accounted for 44.12% of the total loans and advances to customers, which was a relatively high percentage; the mortgage loans balance was RMB650.388 billion, representing an increase of RMB50.521 billion compared with that at the end of last year; the balance of non-performing loans among mortgage loans was RMB6.742 billion, with the non-performing loan ratio of 1.04%, representing an increase of 0.05 percentage point compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Top ten borrowers

In RMB million, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Real estate	4,800	0.33
B	Leasing and commercial services	3,940	0.27
C	Real estate	3,680	0.25
D	Leasing and commercial services	3,379	0.23
E	Leasing and commercial services	3,100	0.21
F	Leasing and commercial services	3,038	0.21
G	Manufacturing	2,947	0.20
H	Manufacturing	2,582	0.18
I	Real estate	2,550	0.17
J	Real estate	2,307	0.16
Total		32,323	2.19

As at the end of the reporting period, the balance of loans to the single largest borrower of the Group was RMB4.800 billion, representing 2.56% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB32.323 billion, representing 17.23% of the net capital and 2.19% of the total loans and advances to customers of the Group.

7. Overdue loans

In RMB million, except percentages

	June 30, 2022		December 31, 2021	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue period				
Overdue by 1 day to 90 days	7,602	0.52	5,166	0.38
Overdue by 90 days to one year	8,593	0.58	6,554	0.49
Overdue by one year to three years	10,765	0.73	10,461	0.78
Overdue by more than three years	482	0.03	235	0.02
Total	27,442	1.86	22,416	1.66

As at the end of the reporting period, the balance of overdue loans amounted to RMB27.442 billion, representing an increase of RMB5.026 billion as compared with that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB19.840 billion, representing an increase of RMB2.590 billion as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Renegotiated loans

The Group conducted strict and prudent control over loan renegotiation. As at the end of the reporting period, total renegotiated loans and advances amounted to RMB531 million, representing a decrease of RMB304 million as compared with that at the end of last year. Among them, total renegotiated loans and advances that were overdue by more than 3 months amounted to RMB66 million, representing a decrease of RMB20 million as compared with that at the end of last year.

9. Repossessed assets and provision for impairment

As at the end of the reporting period, the balance of repossessed assets (non-financial instruments) of the Group was RMB974 million, and the net book value was RMB859 million after deducting the provision for impairment of RMB115 million.

10. Movements of the allowance for ECLs of loans

In RMB million

Item	Amount
Balance at the beginning of the period	36,087
Charge for the period	8,849
Unwinding of discount on allowance for ECLs	(113)
Write-offs	(4,237)
Transfer out	(646)
Recoveries of loans and advances previously written off	838
Impact of exchange rate fluctuations	27
Balance at the end of the period	40,805

Note: Including allowance for ECLs of loans and advances to customers measured at amortized cost and measured at fair value through other comprehensive income.

(IV) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) 《商業銀行資本管理辦法(試行)》, the measurement range of the Group's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2022, capital adequacy ratio of the Group was 11.75%, tier-one capital adequacy ratio was 9.64%, core tier-one capital adequacy ratio was 8.04%, and leverage ratio was 4.97%, all of which met regulatory requirements.

Capital adequacy ratio (the Group)

In RMB million, except percentages

Item	June 30, 2022	December 31, 2021
Net core tier-one capital	128,357	122,602
Other tier-one capital	25,443	40,224
Net tier-one capital	153,800	162,826
Tier-two capital	33,754	31,530
Net capital base	187,554	194,356
Risk-weighted assets	1,596,179	1,507,438
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	–	–
Core tier-one capital adequacy ratio (%)	8.04	8.13
Tier-one capital adequacy ratio (%)	9.64	10.80
Capital adequacy ratio (%)	11.75	12.89

Leverage ratio (the Group)

In RMB million, except percentages

Item	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Leverage ratio (%)	4.97	5.07	5.93	5.21
Net tier-one capital	153,800	152,483	162,826	135,592
Adjusted asset balance inside and outside the balance sheet	3,091,695	3,010,095	2,747,016	2,604,657

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2022, capital adequacy ratio of the Company was 11.73%, tier-one capital adequacy ratio was 9.62%, core tier-one capital adequacy ratio was 8.00%, and leverage ratio was 4.89%, all of which met regulatory requirements.

Capital adequacy ratio (the Company)

In RMB million, except percentages

Item	June 30, 2022	December 31, 2021
Net core tier-one capital	123,859	118,229
Other tier-one capital	24,995	39,953
Net tier-one capital	148,854	158,182
Tier-two capital	32,718	30,147
Net capital base	181,572	188,329
Risk-weighted assets	1,547,943	1,463,022
Minimum capital requirement (%)	8.00	8.00
Reserve capital and countercyclical capital requirement (%)	2.50	2.50
Additional capital requirement	–	–
Core tier-one capital adequacy ratio (%)	8.00	8.08
Tier-one capital adequacy ratio (%)	9.62	10.81
Capital adequacy ratio (%)	11.73	12.87

Leverage ratio (the Company)

In RMB million, except percentages

Item	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Leverage ratio (%)	4.89	4.98	5.84	5.13
Net tier-one capital	148,854	147,597	158,182	131,638
Adjusted asset balance inside and outside the balance sheet	3,045,047	2,965,702	2,706,360	2,568,340

MANAGEMENT DISCUSSION AND ANALYSIS

(VI) RISK MANAGEMENT

1. Comprehensive risk management system

Adopting a “prudent and solid” risk appetite and adhering to the principle of “small and diversified” credit granting, the Company is committed to serving the real economy, strengthens the guidance of policies, focuses on credit-granting as the principal business, optimizes asset allocation, enhances customer bases and establishes an asset structure that is less sensitive to the economic cycle. The Group also strictly controls the risk of new business and accelerates the addressing of existing risks to maintain stable asset quality, deepens the application of financial technology to improve the digital risk control system, strengthens the risk management of the whole process and risk control in key areas to accelerate the construction of a comprehensive risk management system adaptive to the new situation and support the high-quality and sustainable development of the five business segments.

The Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the Senior Management is responsible for implementing comprehensive risk management. The Company establishes the position of chief risk officer. The Senior Management has established special committees including the risk management and internal control committee, asset and liability management committee, credit, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at our head office is the coordination department for comprehensive risk management and the leading executive department for management of the credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at our head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at our head office is the leading executive department for operational risk and compliance risk management. The general office of the Board at our head office is the leading executive department for reputational risk management. The development and planning department at our head office is the leading executive department for strategic risk management.

The Company assigns risk monitoring officers to departments subject to higher business complexity and relatively concentration risks at our head office. Risk monitoring officers are responsible for helping leading officers of accrediting departments organize risk management. They are independent of such departments and directly report to our head office. They make business judgment and report on risk issues independently. The Company assigns to its branches risk monitoring officers, who help presidents of such branches organize comprehensive risk management with a focus on credit business related risk management, focus on the management and control over risks of large credit-granting customers as well as complicated and difficult businesses and are independent of such branches and directly report to our head office. They make business judgment and report on risk issues independently.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Credit risk management

Credit risk refers to the risk of the Company suffering from losses due to defaults of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in on- and off-balance sheet business, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit, letters of guarantee, bond holdings and special purpose vehicle investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, the Senior Management, the risk management and internal control committee, the credit, investment and transaction review committee of the head office, the credit, investment and transaction review committee of the branches, the credit review teams of sub-branches, the risk management department of the head office and other credit risk control departments, business operation and management departments, financial technology department, audit department, branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the credit risk management as well as the formulation and implementation of systems and policies relating to credit risk management.

The Company formulates fundamental credit policies based on changes in external operating environment, internal operating and risk conditions. Such policies expressly set out guidance on certain aspects of our credit business, such as customer structure, industry structure, regional structure and key business areas. In addition, the Company regularly adjusts its credit policies based on a continuous tracking of the development trends in the macro economy and the industry.

The Company classifies its credit assets by reference to the standards set forth in the Guidelines on Risk-Based Classification of Loans 《貸款風險分類指引》 of the CBIRC, comprehensively taking into account such factors as a borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of a credit project and status of a guarantee. The Company has the classification and identification procedures where the credit asset risks are initially classified by client managers, then reviewed by the head of the marketing department and examined by risk management personnel and finally determined by authorized people.

MANAGEMENT DISCUSSION AND ANALYSIS

(1) Credit risk management for corporate customers

The Company conducts a unified credit management of corporate customers and determines the maximum comprehensive credit lines available to entities, subject to a credit limit, upon a comprehensive analysis and evaluation of the risks and financial position of customers and taking consideration the risk tolerance and risk ability of the Company. Besides, it also conducts a centralized and unified control over all credit businesses carried out with it.

The Company strictly complies with relevant regulatory requirements of the CBIRC and puts loans (including trade financing), bill acceptances and discounting, overdrafts, bond investments, special purpose vehicle investments, opening letters of credit, factoring, guarantees, loan commitments and other businesses where credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limits of single corporate customers and group customers.

The Company continuously enhances the construction of our credit system, formulates a unified credit quota management system for our corporate customers, intensifies our comprehensive management and unified control of the total credit quota amount of our corporate customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company further improves the concentration risk management, formulates the concentration risk management related systems, clarifies the responsibilities allocation and main methods of concentration risk management, and continues to promote the construction of concentration risk management.

The Company continuously enhances the management of loan risks related to financing platforms of local governments (defined in the Company's policy as state-owned enterprises in urban construction and public services categories; similarly hereinafter), strictly complies with various loan policies and regulatory requirements of the CBIRC on financing platforms of local governments, makes dynamic adjustments to targets of credit granting, and further optimizes the loan structure of financing platforms to prevent credit risks that may arise from local governments' financing platforms; sets credit limits for loans to local governments' financing platforms and enhances our monitoring and management on the loan risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate related credit business prudently, and adjusts our credit extension orientation for the real estate industry in a duly manner according to national policy and industrial operation situation. The Company sets dynamic credit limits for loans we grant to the customers in the real estate industry and adopts the name list system management, and continuously adjusts and optimizes the asset structure, as well as strengthens the monitoring and management of risks relating to existing loans.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Credit risk management for small and micro enterprises

The Company conducts unified credit extension management for small and micro enterprise customers, and integrates all types of credit business of small and micro enterprise customers into our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs out and standardizes the procedures and requirements for credit extension to gradually cultivate a featured and standard credit extension model of the Company.

The Company continuously strengthens the management of credit risks of small and micro enterprise business and intensifies measures for risk mitigation. The Company strictly controls overdue loans and non-performing loans by measures, such as tracking overdue loans and on-site and off-site monitoring.

(3) Credit risk management for retail customers

The Company actively builds its credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company formulates the entry barriers for different groups of customers, adopts controls over overall limits of personal loans, restrains risks associated with loans with multiple borrowers as well as improves and optimizes the management mechanism of credit risks associated with personal loans. The Company continuously enhances selection and management of guarantees and improves its ability to mitigate credit risks. The Company continues to strengthen subsequent management of personal loans such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans.

The Company has established a credit card risk management system featuring pre-business risk prevention, on-going risk monitoring during the process and post-business risk management. The Company has formulated a complete set of rules and regulations to standardize various credit card business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. The Company continues to improve the design and operation of procedures for card issuance business, the determination and control of overall business risk tolerance, as well as the identifying, measuring, monitoring, assessment, control, mitigation and disposal of risks during and after the grant of a loan.

(4) Credit risk management for financial institution customers

The Company includes financial institution customers in unified credit management. The Company has formulated unified management measures and relevant operating procedures for the unified line of credit of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension to financial institution customers.

The Company's business with financial institution customers involving customer credit risk is covered in our unified credit extension management. When conducting business, the Company will draw up the customers' credit lines in accordance with relevant policies for the management of the concentration of customer risks.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Market risk management

Market risk refers to the risk of losses of on- and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. Market risk can be divided into interest rate risk, exchange rate risk, stock risk and commodity risk. The term “market risk” in this section refers specifically to market risk other than interest rate risk of banking book (for the interest rate risk of banking book, please refer to the relevant content of “7. Interest rate risk management of banking book” below).

The objectives of our market risk management are to control our market risks within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s market risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, financial market department, financial technology department, audit department, other departments, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Company can effectively identify, measure, monitor and control a series of market risks borne by various businesses.

The market risk measurement methods adopted by the Company include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Company to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Company has established a market risk management system pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

The Company regularly updates and improves its market risk appetite and limit management system, continues to improve the market risk management systems and market risk measurement systems. The Company conducts market risk measurement, monitoring and routine management by using the independent market risk management platform. The Company values positions of our trading book on a daily basis, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Liquidity risk management

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial conditions, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable costs and to control our liquidity risks within a reasonable range acceptable to us.

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, FinTech department, audit department, other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the liquidity risk management as well as promoting the establishment of the relevant policies and systems.

The Company managed the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Company can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels construction and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the early-warning monitoring and management of liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak links in the Company's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As at the end of the reporting period, the Company's total liquidity ratio of the local currencies and foreign currencies was 54.02%. Our liquidity coverage ratio was 160.09%, among which, high quality liquid assets amounted to RMB246.194 billion, and the net cash outflows over the next 30 days was RMB153.789 billion. The Company's net stable fund ratio was 105.20%, among which, stable fund available was RMB1,334.342 billion and stable fund required was RMB1,268.348 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the end of the reporting period, the Company's total liquidity ratio of the local currencies and foreign currencies was 53.84%. Our liquidity coverage ratio was 156.28%, among which, the high quality liquid assets amounted to RMB246.194 billion, and the net cash outflows over the next 30 days was RMB157.534 billion. The relevant information on the net stable fund ratio of the Group in the last two quarters was set out below:

Currency: total of local currencies and foreign currencies

Date	Net stable fund ratio (%)	Stable fund available (in 100 million of RMB)	Stable fund required (in 100 million of RMB)
As at June 30, 2022	103.83	13,509.56	13,011.27
As at March 31, 2022	101.05	13,032.85	12,897.48

5. Operational risk management

Operational risk refers to the risk of losses that may be incurred due to imperfect or problematic internal procedures, personnel and information technology systems, as well as external events. Types of incidents of losses due to operational risks that the Company may expose to mainly include seven categories, i.e. internal fraud, external fraud, employment systems and safety incidents at working places, incidents related to clients, products and business activities, damage to real property, incidents related to information technology system and incidents related to execution, closing and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, internal control and compliance and legal department, financial technology department, audit department, other departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing its operational risk management as well as formulation and implementation of basic systems and policies of the Bank for operational risk management.

The objectives of our operational risk management are to "control our operational risks within a reasonable range acceptable to us and maximize comprehensive benefits of the Bank after risk adjustment". The Company has established an operational risk management system which was matched with our business nature, scale and complexity. The Company exercises a whole-process management of operational risks, and effectively identifies, evaluates, monitors and controls/mitigates the operational risks by enhancing our internal control as an effective means to operational risk management.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company followed the management principles of “full coverage, clearly defined duties, honest reporting and quick response”, adjusted its management strategies and priorities in due time according to changes in internal and external financial situations, continued to optimize its operational risk management systems appropriate to our business nature, size and complexity to effectively identify, evaluate, monitor and control (mitigate) operational risks. The Company improved its operational risk management systems by optimizing risk management and control methods and management process; strengthened the systematic construction in key areas, with continuous efforts to optimize the functions of systems across the Bank to improve the rigid control and service capabilities of these systems; actively implemented the latest requirements in the new standard method of Basel III by promoting the new capital regulation projects; strengthened legal risk prevention and control, making timely revisions to model contracts in accordance with the legislative and judicial dynamics and business development; improved staff management with closer controls over the performance of key positions and carried out the inspection on staff abnormal behavior, actively implemented the requirements of COVID-19 pandemic prevention and control; intensified supervision, inspection and accountability, in particular, identifying risks hidden in key areas and key processes, as well as improving its in-house ability in risk identification and correction; and improved safety and security management to ensure safe production at important points in time by carrying out safety inspections to eliminate risks and hazards in a timely manner. During the reporting period, the operational risk management systems of the Company operated stably and the operational risk was generally under control.

6. Country risk management

Country risk refers to the risk incurred due to any economic, political or social change and incident in a country or region which results in the borrowers or debtors in such country or region being unable or refusing to repay their debts or results in any losses to the business presence of the Company in such country or region or any other losses to the Company.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s country risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, planning and finance department (asset and liability management department), international business department, financial market department, retail financial head office and other business operation and management departments of the head office, financial technology department and audit department, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the country risk management as well as the formulation and implementation of relevant systems and policies for country risk management.

The Company continuously advances the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company has formulated basic country risk management systems, quota management measures and schemes, clarified the organizational structure and division of responsibilities, limit framework, management mechanism, etc., with respect to country risk limit management, and set the index and threshold of country risk limits. We regularly assess and monitor the country risks and make provision for country risks.

MANAGEMENT DISCUSSION AND ANALYSIS

7. Interest rate risk management of banking book

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gain of the banking book arising from adverse changes in interest rate levels and term structure etc., mainly including gap risk, benchmark risk and option risk.

The objectives of our interest rate risk management of banking book are to control our interest rate risk of banking book within a reasonable range acceptable to us, reduce the volatilities of net interest income and economic value of banking book, and maximize the comprehensive benefits across the Bank.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (the asset and liability management department), financial market department, FinTech department, audit department and other operation and management departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Company measures and evaluates our interest rate risk of banking book mainly through repricing gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Company has paid close attention to the actual situations of external macroeconomic environment and internal interest rate risk on the banking book, and proactively adjusted its asset and liability business structure. During the reporting period, the Company's interest rate risk on the banking book was generally under control.

8. Reputational risk management

Reputation risk refers to the risk of negative evaluation of the Company by stakeholders, the public and the media as a result of the Company's behavior, the conduct of its employees or external events, thereby damaging the Company's brand value, adversely affecting the Company's normal operation and even affecting market stability and social stability.

Reputation risk management refers to the establishment of processes for a reputation risk management system, covering prior assessment, risk monitoring, classification and evaluation, response and disposal, information reporting, assessment and accountability, and evaluation and conclusion, in order to achieve the objectives of reputation risk management and build up a good social image of the Company, thereby forming a complete loop of reputation risk management, and improving the daily management of reputation risk in terms of risk identification and inspection, emergency drills, joint mechanism, social supervision, accumulation of reputation capital, internal audit and interbank collaboration.

The objectives of our reputational risk management are to correctly handle news and public opinions on us, public relations and our relationships with customers, actively and effectively prevent reputational risks and respond to reputational events, so as to minimize the losses and negative impacts caused by such events on the Company, interested parties and the public. The Company has included reputational risk management in its corporate governance and comprehensive risk management system.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, the Board executive office, risk management department, FinTech department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the reputational risk management across the Bank as well as organizing the development and implementation of relevant systems and policies for reputational risk management of the Company.

During the reporting period, the Company thoroughly implemented the reputational risk management requirements of the CBIRC, improved the public opinion work system and refined its all-process management. The Company has improved the foresight, timeliness and effectiveness of reputational risk prevention and control through strict pre-assessment, strengthening real-time monitoring and actively responding to disposal, so as to properly prevent and control the reputational risk. Meanwhile, the Company has further increased publicity and training efforts to enhance the ability to provide quality coverage and public opinion prevention and control across the Bank. The Company has optimized the communication methods and enhance public opinion guidance to enhance the social influence and brand reputation of the Company effectively.

9. Strategic risk management

Strategic risk refers to the risk arising from any improper operational strategy or change in the external business environments, including improper strategic design, inappropriate strategic implementation and inapplicable stated strategy as a result of changes in the internal and external environments.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, risk management department, development and planning department, audit department, FinTech department, other relevant departments of the head office, as well as domestic and foreign branches, sub-branches and subsidiaries.

Adhering to the principle of "clear responsibilities, proactive prevention, overall evaluation and timely adjustment", the Company constantly improves and refines the strategic risk management system suitable for the scale and features of its business, and has realized effective management of strategic risks. Main management measures include: guided by General Secretary Xi's important instructions to CZBank, our Bank has clarified its development vision and target positioning as "a first-class commercial bank"; built a digital reform structure system and systematically launched digital reform; launched a three-year action of "deepening Zhejiang development" and fully implemented the primary strategy of deepening Zhejiang development; comprehensively strengthened the leadership of the Party, promoted the improvement of corporate governance, and implemented a systematic remodeling project with the reconstruction of the three systems of authorization, control and supervision. Meanwhile, our Bank has conscientiously implemented the decision and deployment of Central Committee of CPC and State Council and the Zhejiang Provincial Committee and the Provincial Government, strengthened the mission and responsibility to do well in helping the enterprises and stabilizing the economy, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Compliance risk management

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, rules and standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote the development of a comprehensive risk management system which enables us to operate in a lawful and compliant manner.

The Company's compliance risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, the risk management and internal control committee, the risk management department, internal control, compliance and legal affair department, the audit department, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the compliance risk management as well as the formulation and implementation of each basic system and policy for compliance risk management.

During the reporting period, the Company has paid close attention to the changes in the economic and financial situation, proactively adapted to the adjustment of regulatory policies, strictly implemented regulatory policies and requirements, and taken multiple measures to comprehensively improve the quality and effectiveness of internal control and compliance management. The Company has actively conducted compliance culture promotion, implemented the internal control and compliance and case prevention commitment system to create a good compliance atmosphere. We have also strengthened staff compliance education, by launching compliance knowledge learning activities to enhance staff's awareness of compliance. The Company has continued to improve the rules and regulations system, strengthen daily management and post-evaluation of the system to effectively enhance the quality and effectiveness of system management. We have insisted on technology empowerment, actively explored the intelligent internal control platform on big data, continuously optimized the systems of internal control, compliance and operational risk, system management to increase the level of internal control and compliance management. The Company has kept a close watch on the red line and bottom line by strengthening the management and inspection on business lines and functional lines, and standardizing accountability and punishment. The Company has developed four special action plans for risk prevention and control, promoted compliance control gateway to move forward, to build a firm compliance barrier. We put the people first, doing well in protecting consumer rights.

MANAGEMENT DISCUSSION AND ANALYSIS

11. Information technology risk management

Information technology risk refers to any operational, legal and reputational risk arising from natural factors, human factors, technical bugs and management defects in connection with the application of information technologies by the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, Senior Management, risk management and internal control committee, information technology management committee, business continuity management committee, the risk management department, the financial technology department, audit department, other relevant departments of the head office as well as branches, sub-branches and subsidiaries. The Senior Management is responsible for implementing and organizing the information technology risk management as well as formulating and implementing relevant systems and policies for information technology risk management.

The Company has established a relatively well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO20000, ISO22301 and ISO27001 management system and regulatory requirements; established relatively well-organized systems for business continuity management, information technology outsourcing risk management, network security management, data security management, information technology services management etc. and a relatively well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company has continued to upgrade and improve its basic financial technology capability, strengthen the leadership of financial technology innovation, promote the digitalization reform of the whole bank in an all-round and systematic manner, and launch the strategic brand of "Digital Intelligence CZBank (數智浙銀)"; it continuously improved network security governance, data security management and customer financial information protection, by relying on the "CZBank Network Security Innovation Lab", strengthening network security innovation and talent cultivation, and enhancing network security operation and protection; it continuously carried out monitoring, assessment, measurement, control and reporting of operational risks of important information systems to implement digital transformation of production operation and maintenance and enhance lean operation and maintenance capabilities; it continued to improve the disaster preparedness system of "three centres in two cities", and advance the dual-active deployment of disaster recovery for application systems to realize the dual-active normal operation of important applications and further enhance the guarantee capability for business continuity; it also continued to promote emergency management, by improving emergency plans and conducting information system real fast, automatic switching drills to further enhance the real availability of disaster preparedness environment, and disaster preparedness real takeover business capabilities. During the reporting period, the system has operated stably without any substantial information technology risk occurring.

MANAGEMENT DISCUSSION AND ANALYSIS

12. Anti-money laundering management

The Company has established and optimized the anti-money laundering operation mechanism under the comprehensive risk management framework in accordance with the anti-money laundering laws and regulations, including the Anti-money Laundering Law of the People's Republic of China 《中華人民共和國反洗錢法》, the Administrative Measures for Anti-money Laundering and Counter-terrorist Financing of Financial Institutions in the Banking Sector 《銀行業金融機構反洗錢和反恐怖融資管理辦法》 and the Guidelines for the Management of Money Laundering and Terrorist Financing Risks for Corporate Financial Institutions (for Trial Implementation) 《法人金融機構洗錢和恐怖融資風險管理指引(試行)》, so as to further solidify the foundation of anti-money laundering works and continuously improve the quality and effectiveness of anti-money laundering management.

During the reporting period, the Company has strictly complied with the laws and regulations on anti-money laundering, seriously fulfilled its legal obligations and social responsibilities in anti-money laundering, and continued to optimize the anti-money laundering management structure and operational mechanism and improve the anti-money laundering system and business process; it strengthened customer identification management and customer information data governance to enhance the effectiveness of customer identification; it strengthened the monitoring and reporting of large-amount transactions and suspicious transactions by continuously optimizing the monitoring model to advance the construction of anti-money laundering system; it provided business risk warnings to relevant departments, strengthened anti-money laundering supervision and inspection and business guidance, and enhanced monitoring, management and control over high-risk businesses and high-risk customers; it organized anti-money laundering publicity and training, and actively cooperated with regulatory inspections and anti-money laundering investigations and co-inspections to comply with all regulatory requirements in respect of anti-money laundering.

MANAGEMENT DISCUSSION AND ANALYSIS

(VII) BUSINESS SUMMARY

During the reporting period, centering on the twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability” and under the cohesive and common efforts of all the staff, the Bank continued to focus on its main responsibilities and principal businesses, while making further achievements in financial technology innovation. Meanwhile, by rendering wholehearted services for the real economy and promoting inclusive finance, the Bank further created and developed the new development pattern for the simultaneous and synergistic development of the five major business segments, namely “great retail, great corporate, great investment banking, great asset management, and great cross border”.

1. Great Retail Segment

(1) Retail Business

During the reporting period, the Company completed department set-up and reform on management mechanism for its retail business, enabling more segmenting and professional management of segment businesses, while continuing to increase various resource investments, proactively advancing digital reform and making careful plan for the rebuilding of retail business operation system. It actively embraced the new financial wealth era to expedite a brand new start of wealth management, adhered to its customer service orientation to effectively promote the steady development of its retail business. As at the end of the reporting period, the Company had 8,394.90 thousand personal customers (including debit and credit card customers), and 10,262 private banking customers with daily average financial assets in a month of RMB6.00 million or above, and the balance of financial assets of private banking customers amounted to RMB157.794 billion.

① Personal deposits and loans business

During the reporting period, the personal deposits structure of the Company was obviously optimized. As at the end of the reporting period, the Company's personal deposits balance was RMB173.805 billion, and the average cost was 2.63%, representing a period-on-period decrease of 81 BPS, thus the cost structure of personal deposits was significantly improved.

During the reporting period, the Company's personal housing loans continued to grow over the beginning of the year, while personal consumer loans decreased under the effect of more tightening regulation, sporadic and recurrent outbreaks of COVID-19 pandemic and other factors. As at the end of the reporting period, the balance of personal loans (including personal housing loans and personal consumer loans) amounted to RMB206.296 billion. In terms of personal housing loans, we were determined to pursue the positioning that “houses are for living, not for speculation”, and strictly carried out national macro-control policies to support residents' reasonable housing needs, so as to achieve steady business development. In terms of consumer loans, we continued to pursue the development path of batch-based customer acquisition, online operation, intelligent risk control and standardized management, adhered to the principle of “compliance operation, independent risk control and equal and mutual benefit” in cooperation with external institutions in the retail business of internet loans, and made deeper and more thorough scenario-based special instalment business focusing on various consumer scenarios.

MANAGEMENT DISCUSSION AND ANALYSIS

② *Wealth management*

During the reporting period, the Company continued to strengthen the foundation for the development of its wealth business and committed to establishing itself into a “platform-based wealth manager bank”. Continuously optimizing the structure of banking wealth management business, the Company has launched many net-value wealth management products, including “Shengxin Win” (升鑫赢), “Juxin Win” (聚鑫赢), “Yongxin Zengli Anxiang” (湧薪增利安享) and “Yongxin Zengli Zunxiang” (湧薪增利尊享). As at the end of the reporting period, the Company’s net-value wealth management balance of individuals was RMB183.259 billion, representing an increase of 6.77% over the beginning of the year, and its share in personal wealth management increased by 7 percentage points over the beginning of the year, with significant improvement seen in the structure of wealth management business. Focusing on energetically developing agency business, while continuously enriching the agency products, the Company newly launched the business of selling wealth management products of its banking wealth management subsidiaries, so as to continuously meet the comprehensive financial needs of individual customers. As at the end of the reporting period, the Company’s income of commission charges from the agency business increased by 85.54% as compared with the same period of last year. In terms of customer acquisition, the Company continued to build innovative digital and online marketing capabilities and customer operation and service capabilities during the reporting period. We were actively building a retail customer benefits system based on “points reward system + e-mall” infrastructure, and giving full play to the customer acquisition, customer maintenance and customer enhancement capabilities of the comprehensive retail financial services platform through the digital integrated operation of the benefits system and the financial products system.

③ *Private banking*

During the reporting period, by adhering to the philosophy of “passing of wealth and wisdom for sustainable development”, the Company’s private banking business provided three-dimensional financial services and featured value-added services for individuals and their family of private banking customers as well as their career development. The Company developed the core competitiveness of private banking business by constantly improving its three major serving capabilities, namely investment consultation, asset allocation and wealth inheritance, as well as continuously enriching its three main serving systems, namely featured products, value-added service and professional team. While expanding the exclusive portfolio of investment products for private banking customers, the Company enhanced customer assets allocation and strongly promoted family trusts, insurance trust and charitable trust businesses to cater for the needs of private banking customers in wealth inheritance. Additionally, the Company developed five major non-financial service segments, namely healthcare, education inheritance, shared platform, high quality life and worry-free travel, aiming at providing featured value-added services for private banking customers.

MANAGEMENT DISCUSSION AND ANALYSIS

④ *Credit card business*

During the reporting period, the Company's credit card business actively built a direct selling team of spending instalment and stepped up its efforts to develop the individual consumption credit business, in order to give full play to the "small and diversified" advantages of instalment and other consumption credit businesses, thus contributing to the building of a credit asset structure that is "weakly sensitive to the economic cycle" throughout the Bank. The Company vigorously promoted "e-consumption" instalment products with high yield through the direct selling team of spending instalment. It also made thorough efforts to develop the special instalment businesses in scenes such as instalment parking space, instalment for decoration, instalment for purchasing a car as well as instalment for household appliances and furniture that focus on various spending scenes through external cooperation. Meanwhile, firmly establishing the risk concept of "risk control is also development", the Company strengthened the development of intelligent risk control, while broadening, optimizing and applying the risk control model of consumption loan, so as to enhance the effectiveness of risk control.

As at the end of the reporting period, the Company had issued a total of 3,894.30 thousand credit cards, with a balance of loans amounting to RMB17.255 billion, of which, the balance of instalment business was RMB12.107 billion. During the reporting period, the Company achieved credit card spending of RMB25.382 billion and the income from credit card business of RMB606 million, including income from instalment business of RMB436 million.

(2) *Small Enterprises Business*

During the reporting period, the Company thoroughly pursued the decision and deployment of Central Committee of CPC and State Council on inclusive finance by focusing on the strategic missions of "six-stability (六穩)" and "six-security (六保)". It highlighted the operating advantages of the small and micro enterprise loan business, further intensified the differentiated and specialized financial service for the small and micro enterprises, so as to give full support to the small and micro enterprises to reduce burdens and alleviate difficulties. As at the end of the reporting period, the Company had 204 specialized institutions for small enterprises, with a balance of RMB256.214 billion in the small and micro enterprise loans under inclusive finance ^(Note), representing an increase of RMB19.661 billion from the beginning of the year, and a growth rate of 8.31%, reaching the regulatory target by chronological progress; while the number of customers in the small and micro enterprise loans under inclusive finance was 113.30 thousand, representing an increase of 7.50 thousand from the beginning of the year. Interest rates on newly-issued small and micro enterprise loans under inclusive finance continued to decline, interest rates on newly-issued small and micro enterprise loans under inclusive finance fell by 36 BPS period-on-period (according to the CBIRC); and the non-performing ratio of small and micro enterprise loans under inclusive finance was 1.01%, thus the asset quality remained excellent.

Note: According to information on small and micro enterprise loans under inclusive finance from CBIRC, the "small and micro enterprise loans under inclusive finance" and "loans" exclude the discounted bills business.

MANAGEMENT DISCUSSION AND ANALYSIS

We focused on the priority to broaden the coverage and increase the customer base of inclusive finance. To this end, the Company spared no effort to secure the stable and smooth running of supply chain and industrial chain, so as to proactively satisfy the financing demands of small and micro enterprises. As at the end of the reporting period, the accumulated credit facilities granted to enterprises in small and micro parks amounted to RMB145.775 billion; the balance of cluster-based customer acquisition business including supply chain increased by RMB3.171 billion over the beginning of the year. Medium- and long-term funding support for small and micro enterprises was strengthened. As at the end of the reporting period, the medium- and long-term loans accounted for over 65% of the total. In addition, the Company also intensified its cooperation with government-managed financing guarantee institutions. As at the end of the reporting period, the balance of business in cooperation with guarantee companies under state-guaranteed system amounted to RMB11.788 billion, representing an increase of RMB5.354 billion over the beginning of the year.

We strengthened digital empowerment to facilitate smooth financing for small and micro enterprises. By making full use of the information sharing function of government-operated credit service platform for deep mining of the credit information as well as production and operation data of small and micro enterprises, the Company was able to enhance the quality of batch service and intensive operation. Using big data and internet technology to empower credit process re-engineering, we implemented online application, mobile investigation, self-service withdrawal and repayment, and simplified loan renewal operations to meet the financing needs in “short-term, small amount, regular and urgency” by small and micro enterprises. As at the end of the reporting period, the online application rate of small and micro enterprise loans reached 77%, while the online withdrawal rate reached 96%.

2. Great Corporate Segment

(1) Corporate business

The Company is fully committed to promoting the development strategy of great corporate business segment, focusing on improving quality and efficiency, and paying close attention to key customers, key businesses, key regions and key persons to effectively serve the real economy.

MANAGEMENT DISCUSSION AND ANALYSIS

Deeply cultivating the entity customer group and helping to transform and upgrade.

The Company has always been sticking to serving the real economy by intensifying the development of manufacturing industries and vigorously boosting the quality of financial service. As at the end of the reporting period, the balance of loans to manufacturing industries (including discounted loans) was RMB222.465 billion, representing an increase of 13.47% over the beginning of the year; the balance of medium- and long-term loans in manufacturing industries was RMB65.573 billion, representing an increase of 18.74% over the beginning of the year.

At the same time, the Bank continued to leverage on its featured advantages as a smart manufacturing service bank to help manufacturing enterprises with transformation and upgrading. As at the end of the reporting period, it had established cooperation with 2,443 smart manufacturing enterprises and accumulatively disbursed a total of over RMB667.3 billion in financing. On this basis, the Bank has launched a comprehensive strategic cooperation with the Department of Economy and Information Technology of Zhejiang to advance the “Zhejiang Smart Manufacturing Financing Project (浙江智造融通工程)” and accurately support the high-quality development of the manufacturing industries in Zhejiang Province. As at the end of the reporting period, it had cooperated with 1,648 customers in the provincial list of Zhejiang Province, with a financing balance of RMB64.049 billion.

Continuing to deepen supply chain finance to help differentiated development.

In order to further expedite innovation and transformation and high-quality development, the Company actively carried out digital supply chain financing business. By utilizing digital technologies and methods and controlling order flow, logistics, capital flow and data flow, the Company provided various on- and off-balance sheet financing services to supply chain customers in a data-driven manner and taking into account the features of business operation and transaction settlement in supply chain. At present, it has formed characteristic and differentiated supply chain finance solutions in more than 30 industries, including steel, construction, energy, electricity, food, grain, storage and logistics, automobile, home appliances and farming. As at the end of the reporting period, the Company served over 670 digital supply chain projects, with a financing balance of nearly RMB53.0 billion, serving over 12,000 upstream and downstream customers, of which more than 75% were small and micro enterprises under inclusive finance, effectively helping upstream and downstream small and micro enterprises to alleviate the problems of being difficult, costly and time-consuming to finance.

MANAGEMENT DISCUSSION AND ANALYSIS

Intensifying the professional construction of the industry and laying out key areas in advance.

The Company focuses on two major areas, namely energy finance and science and innovation finance, and reinforces advancing the development of professional capability in industry, to build a distinctive service brand. In the field of energy finance, we focus on the new energy industrial chain and new energy projects, and accelerate the innovation pilot of carbon finance products. For instance, the Company successfully launched the pilot product of “carbon emission reduction loan (碳易貸)” in Quzhou City and Huzhou City in Zhejiang Province. As at the end of the reporting period, it had established cooperation with key customers such as State Grid, Southern Power Grid, Datang Corporation and China Power Investment Corporation. In the field of science and innovation finance, we took the lead in launching the special action for science and innovation finance of “Spark Plan (星火計劃)” at branches in key regions where science and innovation enterprises are concentrated, such as Beijing, Shanghai, Guangzhou and Shenzhen. With science and technology innovation enterprises that were in line with the national strategy and have mastered key and core technologies as the serving object, the special action has provided science and innovation enterprises with “professional, whole-cycle and three-dimensional” integrated financial service solution by continuing to improve our serving system and mechanism, innovating financial products and services, creating a serving ecosystem and consolidating various superior resources, thereby alleviating “growing pains” of enterprises encountered at different stages of development from the start-up stage to maturing stage. As at the end of the reporting period, the Company has provided services for 4,149 science and innovation enterprises of company type, with a financing balance of nearly RMB60.0 billion.

(2) International business

Adhering to the overall idea of “technologies empower business digital intelligence, and sticking closely to the real needs of enterprises innovates service scenarios”, the Company continues to enhance foreign exchange business and cross-border financial diversified products innovation, and is committed to building a professional service team, constructing an digital and intelligent service system, providing enterprises with a full ecological chain of services covering settlement, financing and transactions, fully supporting the development of the real economy of foreign-funded or foreign trade industries and helping the construction of a common prosperity demonstration zone. During the reporting period, the Company provided a total of US\$140.5 billion in international settlement service on an accumulative basis.

The Company fully utilized various new technologies such as big data, platform direct link, blockchain, artificial intelligence, etc., to launch export data loans based on the export collection data of the State Administration of Foreign Exchange, continuously extend the “pooling (池化)” and “chaining (鏈式)” scenario applications, launch the FT customer asset pool function, add the direct link to the export credit insurance financing application scenario of the cross-border financial service platform of the State Administration of Foreign Exchange, etc., as well as providing liquidity services that integrate local and foreign currencies, domestic and foreign trades and domestic and foreign businesses. During the reporting period, the balance of international business liquidity services was RMB54.7 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company actively advocates the concept of “risk neutrality”, continues to enrich “Zheshang Huiliying” (浙商匯利盈), a product providing agency services for foreign exchange transactions, continuously optimizes “Zheshang Trading Treasure” (浙商交易寶), a multi-functional comprehensive foreign exchange trading platform and provides enterprises with efficient and convenient “Settlement Service + Foreign Exchange Rate Management + Financing” (結算服務+匯率管理+融資投放), a kind of full-life-cycle management service, enabling the foreign trade enterprises to respond to exchange rate fluctuation risks effectively. During the reporting period, the accumulated amount of foreign exchange transaction agency services provided by the Company to its customers reached US\$67.5 billion, of which the transaction amount of “Zheshang Trading Treasure” (浙商交易寶) was US\$28.3 billion.

The Company conducts in-depth research on demands from and application scenarios in foreign-funded or foreign trade industries, proactively implements the special action of “Spark Plan”, and continuously reinforces the package service of multi-scenario and cross-border capital items. During the reporting period, the Company provided collection and payment services for cross-border capital projects of US\$10.738 billion on an accumulative basis. Additionally, the Company vigorously supports the expansion and improvement of the new foreign trade. To this end, it creates a personalized service model with one-point access and comprehensive services, that focuses on sub-sectors such as foreign comprehensive platform, centralized operation of cross-border funds, cross-border e-commerce, market procurement and freight forwarding, by applying the direct connection method between banks and enterprises.

3. Great Investment Banking Segment

(1) Investment banking business

The Company’s investment banking business offers a wide range of investment banking products for both the direct and indirect financing markets to meet the multi-level financing needs of different types of customers. By participating in interbank, stock exchange and Beijing Financial Assets Exchange bond underwriting, we provide market-oriented direct financing services to our customers, helping them to reduce financing costs and optimize their debt structure. We provide customized and differentiated innovative services to customers through asset securitisation, bond loading credit risk mitigation instruments or portfolio models, thereby enabling customers to tackle the problem of being difficult and costly to finance. We provide customers with integrated financing solutions and services through M&A loans and syndicated loans to help their industry consolidation and transformation and upgrading. By creating various products in the equity capital market, we provide customers with key financing. By integrating financial resources, building an ecosystem and carrying out customer-oriented facilitation business, we also provide comprehensive financial services.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Financial market business

With the goal of building an industry-leading cross-border, cross-market and cross-asset-type FICC model, and focusing on the three-dimensional interactions among investment research, trading and selling as well as financial technology, the Company seeks to achieve mutual support, integration and empowerment among talent, trading and technology, so as to carry out a wide range of financing, trading and market-making businesses centering on interest rate, exchange rate, precious metal and their derivatives. The Company possesses experienced professional teams in trading, selling, product creation and design, portfolio management, investment research, quantitative trading, etc., and is therefore equipped with strong comprehensive service capabilities including providing customers with professional and tailor-made investing and financing transactions, exchange rate risk management, interest rate risk management. During the reporting period, the Company was awarded the 2021 Annual Market Influence Award in Interbank Local Currency Market, Market Innovation Award in Interbank Local Currency Market as well as Outstanding Member Award, Precious Metal Industry Service Award, Diamond Award in Market Making Business and Special Contribution Award in Market Making Business Industry of Shanghai Futures Exchange in 2021.

(3) Financial institution business

The Company highly values designated management of the customers of financial institutions and unified operation. Specifically, it continues to broaden and consolidate the customer base of financial institutions and increase the coverage of interbank lending, provides more services for the customers of financial institutions by upholding the “customer-oriented” philosophy, increases the comprehensive service level and activates interbank assets and liabilities, striving to enhance the comprehensive contribution made by customer base of financial institutions.

The Company has sped up digital reform by constantly optimizing interbank asset pool platform, so as to achieve cost-saving and revenue-increasing effect based on the strong and advantageous core function of pledge and guarantee. During the reporting period, the Company cooperated with China Central Depository & Clearing Co., Ltd. to launch the business of “interbank collateral”, the first batch of green bond in the market, allowing the customers to activate their existing green bond.

Being a pilot institution operating commercial paper brokerage, the Company constantly enhances its capabilities in commercial paper brokerage to serve real enterprises by various means, including making an effort to identify customer needs, proactively widening discounting channels, and continuously advancing system construction. During the reporting period, the Company had 359 new contracted enterprises with a turnover of RMB8.393 billion in aggregate. In terms of accumulated business volume, the Company’s Discount Connect (貼現通) was listed among the top in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) Bill business

During the reporting period, relying on efficient and flexible operating mechanism and powerful science and technology strength, the Company continuously enhanced the ability of bill business to serve the real economy by implementing recycling operation during the whole life cycle of bill, promoting multi-level market interaction, steadily advancing digital transformation and constantly intensifying the synergy between the head office and branches.

The bill business covers the whole life cycle of bill from acceptance and credit enhancement to direct discounting or inter-bank discounting and investing and financing. Adhering to the development ideas of “coordinate head office and branches, technology integration, business innovation and compliance operation” of its bill business, the Company has expedited the implementation of digital reform, accelerated the optimization of products and processes, orderly promoted the construction of our stronghold, while consolidating the operation and administration of lines and the prevention of compliance risk, thus to comprehensively enhance the bill operation throughout the Bank.

During the reporting period, discounted bills of the Company amounted to RMB149.354 billion, which was 2.83 times of that of the same period last year; direct discounting business served for 2,766 real entity customers, representing an increase of 1,020 customers as compared with the same period last year, or a period-on-period increase of 58%. In the first half of the year, the bill transaction volume was RMB2.18 trillion, accounting for approximately 4.79% of the total market, covering more than 800 counterparties.

In the results of excellence selection activity in 2021 by Shanghai Commercial Paper Exchange, the Company won three institutional awards, namely “Outstanding Market Institution”, “Outstanding Acceptance Institution” and “Outstanding Institution on Promoting Bill Business”, and one of its employees was granted the individual award of “Outstanding Bill Business Personnel”.

MANAGEMENT DISCUSSION AND ANALYSIS

(5) Asset custodian business

During the reporting period, the Company's asset custodian business developed in a healthy and steady manner. As of the end of the reporting period, the balance of assets held in custody by the Company reached RMB1.78 trillion. With a focus on the custody of public fund products, the Company has entered into cooperation agreements with more than 70 public fund managers in relation to the custody of public fund products, with the scale of public funds under custodian exceeding RMB250.0 billion. 28 new public funds were under custodian during the reporting period. During the reporting period, the Company's income from the asset custodian business was RMB256 million.

Since the beginning of this year, the Company's asset custodian business continued to enhance marketing efforts for the custodian business of the licensed financial institutions including funds, securities, insurance, futures, trusts, urban and rural commercial banks, and adhered to the comprehensive and coordinated development of efficiency, quality and scale. The asset custodian business kept close tabs on the market and innovative hotspots, actively strengthened the marketing of new products and the layout of reserves and continued to optimize the structure of the Company's custodian business. With a focus on the public fund custodian business, the Company continuously increased the contribution of public fund business to its custodian business. In the meantime, committed to serving the real economy, the Company continued to leverage the custodian business as a platform connecting the asset side to the liability side and integrated various resources to fulfill the duties and responsibilities as an asset custodian, so as to provide various licensed financial institutions with high-quality custodian services with distinctive characteristics, efficient operation and controllable risks.

4. Great Asset Management Segment

(1) Asset management business

The Company's asset management business positively accommodated to the market and policy changes by continuously improving its management level in respect of investment and research, products, sales and risk control, continuing to enrich the product system, vigorously satisfying various demands of customers for asset management, and delivering a respectable asset management business brand featured by "professional management, customer first, differentiated competition and efficiency in priority". During the reporting period, the Company's asset management brand was well recognized by the community. The "Shengxin Win (升鑫赢) No. C-1 Wealth Management Product in RMB", as an "outstanding banking wealth management product of cash management type", won Golden Honor Award of the China Asset Management and Wealth Management Industry 2022 awarded by PYSTANDARD.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Company comprehensively implemented net-value transformation, and continuously enriched the series of wealth management products such as “Shengxin Win” (升鑫赢), “Juxin Win” (聚鑫赢), “Yongxin” (湧薪) and “Xinze” (昕澤), covering cash management, fixed income, “Fixed Income Plus” and other types. Therefore, the Company has formed a net-value wealth management product system with complete product categories, full function and perfect service. As at the end of the reporting period, the balance of the Company’s wealth management products amounted to RMB241.728 billion, of which 94.95% and 5.05% were funds of individual and institutional clients respectively; the balance of net-value wealth management products amounted to RMB190.027 billion, accounting for 78.61% of wealth management. During the reporting period, the Company issued a total of RMB417.916 billion of wealth management products and realized income from asset management services fee of RMB301 million.

(2) Capital market business

During the reporting period, by proactively responding to the call of the state to support the innovation and development of science and technology enterprises and working with external investment institutions, the Company explored the conducting of investment and loan linkage business centered on customers such as “specialized, refined, differentiated and innovative enterprise (專精特新)”, “unicorn company (獨角獸企業)”, “gazelle enterprise (瞪羚企業)” and “talent bank (人才銀行)”, so as to provide comprehensive financial service for growing science and innovation enterprises.

5. Great Cross-border Segment

The Company established the cross-border business department in August 2021. Proactively responding to the “Belt and Road Initiative” and the strategy of high-level opening, relying on the two platforms, namely the sub-accounting unit in free trade zone and Hong Kong branch, utilizing both the domestic and overseas markets and integrating the employment of national policies, market resources and financial products, the department is to provide all-around, one-stop and comprehensive cross-border financial service for domestic and overseas enterprises to conduct investing and financing, M&A, listing and other businesses. During the reporting period, the scale of the Company’s great cross-border assets was RMB54.0 billion, and the scale of services was RMB113.3 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

(VIII) FINANCIAL TECHNOLOGY

During the reporting period, committed to digital transformation, the Company has gradually established the “185N” system that is to consolidate one digital and intelligent foundation, i.e. the “CZBank Digital and Intelligent Brain (浙銀數智大腦)”, focus on eight digital and intelligent systems, including five major business segments, two middle-stage supports and one back-stage protection, as well as focus on the five customer groups, namely, individuals, corporates, governments, peers and employees, in order to promote digital transformation throughout the Bank comprehensively. The Company continues to strengthen the guidance of technological innovation, deepens the development of an innovative system featuring technology and business collaboration, system data interconnection, and the best and most simplified customer experience, innovates and reshapes business processes, services and products, innovates financial service scenarios, deepens the digitalization of internal management, and comprehensively empower the coordinated development of the five business segments and works together to create the new advantage of “digital and intelligent CZBank”.

1. Being customer-oriented and diversifying the product and service systems of the five segments

The Company quickly responds to customer needs, make good use of financial technology to improve service quality and efficiency, continues to strengthen the core competitiveness of the five major segments, and enhances the professional level of comprehensive financial services. The Company innovates the research and development of the full life cycle management platform for accounts receivable, digital credit vouchers, etc., to provide supply chain customers with all-scenario services related to accounts receivable. The Company has launched Caifuhao (財富號), and a wealth management platform and released the Mobile Banking 5.0 connecting the wealth management subsidiaries of the Company with renewed modules, including funds, insurance, wealth management, loans, foreign exchange, etc., starting a new voyage of wealth management to provide a brand-new customer experience. The investment banking business management platform and CZ intelligent investment platform have also been established to broaden the cooperation channels in respect of securities, insurance, trust, funds, etc., to realize one-stop services. The development of a new generation of bill business system realizes the digital management of the full life cycle of bills. Moreover, the Company promotes Xinhuibao (信匯寶) cross-border e-commerce loans, and cooperates with SUNRATE, PANPAY and other cross-border e-commerce to constantly innovate cross-border scenario investment and financing services.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Empowering financial ecosystem with digitalization and intelligentization and deepening integrated multi-scenario services

The Company focuses on areas including digital government, digital economy and digital society to provide high-quality and efficient digital and intelligent financial services to the government, enterprises and the public, extensively expands the cooperation and application of government data such as the comprehensive financial services platform of Zhejiang Province, injects vitality into the development of inclusive finance and service of real economy through information sharing, supply and demand matching, and data modeling, establishes government service platforms and scenario application platforms such as Jinfubao (金服寶), a small and micro platform, and platforms for natural resource smart transaction services and monitoring and analysis, and further expands into the digital transformation of government organizations. To further simplify the process of small business financing, the Company implements digital transformation to facilitate online and non-contact business, and has launched a series of products and services such as Dianyidai (點易貸), Revolving Loan (循環貸), Shuzhidai (數智貸), Shuizhidai (稅智貸), Talent Loan (人才貸) and loan code, making it possible to proceed the application, approval, contracting, drawdown and repayment of loans online and on a 24/7 basis. Connecting the carbon accounts on Qurongtong (衢融通) and other platforms, the Company takes the lead in exploring green finance application to improve its capabilities of green financial services. The digital renminbi system has been launched in many places on a trial basis.

3. Strengthening the application of digital technology and further empowering operation and management multi-directionally

The Company fully stimulates the potential of data, deepen the multi-directional empowerment of data in business operations, risk management and control, and internal management, and launches new products, new businesses and new models through digital technology. A data governance and control platform and a unified indicator management system have been established to further consolidate the foundation of digitalization and intelligentization, realize the real-time display of economic efficiency, customer journey, significant customers focus, risk control analysis and other indicators. Besides, the Company establishes the respective steering room scenario-by-scenario to provide systematic and digital decision support. The Company also keeps updating the big data-based marketing platform to improve the marketing model for customer expansion, and runs a pilot program for the collaborative marketing to secure government customers, small corporate customers and retail customers, and the in-depth supply chain marketing and other modes of digital marketing. The launch of corporate WeChat account, mobile customer manager workbench, product compass and other instruments enables the establishment of a three-dimensional marketing service system characterized by “online + offline, manual + electronic, push + interaction”. Further, the Company deepens the linkage analysis and intelligent application of big data, Internet of Things and other technologies, iteratively optimizes the risk control model and risk control strategy, establishes a new generation of anti-money laundering system, digital intelligence supervision platform and promotes online multi-scenario risk control to realize dynamic risk warning and significantly improve process quality and efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Deepen the basic and innovative research on financial technology and developing unique core advantages

The Company continues to upgrade and improve the financial technology infrastructures and develops a series of new technology platforms with distinct features by using the “ABCDMIX” (namely, artificial intelligence, blockchain, cloud computing, big data, Internet of Things and other technologies). The Company also further promotes the two national blockchain innovation pilot programs, and has published the first blockchain financial security white paper in China. With Internet of Things supervision solutions in place to steel, non-ferrous metals, petrochemicals, commercial properties, logistics vehicles, construction machinery and other scenarios, the Company has carried out the application of multiple financial scenarios, such as real estate supervision, enterprise operating status monitoring, and income certificate authorization, in many places across the country. The distributed micro-services and the full-link business tracking and analysis system (compass system) have been further developed to make the data and information of the entire system, all channels and full link available, promote the integration of technology, data, and business middle platforms, and improve the standardization level of the information system structure and technological structure. The Company has passed the Level 3 capability assessment through the DevOps Maturity Model.

5. Innovating technology management system and mechanism to enhance the digital capability of the whole bank

The Company deepens the innovative technology management system and mechanism, and continuously improves the digital thinking and capabilities of the Company. In promoting the IT Business Partnership (ITBP), the Company is oriented to addressing the grass-roots issues and front-line needs to facilitate the construction of digital communication channels and establish a dedicated team integrating business and technology. The Company organized the “Year of Digital Capability Improvement” event, aiming to stimulate the Bank’s digital innovation vitality through a series of activities, such as the “Golden Idea (金點子)” innovation competition and digital intelligence knowledge competition. A digital talent training system has been established, which implements a learning-based training model, to speed up the development of a compound talent team. In addition, the Company continues to strengthen the transformation of technological achievements, and applied for more than 90 fintech patents and published papers at top computer conferences and international journals.

MANAGEMENT DISCUSSION AND ANALYSIS

(IX) E-FINANCE SERVICES

During the reporting period, the Company has formed a complete E-finance service system consisting of online banking, mobile banking, bank-enterprise direct connection, telephone banking, WeChat banking and self-service banking. The replacement rate of transactions via electronic channels reached 99.71%, taking a leading position in the industry. During the reporting period, the Company vigorously promoted the construction of E-finance channels, strengthened the building of customer experience and improved risk control measures, resulting in steady growth of channel customers, continuous improvement in the quality and efficiency of business scale and sustained enhancement of channel service capability.

■ Online banking

During the reporting period, based on the genuine need of enterprises, the Company optimized core transactions of corporate online banking, added such functions as inter-bank payroll agency services, digital RMB services, batch deduction of handling fees, finance, taxation, treasury and banking, and bank confirmations; supported Apple operation system to optimize online banking assistant; continued to simplify the operation of frequently used functions to further reduce customer operations and enhance customer experience. As of the end of the reporting period, the Company had 196,700 customers with corporate online banking certificates, representing a period-on-period increase of 14.77%, including 119,200 monthly active customers, representing a period-on-period increase of 17.09%. During the reporting period, the Company conducted 44,724,400 transactions totaling RMB9,435.878 billion via corporate online banking.

During the reporting period, the Company continuously optimized personal online banking and realized the comprehensive upgrading of multiple business modules. Being customer-oriented, the Company simplified the operations of frequently used functions, enriched channel service scenarios and extended customer channel services. As of the end of the reporting period, the Company had 1,604,000 customers with personal online banking certificates, representing a period-on-period increase of 4.41%, including 45,300 monthly active customers. During the reporting period, the Company conducted 13,773,100 transactions totaling RMB421.125 billion via personal online banking.

■ Mobile banking

During the reporting period, the Company continued to iteratively upgrade the Personal Mobile Banking V5.0 experience, and newly rebuilt core sectors such as Wealth, Life and Credit; launched value-added functions such as Caifuhao (財富號), Wealth Diagnosis and Local Life Scene Services to promote customer operations and the development of various activities, and strengthen customer traffic conversion; innovatively provided digital RMB fast payment and intelligent exchange services; further optimized functions such as registration and sign-up, transfer and remittance, account details and asset overview to improve customer experience; further strengthened voice service support in the simplified version of mobile banking to facilitate the elderly to get started quickly, and strengthened the construction of risk control strategies for the elderly customer base. As of the end of the reporting period, the Company had 4,844,900 personal mobile banking customers, representing a period-on-period increase of 11.77%, including 1,098,200 monthly active customers, representing a period-on-period increase of 3.73%. As of the end of the reporting period, the customers of the Company conducted 50,358,500 transactions totaling RMB558.269 billion via mobile banking.

MANAGEMENT DISCUSSION AND ANALYSIS

■ Bank-enterprise direct connection and inter-bank cash management

During the reporting period, the Company continued to optimize the bank-enterprise direct connection function to continuously improve the user experience, and further satisfied the demands of corporate customers to improve financial management efficiency and benefits by innovatively launching the inter-bank cash management business. As of the end of the reporting period, the Company had 843 core customers of bank-enterprise direct connection, representing a period-on-period increase of 43.61%; the customers of the Company handled 210,800 transfers via bank-enterprise direct connection, representing a period-on-period increase of 23.08%, and the transfer amount was RMB1,055.059 billion, representing a period-on-period increase of 65.73%.

■ Telephone banking

The Company upheld the service philosophy of “customer-oriented, beyond expectation” and broke the traditional mindset on customer service. By applying multi-channel service platform, big data and intelligent technology and expanding all-media service channels continuously, it established an intelligent customer service system which focuses on customer experience, offering inclusive financial services to its customers in an efficient and cost-saving manner. Leveraging on intelligent voice, intelligent online robot, telephone operator service, online manpower service, WeChat, email and other means, the Company provided customers with rapid, comprehensive and professional high-quality services and was committed to establishing a 7×24 comprehensive one-stop service platform.

During the reporting period, the Company received a total of 1,254,100 customer inquiries, with an overall connection rate of 93.64%. In particular, it received 919,400 calls, 619,100 were passed to operators, with manned telephone connection rate of 91.15% and customer satisfaction of 99.85%; served online customers for 334,700 times, with online connection rate of 98.23%. It recorded a complaint resolution rate of 100% as a better assurance of customer service experience.

■ WeChat banking

During the reporting period, the Company was committed to developing WeChat banking into an important platform for the introduction of new financial services and brand marketing. Its WeChat banking consists of CZBank’s WeChat official account and CZBank’s WeChat official mini program. CZBank’s WeChat official account offers functions including credit cards and personal, small and micro enterprises and corporate, and recruitment and other services. CZBank’s WeChat official mini program’ functions include personal loans, outlet appointment and recommendation with gift (推薦有禮).

MANAGEMENT DISCUSSION AND ANALYSIS

■ Self-service banking

During the reporting period, the Company continued to step up the construction of traditional self-service equipment, including the automated teller machines, cash recycling systems and other 7×24 self-service banking services, available for customers to make deposits, withdrawals, account transfers, balance checks, password reset and other financial service needs. Meanwhile, focusing on frequent transactions for the elderly, including deposits, withdrawals, account transfers and wealth management, we pay close attention to intelligent teller machines and queueing machines to further enhance the experience of using self-service equipment for the elderly in our outlets. As of the end of the reporting period, the Company had 295 self-service banks providing 7×24 services and 1,700 self-service machines of various types in its outlets.

■ Online settlement business

During the reporting period, the Company proactively explored business innovation, and guided by the demands of government authorities and real enterprises and public institutions, strengthened the support and application promotion of online settlement services, and realized innovative application expansion of multiple scenarios such as deposit payment, supply chain finance, e-government and school bill payment. As of the end of the reporting period, the Company had more than 4,800 service items for its network settlement business.

(X) BUSINESS OF OVERSEAS BRANCH

The Company's Hong Kong Branch was established in 2018 and is the first branch established overseas. As a fully licensed bank, Hong Kong Branch can operate a full range of commercial banking services, currently focusing on wholesale business. Since its opening, Hong Kong Branch continued to focus on strategic opportunities including the "Guangdong-Hong Kong-Macao Greater Bay Area" and the "Belt and Road Initiative", promoted cross-border linkage business, continued to expand the local customer base and expand market share, so as to provide customers with professional cross-border financial solutions and financial services. Through close cooperation with customers and banking peers, the Branch realized sustainable growth of trade finances, bilateral loans, syndicated loans and domestically guaranteed loans. Meanwhile, it also engaged in financial market business activities including trading agency, proprietary trading, banking account bond investments and monetary market transactions, as well as investment banking business which was mainly bond underwriting. During the reporting period, Hong Kong Branch actively leveraged its functions and unique advantages to proactively manage liquidity and actively promote the cross-border business segment, while strengthening corporate deposit organization, accelerating grant of loans, and improving the linkage efficiency, so as to continuously contribute to the bank-wide high-quality development.

As of the end of the reporting period, the total assets of Hong Kong Branch of the Company were HK\$50.866 billion, of which financial assets measured at fair value through other comprehensive income amounted to HK\$18.922 billion, accounting for 37.2%; and net loans and advances to customers amounted to HK\$15.165 billion, accounting for 29.81%. During the reporting period, the net profit was HK\$351 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(XI) MAJOR SUBSIDIARY AND EQUITY PARTICIPATION COMPANIES

1. Major Subsidiary

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Leasing”) is a 51%-owned subsidiary of the Company, with paid-in capital of RMB4 billion, and is a national non-bank financial institution approved for establishment by and under the supervision of the CBIRC. Established on January 18, 2017, the principal business scope of Zheyin Leasing covers leasing, transfer and grant of financial leasing assets, investment in fixed-income securities, acceptance of lease deposits from lessees, acceptance of fixed deposits of 3 months (inclusive) or longer from non-bank shareholders, inter-bank lending, borrowing from financial institutions, overseas borrowing, sale and disposal of leasehold, economic consulting as well as other businesses approved by the CBIRC. Since its establishment, Zheyin Leasing has upheld its mission of serving entity and the philosophy of prudent operation, with an aim to build itself into a first-class professional platform-based digital financial leasing company, and has comprehensively implemented professional transformation strategy by energetically embracing financial technology and continuously innovating financial services. It has formed a “5+2” professional customer service system focusing on the “five specialized industries” of smart manufacturing, modern agriculture and husbandry, marine economy, environment protection and energy industries, and the “two specialized models” of manufacturer supply chain and financial leasing-commercial leasing cooperation (租租合作). As the corporate governance structure and management system got better, the innovation capability and research and development strength gradually improved as well as the profitability and development quality enhanced year by year, Zheyin Leasing has currently built itself a team comprising talents with high comprehensive quality and strong professional ability, and blazed a trail of development featuring professional services and distinctive operations, thus gradually developing itself into a new force in financial leasing industry in China. It has won honors such as “Zhejiang Advanced Entity in Supporting Economic and Social Development” (浙江省支持經濟社會發展先進單位) and “Zhoushan Social Contribution Award for Supporting Local Economic Development” (舟山市支持地方經濟發展社會貢獻獎) for consecutive years, and was awarded the highest entity credit rating of AAA by China Chengxin International (中誠信國際) and the highest green entity Ge-1 certification by China Chengxin Lvjin (中誠信綠金). As of the end of the reporting period, Zheyin Leasing had 172 employees, with total assets of RMB50.152 billion and net assets of RMB5.766 billion. It realized a net profit of RMB405 million during the reporting period.

2. Equity Participation Companies

Equity Participation Companies	Place of Incorporation	Date of Incorporation	Number of Shares	Investment Amount
China UnionPay Co., Ltd	Shanghai	2002-3-26	10 million	RMB25 million
National Financing Guarantee Fund Co., Ltd	Beijing	2018-7-26	1 billion	RMB1 billion

MANAGEMENT DISCUSSION AND ANALYSIS

(XII) OUTLOOK

In the second half of 2022, with increasingly uncertain internal and external environment, the Company will focus on stability, earnestly implement the decisions and deployments of the Central Committee of CPC, the State Council and Zhejiang Provincial Party Committee and Government, and stick to the overall development plan to embark on a new journey of high-quality development with the vision of becoming “a first-class commercial bank”, introduce systematic digital transformation, deepen comprehensive development, seek synergetic development of all five segments and launch new wealth management business. Guided by the twelve-word operation approach of “consolidating corporate foundation, adjusting corporate structure, controlling corporate risks, increasing corporate profitability”, the Company will embrace its positive energy, consolidate foundation and improve image, build a five-word political ecosystem, i.e., “integrity, simplicity, professionalism, cooperation and honesty” in a comprehensive manner, carry forward a “Four Dos” spirit and adhere to the keynote of strictness. Besides, the Company will strive for better development in performing its social responsibilities by taking a responsible role with the spirit of responsibility, step up efforts in building investment research capabilities to consolidate foundation in the long-run, ride on digital transformation to expedite the construction of an ecologically sustainable development mode, expand assets less sensitive to the economic cycle as a ballast stone and establish a production relations environment conducive to business development in order to usher in the successful convening of the 20th National Congress of the CPC with excellent performance.

CORPORATE GOVERNANCE

I. OVERVIEW OF CORPORATE GOVERNANCE

The Company always makes unremitting efforts to pursue standardized business operation and extraordinary corporate governance since improving corporate governance is the top priority of achieving high-quality development. The Company continuously improves corporate governance structure consisting of the Shareholder's General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management according to the relevant laws, regulations and regulatory requirements. Each corporate governance body operates independently, with effective checks and balances, cooperating with each other and functioning in a coordinated manner.

The Board of Directors of the Company takes corporate governance legality and compliance as the bottom line, draws on the best practices of outstanding companies as the direction, improves the system of corporate governance mechanism as the basis and gives full play to the decision-making role of the Board of Directors as the core, so as to strive to build a corporate governance mechanism with clear boundaries of responsibilities, orderly checks and balances and collaboration, democratic and scientific decision-making, and standardized and efficient operation.

In the first half of 2022, the Company insisted on comprehensively promoting the organic integration of the Party's leadership and corporate governance and effectively exercising the role of the Party Committee in overseeing the overall situation and coordinating all parties. Guided by the Three-year Action Plan for Perfecting Corporate Governance of Banking and Insurance Industry (2020 to 2022) 《健全銀行業保險業公司治理三年行動方案(2020-2022年)》 issued by the CBIRC, the Company has practically improved the quality and efficiency of corporate governance, comprehensively reviewed the compliance and effectiveness of the corporate governance mechanism, optimized and enhanced the corporate governance practice level.

II. SHAREHOLDERS' GENERAL MEETING

Pursuant to the Articles of Association, the shareholders' general meeting is the top governing body of the Company, which manages and supervises the Company through the Board of Directors and the Board of Supervisors. The Company raised an independent resolution for each actually independent matter at the general meeting, and voted by ballot to ensure that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

During the reporting period, the Company held the 2022 first extraordinary general meeting on February 23, 2022, and held the 2021 annual general meeting on June 27, 2022. For details of relevant proposals and relevant announcements about resolutions adopted at the meetings, please refer to the circulars for the general meetings and poll results announcements in connection with the general meetings published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the above-mentioned meetings are in compliance with the relevant provisions of the Company Law, the listing rules of both the domestic and overseas listing venues of the Company and the Articles of Association. The Chairman of the meetings has explained the detailed procedures for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

CORPORATE GOVERNANCE

III. MEETINGS OF THE BOARD AND ITS SPECIAL COMMITTEES

During the reporting period, the Board of the Company organized and convened 8 Board meetings, at which 47 resolutions were considered and approved and reports on related matters were heard.

During the reporting period, the special committees of the Board of the Company organized and convened a total of 13 meetings, including one meeting by the Strategic Committee, two meetings by the Audit Committee, five meetings by the Risk and Related Party Transaction Control Committee, three meetings by the Nomination and Remuneration Committee, one meeting by the Consumer Rights Protection Committee and one meeting by the Inclusive Finance Development Committee, at which 42 resolutions were considered and approved and reports on related matters were heard.

IV. MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Company held five meetings of the Board of Supervisors, at which 27 resolutions were considered and 12 reports were heard and reviewed; the Nomination Committee of the Board of Supervisors held three onsite meetings and 7 resolutions were considered thereat; and the Supervision Committee of the Board of Supervisors convened two onsite meetings and 9 resolutions were considered thereat.

V. BOARD DIVERSITY POLICY

The Company considers the diversity of the members of the Board of Directors as an important impetus to support the Company in enhancing the corporate governance level and achieving sustainable development. The Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or service period, thus ensuring the Board of Directors have diversified viewpoints and angles in performing their duties, and forming into a composition model of the Board matched with the Company's development model.

The Board Diversity Policy of the Company comprises chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversity of the Board to strengthen the execution of the Board, and affirming the importance of diversity of the Board to achieve strategic objectives. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. Among the existing 13 Directors of the Company, two of them are female, and 11 are with post graduate diploma or master's degree or above, including four with doctoral diploma. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board is able to effectively make independent judgments and scientific decision when studying and considering material issues.

CORPORATE GOVERNANCE

VI. IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place of listing of the Company. On the basis of comprehensively implementing various regulatory rules, while taking into account day-to-day business practices, the Company continuously sorts out and perfects the implementation details of information disclosure management matter from the aspect of system construction and work procedure design.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and provisions of Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

The Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations. During the reporting period, the Company disclosed a total of 78 various announcements for A Shares on the newspapers designated by the CSRC, including China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, the websites of the Shanghai Stock Exchange and the Company, and disclosed a total of 99 various announcements for H Shares on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and continued to enhance the transparency of the Company's governance.

VII. MANAGEMENT OF INVESTOR RELATIONS

The Company consistently conducts good management on investor relations, continuously optimizes the communication and exchange mechanism with investors, and enhances investors' understanding and recognition of the Company by facilitating the exercise of shareholders' rights, information disclosure, interactive exchanges and handling of complaints, so as to achieve the purpose of respecting investors, rewarding investors and protecting investors, and promote integration of market capitalization and intrinsic value.

During the reporting period, the Company focused on investors, actively responded to the impact of the pandemic, and held the 2021 domestic and foreign results presentation via live webcast to comprehensively and thoroughly introduce the Company's annual performance highlights, operating fundamentals and the characteristics of the five major business segments, with more than 40,000 viewers online. It responded candidly and actively to market concerns such as the Company's future strategic priorities, the impact of the pandemic on businesses, strategies and risk control in the real estate sector and profit distribution plans. After the annual results presentation, the Company released the materials of the results presentation on the official website in a timely manner, and published the Q&A transcripts of the results presentation on the "Shanghai Stock Exchange e-Interactive (上證e互動)", allowing investors to understand the Company in a more comprehensive and authentic manner.

CORPORATE GOVERNANCE

During the reporting period, the Company held the 2021 annual general meeting by the way of on-site meeting, more proactively carried out investor relations management activities, conducted exchanges with fund companies and analysts through online meetings from time to time, listened to investors' opinions and suggestions, and responded to investor complaints and market concerns in a timely manner.

During the reporting period, the Company carried out investor relations management through multiple channels, platforms and methods, updated the content of the Company's website in a timely manner, answered investor hotline calls earnestly and amicably, responded to investors' concerns on the "Shanghai Stock Exchange e-Interactive (上證e互動)" in a timely manner, earnestly collected investor information and properly kept relevant records and documents. Meanwhile, the Company continued to strengthen dynamic monitor of media opinions, actively learned about advice, proposals and concerns for the Company's operation and development from capital market, and responded to them as and when appropriate, so as to jointly create a healthy and sound market ecology with all parties.

VIII. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct for securities transactions by Directors and supervisors, which is not less rigorous than the Model Code set out in Appendix 10 of the Hong Kong Listing Rules. The Company has confirmed with all Directors and supervisors and hereby acknowledged that they had complied with the aforesaid code during the period from January 1, 2022 to June 30, 2022.

IX. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN THE HONG KONG LISTING RULES

The Company agrees to the principles as set out in Corporate Governance Code (Appendix 14 to the Hong Kong Listing Rules). From January 1, 2022 to June 30, 2022, the Company has been in full compliance with the code provisions under such Code, except for the following:

According to the Code C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Due to work arrangement, on January 14, 2022, the Board of the Bank elected Mr. Zhang Rongsen, an executive Director and the President of the Bank, to act as the acting chairman of the Board, until the appointment of the new chairman of the Board and the qualification of such position is approved by CBIRC. Based on the recommendations of the CPC Zhejiang Province Committee, Zhejiang Provincial Government and the relevant authorities, the Board will complete the appointment of the new chairman of the Board in due time and in accordance with the statutory procedures.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN ORDINARY SHARES

(I) Table of Changes in Ordinary Shares

Unit: Share, %

	December 31, 2021		Changes during the Reporting Period (Share)	June 30, 2022	
	Number	Proportion (%)		Number	Proportion (%)
I. Shares Subject to					
Selling Restrictions	9,704,050,594	45.63	-	9,704,050,594	45.63
1. Shares Held by State	-	-	-	-	-
2. Shares Held by State-owned					
Legal Persons	3,496,621,526	16.44	-	3,496,621,526	16.44
3. Other Domestic Shares	6,207,429,068	29.19	-	6,207,429,068	29.19
Including: Shares Held by					
Domestic					
Non-State-owned					
Legal Persons	6,207,429,068	29.19	-10,000,000	6,197,429,068	29.14
Shares Held by					
Domestic Natural					
Persons	-	-	+10,000,000	10,000,000	0.05
4. Foreign Shares	-	-	-	-	-
Including: Shares Held by Foreign					
Legal Persons	-	-	-	-	-
Shares Held by Foreign					
Natural Persons	-	-	-	-	-
II. Listed Shares without					
Selling Restrictions	11,564,646,184	54.37	-	11,564,646,184	54.37
1. RMB Ordinary Shares	7,010,646,184	32.96	-	7,010,646,184	32.96
2. Domestic Listed Foreign					
Shares	-	-	-	-	-
3. Overseas-listed Foreign					
Shares	4,554,000,000	21.41	-	4,554,000,000	21.41
4. Other	-	-	-	-	-
III. Total Ordinary Shares	21,268,696,778	100.00	-	21,268,696,778	100.00

As of the end of the reporting period, the issued shares of the Company were 21,268,696,778 ordinary shares, including 16,714,696,778 A Shares and 4,554,000,000 H Shares.

(II) Description on Change in Ordinary Shares

During the reporting period, there was no change in ordinary shares of the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

II. INFORMATION ON SHAREHOLDERS OF ORDINARY SHARES

(I) Number of Shareholders of Ordinary Shares and Their Shareholdings

As of the end of the reporting period, the Company had 249,691 shareholders of ordinary shares in total, including 249,571 shareholders of A Shares and 120 shareholders of H Shares.

As of the end of the reporting period, the table of shareholdings of the top ten shareholders and top ten shareholders of circulating shares (or shareholders without selling restrictions) was as follows:

Shareholdings of Top Ten Shareholders

Unit: Share

Name of Shareholder (full name)	Increase/ Decrease during the reporting period	Number of shares held at the end of period	Proportion (%)	Number of Shares held subject to selling restrictions	Pledge and freezing		Nature of Shareholders
					Status of Shares	Number	
HKSCC Nominees Limited	+1,000	4,553,783,800	21.41	-	Unknown	-	-
Zhejiang Provincial Financial Holdings Co., Ltd.	-	2,655,443,774	12.49	2,655,443,774	-	-	State-owned Legal Person
Traveller Automobile Group Co., Ltd.	-	1,346,936,645	6.33	1,346,936,645	Freezing	1,346,936,645	Domestic Non-state-owned Legal Person
Hengdian Group Holdings Limited	-	1,242,724,913	5.84	1,242,724,913	-	-	Domestic Non-state-owned Legal Person
Zhejiang Provincial Energy Group Co., Ltd.	-	841,177,752	3.96	841,177,752	-	-	State-owned Legal Person
Minsheng Life Insurance Company Ltd. – self-owned capital	-	803,226,036	3.78	-	-	-	Domestic Non-state-owned Legal Person
Zhejiang Yongli Industry Group Co., Ltd.	-	548,453,371	2.58	-	Pledge	548,453,371	Domestic Non-state-owned Legal Person
Tong Lian Capital Management Co., Ltd.	-	543,710,609	2.56	543,710,609	-	-	Domestic Non-state-owned Legal Person
Zhejiang Hengyi High-tech Material Co., Ltd.	-	508,069,283	2.39	508,069,283	Pledge	508,069,283	Domestic Non-state-owned Legal Person
Zhejiang Hengyi Group Co., Ltd.	-	494,655,630	2.33	494,655,630	Pledge	494,655,630	Domestic Non-state-owned Legal Person

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of Top Ten Shareholders without Selling Restrictions

Unit: Share

Name of Shareholder	Number of circulating shares held without selling restrictions	Class and number of Shares	
		Class	Number
HKSCC Nominees Limited	4,553,783,800	H Shares	4,553,783,800
Minsheng Life Insurance Company Ltd. - self-owned capital	803,226,036	A Shares	803,226,036
Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	A Shares	548,453,371
Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	A Shares	457,816,874
Jinggong Group Co., Ltd.	454,403,329	A Shares	454,403,329
Lizi Industry Group Co., Ltd.	380,292,205	A Shares	380,292,205
Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	302,993,318	A Shares	302,993,318
Aeon Life Insurance Co., Ltd. – traditional insurance products	261,197,903	A Shares	261,197,903
HKSCC	229,292,072	A Shares	229,292,072
Zhejiang RIFA Holding Group Co., Ltd.	213,470,000	A Shares	213,470,000
Description on the connected relationship and action in concert of the shareholders above	To the best knowledge of the Company, Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. have a connected relationship, and Zhejiang China Light & Textile Industrial City Group Co., Ltd. and Shaoxing City Keqiao District Development and Operation Group Co., Ltd. have a connected relationship. Apart from that, the Company is not aware of other connected relationship between the above shareholders or whether they are parties acting in concert.		
Description on the top ten shareholders and top ten shareholders without selling restrictions participating in margin financing and securities lending and refinancing businesses	To the best knowledge of the Company, as of the end of the reporting period, the above shareholders were not involved in any margin financing and securities lending and refinancing business.		

Note: The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system. The number of shares held by HKSCC, as a nominee holder, was the sum of A Shares (shares under Shanghai Connect) designated by and held on behalf of Hong Kong and overseas investors in their capacity. Whether the H Shares were pledged was unknown to the Company.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(II) Number of Shares Held by Top Ten Shareholders Subject to Selling Restrictions and Conditions of Selling Restrictions

Unit: Share

No.	Name of Shareholders subject to Selling Restrictions	Listing and Trading of Shares Subject to Selling Restrictions			Conditions of Selling Restriction
		Number of Shares Held Subject to Selling Restrictions	Listing and Trading Date	Number of Additional Listing and Trading Shares	
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	2022-11-28	0	Selling Restriction for Initial Offering
2	Traveller Automobile Group Co., Ltd.	1,346,936,645	2022-11-28	0	Selling Restriction for Initial Offering
3	Hengdian Group Holdings Limited	1,242,724,913	2022-11-28	0	Selling Restriction for Initial Offering
4	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	2022-11-28	0	Selling Restriction for Initial Offering
5	Tong Lian Capital Management Co., Ltd.	543,710,609	2022-11-28	0	Selling Restriction for Initial Offering
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2022-11-28	0	Selling Restriction for Initial Offering
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2022-11-28	0	Selling Restriction for Initial Offering
8	Xizi Elevator Group Co., Ltd.	469,708,035	2022-11-28	0	Selling Restriction for Initial Offering
9	Guangsha Holding Group Co., Ltd.	457,005,988	2022-11-28	0	Selling Restriction for Initial Offering
10	Shanghai Xizi United Investment Co., Ltd.	380,838,323	2022-11-28	0	Selling Restriction for Initial Offering
Description on the connected relationship and action in concert of the shareholders above		To the best knowledge of the Company, Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Group Co., Ltd. have a connected relationship. Apart from that, the Company is not aware of other connected relationship between the above shareholders or whether they are parties acting in concert.			

III. PLEDGE AND FREEZING OF ORDINARY SHARES

As at the end of the reporting period, to the knowledge of the Company, 3,826,199,431 shares of the Company were pledged, among which 939,776,432 shares were subject to judicial freezing.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

IV. INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of June 30, 2022, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	A Shares	Long position	2,655,443,774	12.49	15.89
Traveller Automobile Group Co., Ltd. ^(Note 1)	Beneficial owner	A Shares	Long position	1,346,936,645	6.33	8.06
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Qiu Jianlin (邱建林)	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Hengdian Group Holdings Limited	Beneficial owner	A Shares	Long position	1,242,724,913	5.84	7.43
Hengdian Association For Economics Corporation	Interest of controlled corporation	A Shares	Long position	1,242,724,913	5.84	7.43
Zhejiang Provincial Energy Group Co., Ltd.	Beneficial owner	A Shares	Long position	841,177,752	3.96	5.03
Zhejiang Provincial Energy Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.04	14.18
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Interest of controlled corporation	H Shares	Long position	645,708,000	3.04	14.18
Zheneng Capital Investment (Hong Kong) Limited (浙能資本投資(香港)有限公司)	Beneficial owner	H Shares	Long position	365,633,000	1.72	8.03
Zhejiang Energy International Co., Ltd.	Beneficial owner	H Shares	Long position	280,075,000	1.32	6.15
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,061,000,000	4.99	23.30
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	925,700,000	4.35	20.33
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	925,700,000	4.35	20.33
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	934,000,000	4.39	20.51
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	934,000,000	4.39	20.51
FTLIFE INSURANCE COMPANY LIMITED	Beneficial owner	H Shares	Long position	272,431,000	1.28	5.98

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
EARNING STAR LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
SUCCESS IDEA GLOBAL LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
NWS SERVICE MANAGEMENT LIMITED ^(Note 2)	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
NWS SERVICE MANAGEMENT LIMITED ^(Note 2)	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
NWS HOLDINGS LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
NEW WORLD DEVELOPMENT COMPANY LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
CHOW TAI FOOK ENTERPRISES LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
CHOW TAI FOOK (HOLDING) LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
CHOW TAI FOOK CAPITAL LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
CHENG YU TUNG FAMILY (HOLDINGS) LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
CHENG YU TUNG FAMILY (HOLDINGS II) LIMITED	Interest of controlled corporation	H Shares	Long position	272,431,000	1.28	5.98
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.18	5.49
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Liu Yaozhong (劉耀中)	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業 (有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.18	5.49
Aeon Life Insurance Co., Ltd.	Beneficial owner	H Shares	Long position	228,651,000	1.08	5.02

Notes:

- (1) Since Traveller Automobile Group Co., Ltd., one of the shareholders, cannot provide relevant information, the Company is not aware of the latest situation of its share interests and short position.
- (2) These two companies that have the same name have different addresses of registration. For the details, please refer to the relevant information about disclosure of interests, which was published on the website of the Hong Kong Stock Exchange.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on June 30, 2022.

V. INFORMATION ON THE CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

As of the end of the reporting period, the Company had no controlling shareholders and de facto controllers.

VI. INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 12.49% of the shares of the Company and was the Company's largest shareholder.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with the uniform social credit code of 913300000542040763 and its legal representative was Yang Qiangmin (楊強民). With a registered capital of RMB12.0 billion, the company is a financial investment management platform of Zhejiang Provincial Government. Zhejiang Provincial Financial Holdings Co., Ltd. is a state-owned enterprise directly subordinated to the provincial government and is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial equity investment, government equity investment fund management, asset management and other business.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

VII. INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

As at June 30, 2022

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	12.49	12.49	Holding 5% or more of our Bank's shares	-	Zhejiang Provincial Department of Finance	Zhejiang Provincial Department of Finance	Nil	Zhejiang Provincial Financial Holdings Co., Ltd.
2	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	3.96	6.99	Holding 5% or more of our Bank's shares in total with the related parties	-	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Energy Group Co., Ltd.
3	Zheneng Capital Investment (Hong Kong) Limited (H share)	365,633,000	1.72			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy Capital Holdings Co., Ltd.
4	Zhejiang Energy International Co., Ltd. (H share)	280,075,000	1.32			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy International Co., Ltd.
5	Traveller Automobile Group Co., Ltd. ⁽¹⁾	1,346,936,645	6.33	6.33	Holding 5% or more of our Bank's shares	-	-	-	-	-
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2.39	5.84	Holding 5% or more of our Bank's shares in total with the related parties	508,069,283	Zhejiang Hengyi Petrochemical Co., Ltd.	Qiu Jianlin (邱建林)	Nil	Zhejiang Hengyi High-tech Material Co., Ltd.
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2.33			494,655,630	Qiu Jianlin (邱建林)		Nil	Zhejiang Hengyi Group Co., Ltd.
8	Zhejiang Hengyi Petrochemical Co., Ltd.	240,000,000	1.13			240,000,000	Hengyi Petrochemical Co., Ltd.		Nil	Zhejiang Hengyi Petrochemical Co., Ltd.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
9	Hengdian Group Holdings Limited	1,242,724,913	5.84	5.84	Holding 5% or more of our Bank's shares	-	Dongyang Hengdian Association For Economics Corporation	Dongyang Hengdian Association For Economics Corporation	Nil	Hengdian Group Holdings Limited
10	Zhejiang Seaport (Hong Kong) Co., Limited (H share)	925,700,000	4.35	4.99	Jointly dispatch Directors to our Bank	-	Zhejiang Seaport Asset Management Co., Limited	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Seaport (Hong Kong) Co., Limited
11	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. (H share)	135,300,000	0.64			-	State-owned Assets Supervision and Administration Commission of the People's Government of Ningbo Municipal		Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.
12	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	2.15	3.58	Jointly dispatch Supervisors to our Bank	-	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	Shaoxing City Keqiao Finance Bureau	Nil	Zhejiang China Light & Textile Industrial City Group Co., Ltd.
13	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.	302,993,318	1.42			-	Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.		Nil	Shaoxing City Keqiao District Development and Operation Group Co., Ltd.

Note:

- (1) All the shares of the Company held by Traveller Automobile Group Co., Ltd. have been judicially frozen. The judicial disposal has not been completed, and the completion time is uncertain. Traveller Automobile Group Co., Ltd. did not provide information on and the Company was not aware of its controlling shareholder, de facto controller, parties acting in concert and ultimate beneficial owner.

VIII. ISSUANCE AND LISTING OF SECURITIES

During the reporting period, the Company had not issued any new ordinary shares.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

IX. INFORMATION ABOUT PREFERENCE SHARES

(I) Issuance and listing of preference shares in the past three years

As of the end of the reporting period, the Company had not issued any preference shares in the past three years.

(II) Number of shareholders and shareholding of preference shares

The Company has redeemed all of US\$2.175 billion offshore preference shares on March 29, 2022. As of the end of the reporting period, the Company had no existing preference shares.

(III) Profit distribution for preference shares

The Company paid the dividend in cash once a year to the holders of the Offshore Preference Shares. The dividend not paid by the Company in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in the distribution of the remaining profits with the holders of the Ordinary Shares.

According to the resolution and authorization of shareholders' general meeting, the Board meeting dated January 25, 2022 deliberated and adopted the Proposal for Distributing Dividends for Offshore Preference Shares, approving the Company to distribute the dividends for Offshore Preference Shares on March 29, 2022. Pursuant to relevant laws and regulations of China, while distributing dividends for Offshore Preference Shares to offshore non-resident corporate shareholders, the Company shall withhold and pay on their behalf the corporate income tax calculated on a tax rate of 10%. According to relevant terms and conditions with respect to the Company's Offshore Preference Shares, relevant taxes and fees shall be paid by the Company. The dividends for Offshore Preference Shares distributed this time totaled US\$131,708,333.33, including: US\$118,537,500 actually paid to shareholders of the Offshore Preference Shares according to an annual dividend yield of 5.45%; pursuant to relevant legal regulations, the corporate income tax withheld and paid on behalf based on a tax rate of 10% was US\$13,170,833.33.

For the implementation plan for the distribution of dividends for Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company.

The above dividend was paid in cash on March 29, 2022.

CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS

(IV) Redemption or conversion of preference shares

The Company made a non-public issuance of US\$2.175 billion Offshore Preference Shares on March 29, 2017, and were listed on the Hong Kong Stock Exchange. For the issuance terms of the Offshore Preference Shares, please refer to the announcements published on the websites of the Hong Kong Stock Exchange and the Company.

On December 17, 2021, the 2021 Third Extraordinary Meeting of the Sixth Session of the Board of Directors of the Company considered and approved the Proposal on Redemption of Offshore Preference Shares, agreeing to the full redemption of US\$2.175 billion offshore preference shares. The Company received a reply letter from the CBIRC in January 2022, which had no objection to the redemption.

In accordance with the terms and conditions of the Company's offshore preference shares, the Company has redeemed all of the offshore preference shares on March 29, 2022 (the "Redemption Date"). The redemption price per share shall be the issue price per offshore preference share (i.e. the Liquidation Preference Amount) plus any dividends per share declared but not yet paid for the period from the previous dividend payment date (inclusive) to the Redemption Date (exclusive). The total redemption consideration is US\$2,293,537,500, including US\$2.175 billion for the liquidation preference amount of the offshore preference shares, and the dividends of US\$118,537,500. For details, please refer to the Company's announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

During the reporting period, no conversion occurred for the Company's preference shares.

(V) Resumption of voting rights for preference shares

During the reporting period, no resumption of voting rights occurred for the Company's preference shares.

X. INFORMATION ABOUT UNDATED CAPITAL BOND

As considered and approved at the sixth extraordinary meeting of the fifth session of the Board of the Company in 2020 and the Company's 2021 first extraordinary general meeting and with the approval from the CBIRC and the PBOC, the Company successfully issued undated capital bonds with a total issue amount of RMB25.0 billion on 25 November 2021 in China's national inter-bank bond market. The coupon rate is 3.85% during the first five years and will be adjusted every five years. The Company shall be entitled to redeem the bonds, in total or in partial, on every distribution payment date since the fifth distribution payment date (inclusive). All the proceeds will be used to replenish the Company's additional tier 1 capital.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

I. BASIC INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the end of the reporting period, the Board of the Company comprised 13 Directors, including 3 executive Director, namely Mr. Zhang Rongsen, Ms. Ma Hong and Mr. Chen Haiqiang; 5 non-executive Directors, namely Mr. Hou Xingchuan, Mr. Ren Zhixiang, Ms. Gao Qinhong, Mr. Hu Tiangao and Mr. Zhu Weiming; and 5 independent non-executive Directors, namely Mr. Zheng Jindu, Mr. Zhou Zhifang, Mr. Wang Guocai, Mr. Wang Wei and Mr. Xu Yongbin.

As of the end of the reporting period, the Board of Supervisors of the Company comprised 8 Supervisors, including 1 shareholder representative Supervisor, namely Mr. Pan Jianhua, 3 employee representative Supervisors, namely Mr. Guo Dingfang, Mr. Pan Huafeng and Mr. Chen Zhongwei, and 4 external Supervisors, namely Mr. Zhang Fanquan, Mr. Song Qinghua, Mr. Chen Sanlian and Mr. Gao Qiang.

As of the end of the reporting period, the Senior Management of the Company comprised 6 members, namely Mr. Zhang Rongsen, Mr. Chen Haiqiang, Mr. Liu Long, Mr. Jing Feng, Mr. Luo Feng and Mr. Jiang Rong.

II. INFORMATION ON THE APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

On January 11, 2022, Mr. Shen Renkang resigned as the Executive Director and Chairman of the Board of the Company due to work arrangements.

On February 23, 2022, the Company held the first extraordinary general meeting of the Company in 2022 to elect Mr. Lu Jianqiang, secretary of the CPC committee of the Company, to serve as a director of the sixth session of the Board of Directors.

On June 27, 2022, the Company held the 2021 annual general meeting of the Company to elect Mr. Fu Tingmei as an independent non-executive Director of the sixth session of the Board of Directors, whose qualifications as a Director is subject to the ratification by the CBIRC.

SUPERVISORS

On June 27, 2022, the Company held the 2021 annual general meeting of the Company to elect Mr. Gao Qiang as an external Supervisor of the sixth session of the Board of Supervisors.

On June 30, 2022, Ms. Cheng Huifang resigned as an external Supervisor of the sixth session of the Board of Supervisors.

On August 24, 2022, Mr. Pan Jianhua resigned as a shareholder Supervisor of the sixth session of the Board of Supervisors.

SENIOR MANAGEMENT

On February 18, 2022, Mr. Wu Jianwei resigned as the Vice President of the Company for personal reasons, and Mr. Sheng Hongqing resigned as an Assistant to President of the Company for personal reasons. Mr. Wu Jianwei and Mr. Sheng Hongqing no longer held any position in the Company upon resignation.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

III. CHANGE OF DIRECTORS AND SUPERVISORS

Zhu Weiming, a non-executive Director of the Company, ceased to serve as a director of Zhejiang Seaport (Hong Kong) Co., Limited (浙江海港(香港)有限公司) and a director of Zhejiang Zhigangtong Technology Co., Ltd (浙江智港通科技有限公司).

Zheng Jindu, an independent non-executive Director of the Company, ceased to be an independent director of Songdu Family Estate Investment Co., Ltd. (宋都基業投資股份有限公司).

Wang Wei, an independent non-executive Director of the Company, ceased to be an independent director of Hangzhou Xin'an River Qiandao Lake Basin Industrial Investment Fund Management Co., Ltd. (杭州新安江千島湖流域產業投資基金管理有限公司) and a supervisor of Hangzhou Harbour Asset Management Co., Ltd. (杭州港灣資產管理有限公司).

IV. CHANGE IN SHAREHOLDING OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE RESIGNED DURING THE REPORTING PERIOD

Unit: Share

Name	Position	Number of shares held at the beginning of the period	Number of shares held at the end of the period	Changes in number of shares during the reporting period	Reasons for the change
Zhang Rongsen	Executive Director, President	738,000	1,022,100	284,100	Acquire from secondary market
Chen Haiqiang	Executive Director, Vice President, Chief Risk Officer	257,000	257,000	-	-
Liu Long	Vice President, Secretary of the Board, Company Secretary	1,029,700	1,029,700	-	-
Jing Feng	Vice President, Chief Financial Officer	250,000	250,000	-	-
Luo Feng	Vice President	246,300	246,300	-	-
Jiang Rong	Chief Audit Officer	63,000	63,000	-	-
Shen Renkang	Former Chairman, Executive Director	70,000	70,000	-	-
Cheng Huifang	Former External Supervisor	-	8,000	8,000	Acquire from secondary market
Wu Jianwei	Former Vice President	733,400	733,400	-	-
Sheng Hongqing	Former Assistant to President	235,200	235,200	-	-
Total		3,622,600	3,914,700	292,100	

V. EMPLOYEES

As at the end of the reporting period, the Group had 18,412 employees (including dispatched employees, outsourced technicians and employees of the subsidiary of the Company), representing an increase of 1,124 as compared with that at the end of last year. Divided by the position types, 7,851 employees of the Group were categorized as marketing personnel, 1,586 employees as counter personnel, and 8,975 employees as mid-office and back-office personnel; divided by the educational levels, 4,362 obtained post-graduate degree or above (including 77 with doctorate degree), 13,133 obtained bachelor degree, and 917 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 147 employees had retired from the Company.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

VI. EMPLOYEE REMUNERATION POLICY

The Company's remuneration policy is guided by its growth strategy and the people-oriented concept with unified and classified management by adhering to the principle of marketization and in accordance with the single-level legal person system. The Company continues to improve the linkage mechanism of remuneration level with performance capabilities of individual positions and personal operational performance, and strives to set up a remuneration management system that reflects internal fairness and external competitiveness, promotes the co-growth of employees and the Company, focuses equally on incentives and restraints, gives attention to both position value, contribution and long-term incentives, and matches the change in remuneration with the market rate and economic benefits.

The Company's remuneration policy coordinates well with the risk management system, and is matched with its size as well as the nature and complexity degree of its business. Specifically, the total amount of remuneration allocated by the Company to its branches is linked with the realization status of overall benefits by such branches and the Company takes into account various kinds of risk factors so that the branch outlets would strive for risk-adjusted value creation and that long-term performance would be improved. Furthermore, the remuneration paid to employees is linked with the responsibilities and risk degree associated with the employee's post and different kinds of appraisal and performance allocation methods are applied to different types of employees, which appropriately tilted to the front-office marketing position, and the deferment payment of the performance-based remuneration is implemented in accordance with the internal control principles of prudent operations and strengthened constraints with the payment time basically in line with the risk persistency period of the corresponding business. For employees in the risk and compliance departments, their remuneration is determined by taking into account their position value, abilities to perform duties and other factors, and such remuneration is not directly related to the matters under their regulation and remains independent of other business segments.

VII. EMPLOYEES TRAINING

Based on our operation and development strategy and led by the "Two Hundreds, Two Thousands" key talent program, the Company has focused on digital intelligence transformation, professional improvement, management reform, and business foresight. On the basis of conducting all-staff training, the Company attaches high importance to the training of key talents, so as to comprehensively improve management abilities and professional capabilities of our employees, and provide knowledge and talents support for the implementation of our strategy. During the reporting period, the Bank held 708 training programmes in total with 294,008 attendances.

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

VIII. INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Number of institution	Number of employees	Total assets (RMB million)	
Yangtze River Delta Region	Head office	No. 1788, Hongning Road, Xiaoshan District, Hangzhou, Zhejiang	1	3,883	-	
	Small Enterprise Credit Center	No. 368, Yan'an Road, Hangzhou, Zhejiang	1	43	-	
	Hangzhou Branch	No.1 Minxin Road, Hangzhou, Zhejiang	53	2,363	313,542	
	Nanjing Branch	No.9, Zhongshan North Road, Nanjing	29	1,200	133,365	
	Shanghai Branch	No. 567, Weihai Road, Jing'an District, Shanghai	12	642	111,474	
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	10	500	65,302	
	Ningbo Branch	No. 128, Wenkang Road, No. 555, Yangfan Road, Gaoxin District, Ningbo	16	645	84,726	
	Hefei Branch	Block A16, Financial Harbour Centre, No. 4872, Huizhou Avenue, Binhu New District, Hefei	3	263	25,250	
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Lucheng District, Wenzhou, Zhejiang	11	457	52,284	
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	9	436	50,909	
	Zhoushan Branch	No. 88, Lvdao Road, Qiandao Streets, Dinghai District, Zhoushan, Zhejiang	2	88	7,571	
	Jinhua Branch	1/F, 2/F, 10/F, Jiafu Business Building, No. 358, Binhong East Road, Jinhua	7	369	31,347	
	Bohai Rim Region	Beijing Branch	Huajia Jinbao Complex, No. 269, Chaoyangmen South Street, Dongcheng District, Beijing	21	953	216,400
		Jinan Branch	No. 801, Caoshanling South Road, Lixia District, Jinan, Shandong	16	864	79,783
Tianjin Branch		Overseas Chinese Building, Extension No. 1, No. 92, Nanjing Road, Heping District, Tianjin	12	498	45,087	
Shenyang Branch		No. 467, Shifu Road, Shenhe District, Shenyang	7	301	21,753	
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	10	631	101,395	
	Shenzhen Branch	(1-4/F, 6/F) Lianhezongbu Building, Hightech District, Xuefu Road, Nanshan Street, Nanshan District, Shenzhen	12	655	95,252	
	Fuzhou Branch	Huawei Building, No. 169, Binxi Avenue, Nanjiang, Cangshan District, Fuzhou, Fujian	1	64	10,269	

INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES AND INSTITUTIONS

Region	Name of institution	Business address	Number of institution	Number of employees	Total assets (RMB million)
Midwestern China Region	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	14	523	54,962
	Chongqing Branch	Block 3, No. 67, Middle Section of Huangshan Avenue, Yubei District, Chongqing	9	487	61,872
	Xi'an Branch	Building 3, Taihua Jinmao Guoji, No. 16, Fenghui South Road, Yanta District, Xi'an	11	517	61,760
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	5	351	31,107
	Zhengzhou Branch	No. 8 Middle Ring Road, Finance Island, Zhengzhou Area (Zhengdong), Henan Pilot Free Trade Zone, Zhengzhou, Henan	5	309	33,226
	Guiyang Branch	No. 88, Yan'an Road Central, Yunyan District, Guiyang	1	112	11,478
	Changsha Branch	Unit 118-129, 1/F, Block 6, Unit 215-219, 2/F, Block 6 and 22-23/F, Block 1, Huachuang International Plaza, No. 109 Furong Middle Road Part 1, Kaifu District, Changsha, Hunan	4	224	23,763
	Nanchang Branch	1-2/F, 14-20/F, Block 35, Alpha X, No. 1, Xuefu Road, Honggutan New District, Nanchang, Jiangxi	3	154	20,467
	Hohhot Branch	No. 8, Chilechuan Street, Saihan District, Hohhot	2	153	17,320
	Lanzhou Branch	No. 1888, Nanchang Road, Chengguan District, Lanzhou	9	404	24,093
	Nanning Branch	20-21/F, Block A, China Resources Building, No. 136-1 Minzu Avenue, and No. B1028-1031, -1/F, 136-6 Xingfu Lane, Qingxiu District, Nanning, Guangxi Zhuang Autonomous Region	1	74	7,773
	Taiyuan Branch	Part of 1/F and 2-7/F, Block A, No. 163 Jinyang Street, Xiaodian District, Taiyuan, Shanxi	1	-	-
	Overseas Institution	Hong Kong Branch	15/F, Three Exchange Square, No. 8 Connaught Place, Central, Hong Kong	1	77
Subsidiary	Zheyin Financial Leasing	12/F, No.1 Minxin Road, Hangzhou, Zhejiang	1	172	50,152

Note: The opening of Taiyuan Branch was approved by the Shanxi office of the Banking and Insurance Regulatory Commission on April 27, 2022.

SIGNIFICANT EVENTS

I. PURCHASE AND SALE AND REDEMPTION OF SECURITIES

For details of the redemption of offshore preference shares by the Company, please refer to “CHANGES IN SHARES AND INFORMATION ON SHAREHOLDERS – INFORMATION ABOUT PREFERENCE SHARES”. Save as disclosed above, during the reporting period, the Company and its subsidiary did not purchase, sell or redeem any of the Company’s listed securities.

II. USAGE OF PROCEEDS RAISED

The use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

III. MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal litigations/arbitrations in the ordinary course of business, most of which were filed by the Company itself for the purpose of recovering non-performing loans. The above litigations/arbitrations also include those arising as a result of other disputes. For the relevant information on the case involving disputes of financial loan contracts between the Company and Beijing Glory Xingye Real Estate Co., Ltd. (北京國瑞興業地產股份有限公司), Guorui Properties Limited, Shantou Garden Group Co., Ltd. (汕頭花園集團有限公司), Zhang Zhangsun (張章筍) and Ruan Wenjuan (阮文娟), please refer to the Announcement of China Zheshang Bank Co., Ltd. on the Litigation 《浙商銀行股份有限公司關於訴訟事項的公告》 (Number: 2022-029) issued by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn). For the relevant information of the financial loan agreement disputes between the Company and Shantou Yidong Real Estate Development Co., Ltd. (汕頭市宜東房地產開發有限公司), Shantou Huhui Intelligent Technology Co., Ltd. (汕頭市互匯智能科技有限公司), Yihua Enterprise (Group) Co., Ltd. (宜華企業(集團)有限公司), Shenzhen Guanlan Grand Skylight Hotel Investment Co., Ltd. (深圳市觀瀾格蘭雲天大酒店投資有限公司), Liu Shaoxi (劉紹喜), Wang Shaonong (王少農), Liu Shaosheng (劉紹生), Liu Zhuangqing (劉壯青) and Liu Shaoxiang (劉紹香), please refer to the Announcement of China Zheshang Bank Co., Ltd. on Litigation 《浙商銀行股份有限公司關於訴訟事項的公告》 (Number: 2021-015) and Announcement of China Zheshang Bank Co., Ltd. on Litigation Progress 《浙商銀行股份有限公司關於訴訟事項進展的公告》 (Number: 2022-006) issued by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn).

As of the end of the reporting period, there were totally 37 pending litigations/arbitrations (excluding cases involving enforcement opposition and the third parties) where the Company was a defendant, and the total value was RMB407.227 million. The Company expects that such pending litigations/arbitrations will not have a material adverse impact on the Company’s business, financial position or operating results.

SIGNIFICANT EVENTS

IV. MATERIAL CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS

(I) Connected Transactions Related to Daily Operations

The Company carried out the connected transactions in accordance with the relevant requirements of regulatory authorities at home and abroad, i.e. the Administrative Measures for Related Party Transactions of Banking and Insurance Institutions (《銀行保險機構關聯交易管理辦法》), the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, Self-regulatory Guidelines for Listed Companies on the Shanghai Stock Exchange No. 5 – Transaction and Related Party Transaction (《上海證券交易所上市公司自律監管指引第5號 – 交易與關聯交易》) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The connected transactions were conducted on normal commercial terms. The terms of transactions were fair and reasonable and in the benefits of the Company and the shareholders as a whole.

During the reporting period, at the fourth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Hengdian Group (《關於本行對橫店集團關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB5 billion to Hengdian Group Holdings Limited and its related parties. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (Number: 2022-025) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, at the fourth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Caitong Securities Co., Ltd. (《關於本行對財通證券股份有限公司關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB6 billion to Caitong Securities Co., Ltd. (財通證券股份有限公司). For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (Number: 2022-025) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, at the fifth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Bank's Credit Plan to the Related Parties of Zhejiang Energy Group (《關於本行對浙江能源集團關聯方授信方案的議案》), approving to grant maximum comprehensive credit lines of RMB6.5 billion to Zhejiang Energy Group Co., Ltd. and its related parties. For details, please refer to the Announcement on Related Party Transactions of China Zheshang Bank Co., Ltd. (Number: 2022-040) published by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

During the reporting period, the Company provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, including our connected persons. These transactions were entered into on normal commercial terms (or on better terms to the Company) in the ordinary and usual course of our business, and thus are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

SIGNIFICANT EVENTS

The Company also enters into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or on better terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company as of June 30, 2022 are set out in "Notes to Consolidated Financial Statements – Related Party Relationship and Transactions".

Saved as disclosed above, no related party transactions set out in "Notes to Consolidated Financial Statements – Related Party Relationship and Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(II) Connected Transactions in Acquisition and Disposal of Assets or Equity

During the reporting period, the Company hasn't conducted connected transactions involving the acquisition and disposal of assets or equity.

(III) Connected Transactions in relation to Joint External Investment

During the reporting period, the Company hasn't conducted connected transactions in relation to joint external investment.

(IV) Connected Creditor's Rights and Liabilities

During the reporting period, the Company hasn't had any non-operational connected creditor's rights and liabilities.

SIGNIFICANT EVENTS

V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Material custody, contracting and leasing

During the reporting period, none of the material contracts signed by the Company involved custody, contracting or leasing any assets of other companies or vice versa which fell outside the normal business scope of a bank.

(II) Significant guarantees

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBIRC, there were no other significant guarantees that shall be disclosed.

VI. MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

During the reporting period, at the fourth meeting of the sixth session of the Board, the Company considered and passed the Proposal on the Purchase of Office Building for Shanghai Branch (《關於購置上海分行營業辦公用房的議案》). For details, please refer to the Announcement of China Zheshang Bank Co., Ltd. on the Purchase of Office Building (《浙商銀行股份有限公司關於購買辦公大樓的公告》) (Number: 2022-027) issued by the Company on the Shanghai Stock Exchange (www.sse.com.cn).

VII. STOCK INCENTIVE PLAN

The Company did not implement any stock incentive plan during the reporting period.

VIII. EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

SIGNIFICANT EVENTS

IX. INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN THE COMPANY

As at June 30, 2022, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (as defined in the SFO), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including the interests or short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of Shares (shares)	Percentage of the relevant class of shares in issue (%)	Percentage of the total issued ordinary shares (%)
Zhang Rongsen (張榮森)	Executive Director, President	A Share	Long position	Beneficial Owner	1,022,100	0.0061	0.0048
Chen Haiqiang (陳海強)	Executive Director, Vice President, Chief Risk Officer	A Share	Long position	Beneficial Owner	257,000	0.0015	0.0012

X. DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, the Board of Supervisors, the Supervisors and Senior Management of the Company and Shareholders holding 5% or more shares during the reporting period.

SIGNIFICANT EVENTS

XI. PERFORMANCE OF THE UNDERTAKINGS

Background of undertakings	Type of undertakings	Undertaking entities	Undertakings	Time and period of undertakings	Any period for performance	Whether timely and strictly performed
Undertakings in relation to the initial public offering	Shares subject to trading moratorium	Zhejiang Provincial Financial Holdings Co., Ltd., Traveller Automobile Group Co., Ltd., Zhejiang Hengyi Group Co., Ltd. and its related parties Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd., Hengdian Group Holdings Limited, Guangsha Holding Group Co., Ltd. and its related parties Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Dongwang Times Technology Co., Ltd., Zhejiang Provincial Energy Group Co., Ltd., Tong Lian Capital Management Co., Ltd., Xizi Elevator Group Co, Ltd., Shanghai Xizi United Investment Co., Ltd., Hangzhou Minsheng Pharmaceutical Holding Group Co., Ltd. (杭州民生醫藥控股集團有限公司) (9,460,000 Domestic Shares), Zhuji Hongyi Electronic Science and Technology Co., Ltd. (諸暨宏億電子科技有限公司), Zhejiang Huasheng Logistics Co., Ltd. (浙江華升物流有限公司)	Within 36 months from the date on which the A Shares of the Bank are listed and traded on the stock exchange, they will not transfer or entrust others to manage the Domestic Shares of the Bank that are directly or indirectly held by them before the issuance, nor sell the above shares back to the Bank.	November 26, 2019 to November 25, 2022	Yes	Yes

SIGNIFICANT EVENTS

XII. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

During the reporting period, the Company firmly anchored its position in the financial landscape, insisted on practicing the concept of financial goodwill, took the protection of the fundamental interests of the people and the high-quality development of the social economy as the starting and ending points of its business operations, and fully demonstrated its responsibility in supporting the construction of Zhejiang Demonstration Zone for Common Prosperity, rural revitalization, green finance, inclusive finance, digital reform, employee care, public charity, etc. The Company achieved good performance in fulfilling its responsibilities and was awarded the “Top 10 Socially Responsible Organizations of the Year (年度十佳社會責任機構)” by China Banking and Insurance News and “Small and Micro Finance Brand Bank of the Year” by Sina Finance.

(I) Performance and Policies in relation to Environment

During the reporting period, focusing on the national “14th Five-Year” plan and the carbon peak and carbon neutral goals, the Company advanced further development of green finance, and strived to achieve business development and environmental protection at the same time. During the reporting period, there were no environmental violations within the Company.

For green finance, the Company continued to improve the top-level organizational mechanism, optimize the examination and incentive mechanism and the resource allocation, and lead credit resources mainly to the green area; strengthened the whole-process, dynamic and differentiated management of environmental and social risks, and implemented “One-vote Veto” for companies with poor environmental and social risk performance in credit approval; provided green financial products and services such as carbon emission reduction loan and photovoltaic loan, diversified financing channels for green enterprises, and supported the development of green businesses such as clean energy, energy conservation and environmental protection, and carbon emission reduction technologies. As of the end of the reporting period, the Company’s green loan balance was RMB125.574 billion, representing an increase of RMB21.330 billion or 20.46% as compared with the beginning of the year, of which clean energy industry loan balance was RMB9.897 billion, representing an increase of RMB1.992 billion or 25.21% as compared with the beginning of the year.

In terms of green operation, the Company continued to promote online, digital and intelligent transformation of services, and the replacement rate of transactions via online channels exceeds 99%; the Company deepened the promotion of paperless and online office management applications to reduce resource and energy consumption in the daily office operation. The Company encouraged employees, customers, suppliers and other stakeholders to use a simple, moderate, green and low-carbon way of work and life, and actively carried out environmental public welfare activities such as forest planting, water purification, resource recycling to work together to protect clear waters and green mountains.

SIGNIFICANT EVENTS

(II) Particulars of Consolidating and Expanding Poverty Alleviation Achievements and Rural Revitalization

During the reporting period, the Company firmly implemented the decision-making deployment of the CCP Central Committee and the State Council on consolidating and expanding poverty alleviation achievements and effective connection with rural revitalization, continuously improved the financial service organization system, and increased its financial resource allocation and investment to activate the development potential of the rural area, pioneering a path of “co-building, sharing and common prosperity” road.

First, the Company optimized and promoted the industrial chain financial service model of “banks + leading enterprises + cooperatives + farmers”, supported the development and growth of distinctive industries in poverty-stricken areas, proactively connected with local leading agricultural enterprises and rural cooperatives, etc., carried out inclusive agriculture-related loan business, and improved availability of financing for small farmers and new agricultural business entities. As of the end of the reporting period, the Company’s balance of agricultural-related loans was RMB187.701 billion, representing an increase of RMB15.247 billion or 8.84% as compared with the end of last year.

Second, focusing on 26 counties in the mountainous area of Zhejiang, the Company developed financial service plans for “one policy for one county” and “one product for one county”, and launched such special businesses as “Longquan sword and porcelain common prosperity loan (龍泉劍瓷共富貸)” and “Qujiang farming common prosperity loan (衢江種養殖共富貸)” to effectively support local industries to expand and strengthen their advantages and create more employment opportunities. Meanwhile, the Company actively promoted financial consulting services to provide consultation services for enterprises in 26 counties in the mountainous areas to reasonably use financial tools, expand financing channels and optimize financing structures, so as to broaden the breadth and depth of financial public welfare.

Third, the Company continued to promote cooperation between Eastern and Western China and “thousands of enterprises to help thousands of villages” assistance in pairs, took industrial assistance, consumption assistance, public welfare assistance and other measures, increased the capital, talent, technology support, comprehensively promoted to strengthen the collective economy in Longyou County, Zhejiang, Xuanhan County, Sichuan and other paired villages to the initial establishment of long-term development mechanism. Currently, the Company supported 5 villages in Longyou County to develop photovoltaic power generation, food and oil processing, country inn and other industrial projects, which achieved average annual operational incomes of more than RMB250 thousand; completed a phase of 5 mu of continuous vegetable greenhouse in Luogu Village, Xuanhan County, bringing real income to the villagers.

Fourth, with a focus on “One Bank to One School” paired assistance, the Company continued to improve the conditions of compulsory education in poverty-stricken areas, organized dental care and eye care actions to protect children’s physical and mental health and cultivate good hygiene habits. Currently, the Company has paired up 24 rural primary schools with its own funds and donations from employees totaling RMB19.04 million to support the schools’ infrastructure, living environment, teaching quality and quality education.

SIGNIFICANT EVENTS

XIII. REVIEW OF THE INTERIM RESULTS

The 2022 interim report of the Company prepared under the China Accounting Standards and the International Financial Reporting Standards has reviewed by KPMG Huazhen LLP and KPMG in accordance with China Standards on Review Engagements and International Standard on Review Engagements, respectively.

The Board of Directors and the audit Committee of the Board of Directors of the Company have reviewed and approved the results and financial report of the Company for the period ended June 30, 2022.

XIV. PUBLISHING THE INTERIM REPORT

The English and Chinese version of the interim report prepared by the Company in accordance with the International Financial Reporting Standards and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website. For any inconsistency between the two versions, the Chinese version shall prevail.

The Chinese version of the semi-annual report prepared by the Company in accordance with the China Accounting Standards and the Rules of the CSRC for the Preparation of Semi-annual Reports will be available on the website of the Shanghai Stock Exchange and the Company's website.

REVIEW REPORT

To the board of directors of China Zheshang Bank Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 95 to 215, which comprise the condensed consolidated statement of financial position of China Zheshang Bank Co., Ltd. (“the Bank”) and its subsidiary (“the Group”) at 30 June 2022, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in accordance with the relevant provisions thereof and the 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, *Interim Financial Reporting*.

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 the 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 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

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

29 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	The six months ended 30 June	
		2022 (Unaudited)	2021 (Unaudited)
Interest income		49,752	45,151
Interest expense		(26,515)	(24,773)
NET INTEREST INCOME	III. 1	23,237	20,378
Fee and commission income		2,975	2,309
Fee and commission expense		(343)	(312)
NET FEE AND COMMISSION INCOME	III. 2	2,632	1,997
Net trading gains	III. 3	4,361	2,831
Net gains on financial investments	III. 4	1,309	541
Other operating income	III. 5	239	201
OPERATING INCOME		31,778	25,948
Operating expenses	III. 6	(7,988)	(6,963)
Expected credit losses	III. 7	(15,301)	(10,834)
PROFIT BEFORE TAXATION		8,489	8,151
Income tax expense	III. 8	(1,316)	(1,163)
PROFIT FOR THE PERIOD		7,173	6,988
Attributable to:			
Shareholders of the Bank		6,974	6,851
Non-controlling interests		199	137

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	The six months ended 30 June	
		2022 (Unaudited)	2021 (Unaudited)
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss:			
Changes in the fair value of financial investments designated to be measured at fair value through other comprehensive income		10	(8)
Items that may be reclassified to profit or loss:			
Changes in the fair value of financial assets measured at fair value through other comprehensive income		(1,265)	317
Allowance for ECLs of financial assets measured at fair value through other comprehensive income		568	(128)
Exchange difference from the translation of foreign operations		596	(238)
Other comprehensive income, net of tax		(91)	(57)
Total comprehensive income		7,082	6,931
Total comprehensive income attributable to:			
Shareholders of the Bank		6,883	6,794
Non-controlling interests		199	137
Earnings per share attributable to the shareholders of the Bank:			
Basic (RMB yuan)	III.9	0.29	0.28
Diluted (RMB yuan)		0.29	0.28

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	30 June 2022 (Unaudited)	31 December 2021 (Audited)
ASSETS			
Cash and balances with the central bank	III. 10	151,645	141,510
Precious metals		6,947	5,899
Deposits with banks and other financial institutions	III. 11	48,423	39,391
Placements with banks and other financial institutions	III. 12	3,830	12,762
Derivative financial assets	III. 13	12,191	14,264
Financial assets purchased under resale agreements	III. 14	88,499	22,352
Loans and advances to customers	III. 15	1,434,565	1,311,889
Financial investments	III. 16		
– Financial assets measured at fair value through profit or loss		177,626	179,197
– Financial assets measured at amortized cost		351,324	374,558
– Financial assets measured at fair value through other comprehensive income		151,030	98,067
Fixed assets	III. 18	15,058	14,665
Right-of-use assets	III. 19	4,714	4,670
Intangible assets	III. 20	539	486
Deferred tax assets	III. 21	20,270	18,077
Other assets	III. 22	54,583	48,936
TOTAL ASSETS		2,521,244	2,286,723
LIABILITIES			
Due to the central bank		56,483	50,990
Deposits from banks and other financial institutions	III. 24	239,425	236,976
Placements from banks and other financial institutions	III. 25	47,612	41,021
Financial liabilities at fair value through profit or loss	III. 26	12,132	12,512
Derivative financial liabilities	III. 13	12,257	13,162
Financial assets sold under repurchase agreements	III. 27	5,004	–
Customer deposits	III. 28	1,640,464	1,415,705
Employee benefits payable	III. 29	4,179	5,278
Taxes payable	III. 30	3,528	5,531
Provisions	III. 31	5,092	4,952
Debt securities issued	III. 32	319,610	318,908
Lease liabilities		2,984	2,926
Other liabilities	III. 33	14,122	11,879
TOTAL LIABILITIES		2,362,892	2,119,840

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	30 June 2022 (Unaudited)	31 December 2021 (Audited)
EQUITY			
Share capital	III. 34	21,269	21,269
Other equity instruments	III. 35	24,995	39,953
– Preference shares		–	14,958
– Perpetual bonds		24,995	24,995
Capital reserve	III. 36	32,289	32,018
Other comprehensive income	III. 37	466	557
Surplus reserve	III. 38	9,743	9,743
Statutory general reserve	III. 39	26,386	23,802
Retained earnings		40,379	36,827
Total equity attributable to shareholders of the Bank		155,527	164,169
Non-controlling interests		2,825	2,714
TOTAL EQUITY		158,352	166,883
TOTAL LIABILITIES AND EQUITY		2,521,244	2,286,723

The interim financial report were approved by the board of directors on 29 August 2022:

Zhang Rongsen
*(Perform the duties of chairman and
legal representative on behalf)
Executive Director, President*

Jing Feng
*Principal in-charge of Finance,
Chief Finance Officer*

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to shareholders of the Bank							Non-Controlling interests	Total Equity	
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			Subtotal
Balance at 1 January 2022		21,269	39,953	32,018	557	9,743	23,802	36,827	164,169	2,714	166,883
Changes in equity for the period											
1. Total comprehensive income		-	-	-	(91)	-	-	6,974	6,883	199	7,082
2. Capital deduction by equity holders											
- Capital deduction by other equity instruments holders	III, 35	-	(14,958)	271	-	-	-	-	(14,687)	-	(14,687)
3. Appropriation of profits											
- Appropriation to statutory general reserve	III, 39	-	-	-	-	-	2,584	(2,584)	-	-	-
- Distributions to ordinary shareholders		-	-	-	-	-	-	-	-	(88)	(88)
- Distributions to preference shareholders	III, 40	-	-	-	-	-	-	(838)	(838)	-	(838)
Balance at 30 June 2022		21,269	24,995	32,289	466	9,743	26,386	40,379	155,527	2,825	158,352

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to shareholders of the Bank							Subtotal	Non-Controlling interests	Total Equity
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			
Balance at 1 January 2021		21,269	14,958	32,018	261	8,499	21,118	32,389	130,512	2,031	132,543
Changes in equity for the period											
1. Total comprehensive income		-	-	-	(57)	-	-	6,851	6,794	137	6,931
2. Appropriation of profits											
- Appropriation to statutory general reserve	III. 39	-	-	-	-	-	2,562	(2,562)	-	-	-
- Distributions to ordinary shareholders	III. 40	-	-	-	-	-	-	(3,424)	(3,424)	(75)	(3,499)
- Distributions to preference shareholders	III. 40	-	-	-	-	-	-	(858)	(858)	-	(858)
Balance at 30 June 2021		21,269	14,958	32,018	204	8,499	23,680	32,396	133,024	2,093	135,117

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021 (Audited)
(In RMB millions, unless otherwise stated)

	Note	Attributable to equity holders of the Bank							Subtotal	Non-Controlling interests	Total Equity
		Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	Statutory general reserve	Retained earnings			
Balance at 1 January 2021		21,269	14,958	32,018	261	8,499	21,118	32,389	130,512	2,031	132,543
Changes in equity for the year											
1. Total comprehensive income		-	-	-	296	-	-	12,648	12,944	268	13,212
2. Capital contribution from equity holders											
- Capital contribution from other equity instruments holders	III, 35	-	24,995	-	-	-	-	-	24,995	-	24,995
- Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	490	490
3. Appropriation of profits											
- Appropriation to surplus reserve	III, 38	-	-	-	-	1,244	-	(1,244)	-	-	-
- Appropriation to statutory general reserve	III, 39	-	-	-	-	-	2,684	(2,684)	-	-	-
- Distributions to ordinary shareholders	III, 40	-	-	-	-	-	-	(3,424)	(3,424)	(75)	(3,499)
- Distributions to preference shareholders	III, 40	-	-	-	-	-	-	(858)	(858)	-	(858)
Balance at 31 December 2021		21,269	39,953	32,018	557	9,743	23,802	36,827	164,169	2,714	166,883

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	For the six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Cash flows from operating activities:		
Profit before taxation	8,489	8,151
Adjustments for:		
– Expected credit losses	15,301	10,834
– Depreciation and amortization	904	827
– Interest income from financial investments	(9,074)	(8,176)
– Net investment income	(4,196)	(1,132)
– Net losses/(gains) from changes in fair value	1,293	(610)
– Net foreign exchange losses	268	206
– Net (gains)/losses on disposal of fixed assets	(1)	1
– Interest expense on debt securities issued	4,649	4,191
– Interest expense on lease liabilities	69	71
– Deferred tax expense	(1,965)	(1,921)
Net changes in operating assets and operating liabilities:		
Net (increase)/decrease in balances with the central bank	(9,843)	764
Net increase in deposits with banks and other financial institutions	(830)	–
Net (increase)/decrease in placements with banks and other financial institutions	(549)	1,666
Net decrease/(increase) in financial assets purchased under resale agreements	1,035	(98)
Net increase in loans and advances to customers	(130,032)	(79,409)
Net decrease/(increase) in financial assets held for trading	19,429	(20,775)
Net decrease in other operating assets	2,983	13,798
Net increase/(decrease) in due to the central bank	5,017	(24,691)
Net increase in deposits from banks and other financial institutions	3,011	16,384
Net increase/(decrease) in placements from banks and other financial institutions	6,548	(6,848)
Net increase in financial assets sold under repurchase agreements	5,000	33,956
Net increase in customer deposits	221,770	32,433
Net decrease in other operating liabilities	(4,976)	(2,310)
Net cash flows generated from/(used in) operating activities before taxation	134,300	(22,688)
Income tax paid	(3,721)	(2,812)
Net cash generated from/(used in) operating activities	130,579	(25,500)

The notes on pages 104 to 215 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2022 (Unaudited)
(In RMB millions, unless otherwise stated)

	Note	For the six months ended 30 June	
		2022 (Unaudited)	2021 (Unaudited)
Cash flows from investing activities:			
Proceeds from disposal of fixed assets		13	2
Payment for acquisition of fixed assets, intangible assets and other long-term assets		(3,023)	(360)
Investment returns received		13,426	10,101
Proceeds from disposal of investments		634,886	802,961
Payment for acquisition of investments		(690,191)	(827,990)
Net cash used in investing activities		(44,889)	(15,286)
Cash flows from financing activities:			
Proceeds from issuance of debt securities		209,534	242,709
Repayments of principal on debt securities issued		(209,061)	(186,544)
Repayments of interest on debt securities issued		(4,910)	(5,131)
Repayment of other equity instruments		(14,687)	–
Payment for dividend distribution		(914)	(858)
Repayments of principal element of lease liabilities		(319)	(288)
Repayments of interest element of lease liabilities		(69)	(71)
Net cash (used in)/generated from financing activities		(20,426)	49,817
Effect of exchange rate changes on cash and cash equivalents		852	(485)
Net increase in cash and cash equivalents		66,116	8,546
Cash and cash equivalents at the beginning of the period		90,825	112,121
Cash and cash equivalents at the end of the period	III. 41	156,941	120,667
Net cash flows from operating activities include:			
Interest received		40,206	37,229
Interest paid		(18,849)	(21,473)

The notes on pages 104 to 215 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

I GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank established on the basis of the original Zhejiang Commercial Bank with the approval from the China Banking Regulatory Commission (“CBRC” which was renamed to China Banking and Insurance Regulatory Commission in 2018, hereinafter referred to as “CBIRC”) (Yin Jian Fu [2004] No. 91) and Zhejiang Commission of China Banking Regulatory Commission (Zhe Yin Jian Fu [2004] No. 48). The Bank obtained the Finance License (No. B0010H133010001) with the approval from the CBIRC. On 26 July 2004, the Bank completed the change of registration in Zhejiang Administration for Industry and Commerce and obtained the Business License (No. 330000000013295) in Zhejiang Province, the People’s Republic of China (the “PRC”). On 7 November 2016, the Bank obtained the Uniform Social Credit Code (No.91330000761336668H).

The Bank was listed on the Hong Kong Stock Exchange on 30 March 2016 with stock code of 2016, the Bank was listed on the Shanghai Stock Exchange on 26 November 2019 with stock code of 601916. At 30 June 2022, the Bank’s registered capital is RMB21,268,696,778.

At 30 June 2022, the Bank has established 298 branches in 22 provinces (autonomous regions or municipalities) and Hong Kong in China, including 72 branches (30 of them are tier-one branches), one branch-level specialized institution and 225 sub-branches. The principal activities of the Bank include corporate and retail banking, treasury business, and other banking service.

Zhejiang Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) was established on 18 January 2017 with a registered capital of RMB4 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank has included it in the scope of the consolidated financial statements. The Bank and its subsidiary, Zheyin Financial Leasing, are collectively referred to as “the Group”.

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim financial report has been prepared on a going concern basis.

The interim financial report has been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and do not include all information and disclosures disclosed in the annual financial statements. The interim financial report should be read in conjunction with the Group’s last annual consolidated financial statements at and for the year ended 31 December 2021.

This interim financial report contains condensed 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 2021 annual financial statements. The condensed 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 IFRSs.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

II BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(Continued)

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended 31 December 2021.

The following amendments to IFRSs (including IAS and its amendments and IFRIC interpretations) issued by the International Accounting Standards Board take effect for the current accounting period beginning on or after 1 January 2022:

- Amendments to IFRS 3, *Reference to the Conceptual Framework*;
- Amendments to IAS 16, *Property, Plant and Equipment: Proceeds Before Intended Use*;
- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of the amended IFRSs (including IAS and its amendments and IFRIC interpretations) has no material impact on the financial position and the financial result of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net Interest Income

	For the six months ended 30 June	
	2022	2021
Interest income:		
Loans and advances to customers		
– Corporate loans and advances	23,420	21,148
– Personal loans and advances	12,364	11,739
– Discounted bills	1,313	1,218
Financial investments		
– Financial assets measured at amortised cost (“AC”)	7,228	7,335
– Financial assets measured at fair value through other comprehensive income (“FVOCI”)	1,846	841
Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements	1,171	757
Balances with the central bank	942	983
Finance lease receivables	1,468	1,130
Total	49,752	45,151
Interest expense:		
Customer deposits		
– Corporate customers	(14,513)	(11,625)
– Personal customers	(2,313)	(5,000)
Debt securities issued	(4,649)	(4,191)
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	(4,237)	(3,051)
Due to the central bank	(734)	(835)
Lease liabilities	(69)	(71)
Total	(26,515)	(24,773)
Net interest income	23,237	20,378

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

2 Net Fee and Commission Income

	For the six months ended 30 June	
	2022	2021
Fee and commission income:		
Agency and entrustment service	874	661
Commitment and guarantee service	823	480
Underwriting and consultation service	547	458
Settlement and clearing business	285	246
Custodian and other fiduciary service	256	247
Fees from bank cards	115	126
Others	75	91
Total	2,975	2,309
Fee and commission expense	(343)	(312)
Net fee and commission income	2,632	1,997

3 Net Trading Gains

	For the six months ended 30 June	
	2022	2021
Net gains arising from financial instruments measured at FVTPL	2,547	2,118
Exchange gains and related derivatives	1,571	743
Precious metals and related derivatives	127	21
Other derivatives	116	(51)
Total	4,361	2,831

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

4 Net Gains on Financial Investments

	For the six months ended 30 June	
	2022	2021
Net gains arising from financial assets measured at FVOCI	1,390	486
Net losses arising from financial assets measured at AC	(70)	–
Other investment (losses)/gains	(11)	55
Total	1,309	541

5 Other Operating Income

	For the six months ended 30 June	
	2022	2021
Operating lease income	105	60
Government grants	34	39
Other miscellaneous income	100	102
Total	239	201

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

6 Operating Expense

	For the six months ended 30 June	
	2022	2021
Staff costs (i)	5,048	4,446
General and administrative expenses	1,658	1,203
Depreciation and amortization	851	827
Taxes and surcharges	334	423
Donations	9	4
Auditors' remuneration	3	2
Others (ii)	85	58
Total	7,988	6,963

(i) Staff costs

	For the six months ended 30 June	
	2022	2021
Salaries, bonuses and allowances	3,909	3,500
Other social insurance and benefit costs	400	279
Housing funds	191	173
Pension costs – defined contribution plans	475	418
Labor union fee and staff education fee	73	76
Total	5,048	4,446

(ii) During reporting period, the expense relating to short-term leases and leases of low-value assets are not significant.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

7 Expected Credit Losses (“ECL”s)

	Note	For the six months ended 30 June	
		2022	2021
Deposits with banks and other financial institutions		–	(4)
Placements with banks and other financial institutions		33	26
Financial assets purchased under resale agreements		6	–
Loans and advances to customers			
– measured at AC		8,277	7,458
– measured at FVOCI		572	(287)
Financial investments			
– measured at AC		5,733	3,314
– measured at FVOCI		183	123
Finance lease receivables		253	211
Off-balance sheet items		139	(187)
Others		105	180
Total	III.23	15,301	10,834

8 Income Tax Expense

	Note	For the six months ended 30 June	
		2022	2021
Current income tax expense		3,281	3,084
Deferred tax expense	III.21	(1,965)	(1,921)
Total		1,316	1,163

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group in accordance with PRC income tax regulations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

8 Income Tax Expense *(Continued)*

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

	For the six months ended 30 June	
	2022	2021
Profit before taxation	8,489	8,151
Tax calculated at statutory tax rate of 25%	2,122	2,038
Effects of non-taxable income (i)	(1,545)	(979)
Effects of non-deductible expenses (ii)	739	104
Income tax expense	1,316	1,163

- (i) The non-taxable income mainly represents interest income arising from treasury bonds and municipal government bonds, and dividend income arising from fund investments, which are income tax free in accordance with the PRC tax regulations.
- (ii) The non-deductible expenses mainly include the non-deductible write-off losses assessed and confirmed item by item, and certain expenses, which are not deductible before taxation according to PRC tax regulations.

9 Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of the conversion did not occur during the six months ended 30 June 2022, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

	For the six months ended 30 June	
	2022	2021
Consolidated net profit attributable to shareholders of the Bank	6,974	6,851
Less: Net profit attributable to other equity instruments holders of the Bank	(838)	(858)
Consolidated net profit attributable to ordinary shareholders of the Bank (in RMB millions)	6,136	5,993
Weighted average number of ordinary shares (in millions of shares)	21,269	21,269
Basic and diluted earnings per share (RMB yuan/share)	0.29	0.28

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

10 Cash and Balances with the Central Bank

	Note	30 June 2022	31 December 2021
Cash		559	469
Balances with the central bank			
– Statutory deposit reserves	(1)	122,786	112,958
– Surplus deposit reserves	(2)	28,221	28,017
– Fiscal deposits		23	8
Subtotal		151,030	140,983
Interest accrued		56	58
Total		151,645	141,510

- (1) The Group is required to place statutory deposit reserves with the People’s Bank of China (the “PBOC”). At the balance sheet date, rates for statutory deposit reserves were as follows:

	30 June 2022	31 December 2021
Statutory deposit reserves rate for deposits denominated in RMB	7.75%	8.00%
Statutory deposit reserves rate for deposits denominated in foreign currencies	8.00%	9.00%

The statutory deposit reserves ratios of the subsidiary of the Bank complied with the requirement of the PBOC.

- (2) Surplus deposit reserves placed with the PBOC is mainly for settlement purpose.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

11 Deposits with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2022	31 December 2021
In Mainland China		
– Banks	37,446	28,405
– Other financial institutions	4,384	2,462
Outside Mainland China		
– Banks	6,033	7,741
– Other financial institutions	388	694
Interest accrued	177	94
Total	48,428	39,396
Less: Allowance for ECLs (Note III.23)	(5)	(5)
Carrying amount	48,423	39,391

12 Placements with Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2022	31 December 2021
In Mainland China		
– Banks	–	1,910
– Other financial institutions	3,872	4,069
Outside Mainland China		
– Banks	–	6,824
Interest accrued	44	10
Total	3,916	12,813
Less: Allowance for ECLs (Note III.23)	(86)	(51)
Carrying amount	3,830	12,762

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

13 Derivative Financial Instruments

The Group's derivative financial instruments include interest rate derivatives, currency derivatives, precious metal derivatives and credit derivatives. At the balance sheet date, the derivative financial instruments held by the Group are set out below:

At 30 June 2022

	Notional amount	Fair value	
		Derivative financial assets	Derivative financial liabilities
Interest rate derivatives	1,690,412	6,105	(6,136)
Currency derivatives	647,803	5,758	(5,724)
Precious metal derivatives	46,958	313	(396)
Credit derivatives	1,236	15	(1)
Total	2,386,409	12,191	(12,257)

At 31 December 2021

	Notional amount	Fair value	
		Derivative financial assets	Derivative financial liabilities
Interest rate derivatives	1,594,985	7,546	(7,415)
Currency derivatives	672,610	6,318	(5,568)
Precious metal derivatives	35,032	393	(178)
Credit derivatives	766	7	(1)
Total	2,303,393	14,264	(13,162)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

14 Financial Assets Purchased Under Resale Agreements

(1) Analyzed by type and location of counterparties

	30 June 2022	31 December 2021
In Mainland China		
– Banks	3,219	4,163
– Other financial institutions	85,296	18,204
Interest accrued	8	3
Total	88,523	22,370
Less: Allowance for ECLs (Note III.23)	(24)	(18)
Carrying amount	88,499	22,352

(2) Analyzed by type of collateral

	30 June 2022	31 December 2021
Bills	8,414	938
Bonds		
– Financial bonds	75,395	15,154
– Government bonds	4,706	6,275
Interest accrued	8	3
Total	88,523	22,370
Less: Allowance for ECLs (Note III.23)	(24)	(18)
Carrying amount	88,499	22,352

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers

	30 June 2022	31 December 2021
Loans and advances to customers measured at AC	1,171,330	1,062,484
Loans and advances to customers measured at FVOCI	263,235	249,405
Total	1,434,565	1,311,889

(1) Analyzed by classification and nature

	30 June 2022	31 December 2021
Loans and advances to customers measured at AC		
Corporate loans and advances		
– Corporate loans	798,747	693,302
– Trade finance	23,100	19,376
Corporate loans and advances	821,847	712,678
Personal loans and advances		
– Personal business loans	178,484	169,675
– Consumer loans	109,737	120,975
– Residential mortgage loans	96,559	90,844
Personal loans and advances	384,780	381,494
Loans and advances to customers measured at FVOCI		
Corporate loans and advances		
– Trade finance	168,940	170,312
– Discounted bills	93,759	78,855
Subtotal	1,469,326	1,343,339
Fair value changes	536	238
Interest accrued	4,199	3,662
Gross amount	1,474,061	1,347,239
Less: Allowance for ECLs (Note III.23)	(39,496)	(35,350)
Carrying amount	1,434,565	1,311,889

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(2) Analyzed by type of collateral

	30 June 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion
Unsecured loans	338,348	23.03%	364,570	27.14%
Guaranteed loans	284,962	19.39%	199,474	14.85%
Collateralized loans				
– Mortgage loans	650,388	44.27%	599,867	44.65%
– Pledged loans	101,869	6.93%	100,573	7.49%
Discounted bills	93,759	6.38%	78,855	5.87%
Subtotal	1,469,326	100.00%	1,343,339	100.00%
Fair value changes	536		238	
Interest accrued	4,199		3,662	
Gross amount	1,474,061		1,347,239	
Less: Allowance for ECLs (Note III.23)	(39,496)		(35,350)	
Carrying amount	1,434,565		1,311,889	

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(3) Overdue loans and advances to customers analyzed by overdue period

	30 June 2022				
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	Total
Unsecured loans	1,606	3,596	792	21	6,015
Guaranteed loans	2,283	1,203	7,039	214	10,739
Collateralized loans					
– Mortgage loans	3,225	3,537	2,274	241	9,277
– Pledged loans	488	257	660	6	1,411
Total	7,602	8,593	10,765	482	27,442

	31 December 2021				
	Overdue within 3 months (inclusive)	Overdue between 3 months and 1 year (inclusive)	Overdue between 1 year and 3 years (inclusive)	Overdue more than 3 years	Total
Unsecured loans	2,728	2,367	383	12	5,490
Guaranteed loans	591	1,876	6,680	127	9,274
Collateralized loans					
– Mortgage loans	1,828	2,057	2,890	95	6,870
– Pledged loans	19	254	508	1	782
Total	5,166	6,554	10,461	235	22,416

The Group classifies loans and advances to customers with principal or interest overdue 1 day and above as overdue loans and advances to customers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(4) Analyzed by assessment of allowance for ECLs

(a) Allowance for ECLs of loans and advances to customers measured at AC

	30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at AC				
– Corporate loans and advances	758,391	40,145	23,311	821,847
– Personal loans and advances	375,594	3,481	5,705	384,780
Interest accrued	4,044	155	–	4,199
Total	1,138,029	43,781	29,016	1,210,826
Less: Allowance for ECLs (Note III.23)	(13,349)	(8,114)	(18,033)	(39,496)
Carrying amount	1,124,680	35,667	10,983	1,171,330

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at AC				
– Corporate loans and advances	655,727	35,405	21,546	712,678
– Personal loans and advances	374,301	2,912	4,281	381,494
Interest accrued	3,530	132	–	3,662
Total	1,033,558	38,449	25,827	1,097,834
Less: Allowance for ECLs (Note III.23)	(11,387)	(7,275)	(16,688)	(35,350)
Carrying amount	1,022,171	31,174	9,139	1,062,484

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(4) Analyzed by assessment of allowance for ECLs *(Continued)*

(b) Allowance for ECLs of loans and advances to customers measured at FVOCI

	30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Trade finance	167,151	1,421	368	168,940
– Discounted bills	93,746	–	13	93,759
Fair value changes	536	–	–	536
Total	261,433	1,421	381	263,235
Allowance for ECLs (Note III.23)	(1,135)	(31)	(143)	(1,309)

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers measured at FVOCI				
– Trade finance	170,019	178	115	170,312
– Discounted bills	78,842	–	13	78,855
Fair value changes	238	–	–	238
Total	249,099	178	128	249,405
Allowance for ECLs (Note III.23)	(680)	–	(57)	(737)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(5) *Movements of the allowance for ECLs of loans and advances to customers*

(a) *Movements of the allowance for ECLs of loans and advances to customers measured at AC*

	For the six months ended 30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	11,387	7,275	16,688	35,350
Transfer				
– to Stage 1	231	(228)	(3)	–
– to Stage 2	(169)	177	(8)	–
– to Stage 3	(40)	(1,259)	1,299	–
Charge (Note III.7)	1,931	2,143	4,203	8,277
Write-off and transfer out	–	–	(4,883)	(4,883)
Recoveries of loans and advances previously written off	–	–	838	838
Other movements	9	6	(101)	(86)
Balance at 30 June 2022	13,349	8,114	18,033	39,496

	For the year ended 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	16,381	4,136	11,306	31,823
Transfer				
– to Stage 1	7	(5)	(2)	–
– to Stage 2	(670)	673	(3)	–
– to Stage 3	(448)	(1,522)	1,970	–
(Reversal)/Charge	(3,880)	3,995	11,872	11,987
Write-off and transfer out	–	–	(9,234)	(9,234)
Recoveries of loans and advances previously written off	–	–	981	981
Other movements	(3)	(2)	(202)	(207)
Balance at 31 December 2021	11,387	7,275	16,688	35,350

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

15 Loans and Advances to Customers *(Continued)*

(5) Movements of the allowance for ECLs of loans and advances to customers *(Continued)*

(b) Movements of the allowance for ECLs on loans and advances to customers measured at FVOCI

	For the six months ended 30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	680	–	57	737
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(1)	1	–	–
– to Stage 3	–	–	–	–
Charge (Note III.7)	456	30	86	572
Balance at 30 June 2022	1,135	31	143	1,309

	For the year ended 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	726	–	10	736
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	(1)	–	1	–
(Reversal)/Charge	(45)	–	52	7
Write-off	–	–	(6)	(6)
Balance at 31 December 2021	680	–	57	737

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment

	Note	30 June 2022	31 December 2021
Financial investments measured at FVTPL	16.1	177,626	179,197
Financial investments measured at AC	16.2	351,324	374,558
Financial investments measured at FVOCI	16.3	151,030	98,067
Total		679,980	651,822

16.1 Financial investments measured at FVTPL

	30 June 2022	31 December 2021
Fund investments	106,510	88,881
Bond and ABS investments		
– Government bonds	3,527	5,138
– Financial bonds	6,652	7,408
– Interbank certificates of deposit	744	3,905
– Asset-backed securities (“ABS”)	38,133	45,979
– Other bonds	14,696	20,388
Trust schemes and asset management plans	3,982	4,337
Equity investments	3,382	3,161
Total	177,626	179,197

Analyzed by listing location:

	30 June 2022	31 December 2021
Fund investments		
– Listed outside Hong Kong	106,510	88,881
Bond and ABS investments		
– Listed in Hong Kong	13,328	18,602
– Listed outside Hong Kong	50,424	64,216
Trust schemes and asset management plans		
– Unlisted	3,982	4,337
Equity investments		
– Listed outside Hong Kong	876	694
– Unlisted	2,506	2,467
Total	177,626	179,197

Bonds traded on the Mainland interbank bond market are included in the outside Hong Kong listed category.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial Investment (Continued)

16.1 Financial investments measured at FVTPL (Continued)

Analyzed by type of issuers:

	30 June 2022	31 December 2021
Mainland China issuers		
– Government	2,880	4,503
– Banking and other financial institutions	150,293	143,144
– Corporate entities	16,174	18,963
Issuers outside Mainland China		
– Government	647	635
– Banking and other financial institutions	1,832	3,134
– Corporate entities	5,800	8,818
Total	177,626	179,197

16.2 Financial investments measured at AC

	30 June 2022	31 December 2021
Bond and ABS investments (i)		
– Government bonds	134,922	129,579
– Financial bonds	74,686	84,117
– Debt financing plans	60,114	72,596
– Asset-backed securities (“ABS”)	971	1,342
– Other bonds	5,698	3,039
Trust schemes and asset management plans (ii)	87,125	93,785
Interest accrued	7,086	6,775
Total	370,602	391,233
Less: Allowance for ECLs (Note III.23)	(19,278)	(16,675)
Carrying amount	351,324	374,558

(i) At balance sheet date, part of bond investments measured at amortized cost are pledged for secured liabilities, please refer to Note VIII.1.

(ii) Trust schemes and asset management plans, mainly invested in credit assets and equity investments under repurchase agreements, are managed and operated by third-party trustees or asset managers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

Analyzed by listing location:

	30 June 2022	31 December 2021
Bond and ABS investments		
– Listed in Hong Kong	2,728	586
– Listed outside Hong Kong	213,549	217,491
– Unlisted	60,114	72,596
Trust schemes and asset management plans		
– Unlisted	87,125	93,785
Interest accrued	7,086	6,775
Total	370,602	391,233

Analyzed by type of issuers:

	30 June 2022	31 December 2021
Mainland China issuers		
– Government	134,922	129,579
– Banking and other financial institutions	71,958	83,530
– Corporate entities	153,908	170,763
Issuers outside Mainland China		
– Banking and other financial institutions	2,728	586
Interest accrued	7,086	6,775
Total	370,602	391,233

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

The gross amount and allowance for ECLs of financial investments measured at AC are analyzed as follows:

	30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	315,301	20,221	27,994	363,516
Interest accrued	6,958	128	–	7,086
Total	322,259	20,349	27,994	370,602
Less: Allowance for ECLs (Note III.23)	(810)	(3,784)	(14,684)	(19,278)
Carrying amount	321,449	16,565	13,310	351,324

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Debt investments	341,802	17,772	24,884	384,458
Interest accrued	6,670	105	–	6,775
Total	348,472	17,877	24,884	391,233
Less: Allowance for ECLs (Note III.23)	(1,069)	(1,915)	(13,691)	(16,675)
Carrying amount	347,403	15,962	11,193	374,558

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment *(Continued)*

16.2 Financial investments measured at AC *(Continued)*

Movement of allowance for ECLs of financial investments measured at AC

	For the six months ended 30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	1,069	1,915	13,691	16,675
Transfer				
– to Stage 1	15	(15)	–	–
– to Stage 2	(155)	155	–	–
– to Stage 3	(2)	(364)	366	–
(Reversal)/Charge (Note III.7)	(117)	2,093	3,757	5,733
Write-off	–	–	(3,050)	(3,050)
Recoveries of financial investments previously written off	–	–	144	144
Other movements	–	–	(224)	(224)
Balance at 30 June 2022	810	3,784	14,684	19,278

	For the year ended 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	2,623	1,878	9,030	13,531
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	(97)	97	–	–
– to Stage 3	(19)	(1,231)	1,250	–
(Reversal)/Charge	(1,438)	1,171	12,866	12,599
Write-off	–	–	(10,300)	(10,300)
Recoveries of financial investments previously written off	–	–	845	845
Balance at 31 December 2021	1,069	1,915	13,691	16,675

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment *(Continued)*

16.3 Financial investments measured at FVOCI

	30 June 2022	31 December 2021
Bond and ABS investments (i)		
– Government bonds	61,590	52,175
– Financial bonds	37,420	14,349
– Interbank certificates of deposit	912	652
– Asset-backed securities (“ABS”)	12,099	5,373
– Other bonds	34,723	20,696
Other debt instruments	1,833	2,522
Interest accrued	1,177	1,038
Subtotal	149,754	96,805
Financial investments designated to be measured at FVOCI		
Equity investments (ii)	1,276	1,262
Total	151,030	98,067

- (i) At balance sheet date, part of bond investments in the financial investments measured at FVOCI are pledged for secured liabilities, please refer to Note VIII.1.
- (ii) Certain non-trading equity investments are designated by the Group as financial investments measured at FVOCI. For the six months ended 30 June 2022, the Group has not recognized dividend income on such equity investments (For the year ended 31 December 2021: RMB2.6 million).

Analyzed by listing location:

	30 June 2022	31 December 2021
Bond and ABS investments and other debt instruments:		
– Listed in Hong Kong	63,422	23,659
– Listed outside Hong Kong	83,322	69,586
– Unlisted	1,833	2,522
Equity investments		
– Unlisted	1,276	1,262
Interest accrued	1,177	1,038
Total	151,030	98,067

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

16 Financial Investment *(Continued)*

16.3 Financial investments measured at FVOCI *(Continued)*

Analyzed by type of issuers:

	30 June 2022	31 December 2021
Mainland China issuers:		
– Government	55,980	47,169
– Banking and other financial institutions	9,052	10,496
– Corporate entities	30,854	18,339
Issuers outside Mainland China:		
– Government	5,610	5,006
– Banking and other financial institutions	33,301	6,509
– Corporate entities	13,780	8,248
Interest accrued	1,177	1,038
Subtotal	149,754	96,805
Equity investments	1,276	1,262
Total	151,030	98,067

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial Investment (Continued)

16.3 Financial investments measured at FVOCI (Continued)

Movement of allowance for ECLs of debt instruments measured at FVOCI:

	For the six months ended 30 June 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	146	–	28	174
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	–	–	–	–
Charge (Note III.7)	149	–	34	183
Other movements	–	–	3	3
Balance at 30 June 2022	295	–	65	360

	For the year ended 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	26	–	19	45
Transfer				
– to Stage 1	–	–	–	–
– to Stage 2	–	–	–	–
– to Stage 3	–	–	–	–
Charge	120	–	9	129
Balance at 31 December 2021	146	–	28	174

17 Investment in Subsidiaries

The Bank

	30 June 2022	31 December 2021
Zheyin Financial Leasing	2,040	2,040

For details of subsidiaries, please refer to Note IV.1.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets

	Note	30 June 2022	31 December 2021
Fixed assets	(1)	13,134	12,988
Construction in progress	(2)	1,924	1,677
Total		15,058	14,665

(1) Fixed assets

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets in the operating leases	Total
Cost					
At 1 January 2022	12,664	1,923	164	1,664	16,415
Additions	14	56	8	488	566
Transfers from construction in progress	34	–	–	–	34
Disposals	–	(12)	(3)	(13)	(28)
At 30 June 2022	12,712	1,967	169	2,139	16,987
Less: Accumulated depreciation					
At 1 January 2022	(1,834)	(1,274)	(125)	(194)	(3,427)
Charge	(252)	(130)	(7)	(53)	(442)
Disposals	–	11	2	3	16
At 30 June 2022	(2,086)	(1,393)	(130)	(244)	(3,853)
Carrying amount					
Balance at 30 June 2022	10,626	574	39	1,895	13,134
Balance at 1 January 2022	10,830	649	39	1,470	12,988

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets *(Continued)*

(1) Fixed assets *(Continued)*

	Properties and buildings	Office and electronic equipment	Motor vehicles	Fixed assets leased out under operating leases	Total
Cost					
At 1 January 2021	11,360	1,796	160	1,045	14,361
Additions	605	178	18	619	1,420
Transfers from construction in progress	703	–	–	–	703
Disposals	(4)	(51)	(14)	–	(69)
At 31 December 2021	12,664	1,923	164	1,664	16,415
Less: Accumulated depreciation					
At 1 January 2021	(1,349)	(1,040)	(116)	(124)	(2,629)
Charge	(485)	(266)	(21)	(70)	(842)
Disposals	–	32	12	–	44
At 31 December 2021	(1,834)	(1,274)	(125)	(194)	(3,427)
Carrying amounts					
Balance at 31 December 2021	10,830	649	39	1,470	12,988
Balance at 1 January 2021	10,011	756	44	921	11,732

At 30 June 2022, there is no significant idle assets held by the Group (31 December 2021: Nil).

At 30 June 2022, the Group's properties and buildings with a net value of RMB1,658 million (31 December 2021: RMB1,691 million) were still in progress of obtaining the legal titles.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

18 Fixed Assets *(Continued)*

(2) Construction in progress

	Construction in progress
Balance at 1 January 2021	1,742
Additions	733
Transfers to fixed assets	(703)
Transfers to long-term prepaid expenses	(95)
	<hr/>
Balance at 31 December 2021	1,677
Additions	305
Transfers to fixed assets	(34)
Transfers to long-term prepaid expenses	(24)
	<hr/>
Balance at 30 June 2022	1,924

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Right-of-use Assets

	Land use rights	Properties and buildings	Others	Total
Cost				
At 1 January 2021	1,950	4,170	44	6,164
Additions	–	579	8	587
Reductions	–	(91)	(3)	(94)
At 31 December 2021	1,950	4,658	49	6,657
Additions	–	391	3	394
Reductions	–	(13)	(4)	(17)
At 30 June 2022	1,950	5,036	48	7,034
Less: Accumulated depreciation				
At 1 January 2021	(174)	(1,154)	(10)	(1,338)
Charge	(49)	(609)	(8)	(666)
Reductions	–	16	1	17
At 31 December 2021	(223)	(1,747)	(17)	(1,987)
Charge	(25)	(306)	(3)	(334)
Reductions	–	1	–	1
At 30 June 2022	(248)	(2,052)	(20)	(2,320)
Carrying amount				
Balance at 30 June 2022	1,702	2,984	28	4,714
Balance at 1 January 2022	1,727	2,911	32	4,670

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

20 Intangible Assets

	Computer software
Cost	
At 1 January 2021	596
Additions	244
	<hr/>
At 31 December 2021	840
Additions	89
	<hr/>
At 30 June 2022	929
Less: Accumulated amortization	
At 1 January 2021	(302)
Charge	(52)
	<hr/>
At 31 December 2021	(354)
Charge	(36)
	<hr/>
At 30 June 2022	(390)
Carrying amount	
Balance at 30 June 2022	539
Balance at 1 January 2022	486

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

21 Deferred Tax Assets and Liabilities

(1) *Deferred tax assets and liabilities before offsetting*

	30 June 2022		31 December 2021	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Allowance for ECLs and provisions	76,521	19,130	70,465	17,616
Employee benefits payable	2,822	706	3,629	907
Unrealized losses of financial investments measured at FVOCI	1,217	304	-	-
Unrealized losses of financial instruments measured at FVTPL and precious metals	353	88	-	-
Others	727	182	866	217
Deferred tax assets before offsetting	81,640	20,410	74,960	18,740
Depreciation of fixed assets	(303)	(75)	(448)	(112)
Unrealized gains of financial investments measured at FVTPL and precious metals	(8)	(2)	(1,160)	(290)
Unrealized gains of financial investments measured at FVOCI	-	-	(458)	(114)
Unrealized gains of derivative financial instruments	(250)	(63)	(587)	(147)
Deferred tax liabilities before offsetting	(561)	(140)	(2,653)	(663)
Net amount after offsetting	81,079	20,270	72,307	18,077

(2) *Changes in deferred tax*

	30 June 2022	31 December 2021
Balance at the beginning of the period/year	18,077	14,620
Charge to profit or loss for the period/year	1,965	3,736
Charge to other comprehensive income	228	(279)
Balance at the end of the period/year	20,270	18,077

At the balance sheet date, the Group has no significant unrecognized deferred tax assets and liabilities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

22 Other Assets

	Note	30 June 2022	31 December 2021
Finance lease receivables	(1)	43,794	38,802
Prepayment of land and building and deposit		2,343	273
Continuing involvement assets (Note III.42 (1))		1,948	1,948
Guaranteed deposits		970	502
Repossessed assets		859	900
Fee receivables		713	740
Long-term prepaid expenses		685	734
Interest receivables		528	853
Settlement and clearing accounts		477	2,084
Deductible input value added tax ("VAT")		467	276
Others		1,799	1,824
Total		54,583	48,936

(1) Finance lease receivables

	30 June 2022	31 December 2021
Finance lease receivables	3,555	2,488
Less: Unrecognized finance income	(318)	(273)
Balance of finance lease receivables	3,237	2,215
Finance leaseback receivables	41,529	37,486
Subtotal	44,766	39,701
Interest accrued	517	478
Less: Allowance for ECLs (Note III.23)	(1,489)	(1,377)
Carrying amount	43,794	38,802

The undiscounted finance lease receivables to be received by the Group in each of the five consecutive accounting years after the balance sheet date are as follows:

	30 June 2022		31 December 2021	
	Amount	Proportion	Amount	Proportion
Within 1 year	1,716	48.27%	1,116	44.86%
1- 2 years	1,054	29.65%	620	24.92%
2- 3 years	556	15.64%	471	18.93%
3- 4 years	118	3.32%	142	5.71%
4- 5 years	53	1.49%	64	2.57%
Above 5 years	58	1.63%	75	3.01%
Total	3,555	100.00%	2,488	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Allowance for ECLs

	Note	1 January 2022	Charge for the period	Write-off and transfer out for the period	Others (i)	30 June 2022
Deposits with banks and other financial institutions	III.11	5	–	–	–	5
Placements with banks and other financial institutions	III.12	51	33	–	2	86
Financial assets purchased under resale agreements	III.14	18	6	–	–	24
Loans and advances to customers	III.15					
– measured at AC		35,350	8,277	(4,883)	752	39,496
– measured at FVOCI		737	572	–	–	1,309
Financial investment	III.16					
– measured at AC		16,675	5,733	(3,050)	(80)	19,278
– measured at FVOCI		174	183	–	3	360
Finance lease receivables	III.22(1)	1,377	253	(141)	–	1,489
Other assets		232	105	(34)	10	313
Off-balance sheet items	III.31	4,952	139	–	1	5,092
Total		59,571	15,301	(8,108)	688	67,452

	Note	1 January 2021	(Reversal)/ Charge for the year	Write-off and transfer out for the year	Others (i)	31 December 2021
Deposits with banks and other financial institutions	III.11	349	(2)	(342)	–	5
Placements with banks and other financial institutions	III.12	151	74	(174)	–	51
Financial assets purchased under resale agreements	III.14	–	18	–	–	18
Loans and advances to customers	III.15					
– measured at AC		31,823	11,987	(9,234)	774	35,350
– measured at FVOCI		736	7	(6)	–	737
Financial investment	III.16					
– measured at AC		13,531	12,599	(10,300)	845	16,675
– measured at FVOCI		45	129	–	–	174
Finance lease receivables	III.22(1)	1,220	510	(354)	1	1,377
Other assets		95	236	(105)	6	232
Off-balance sheet items	III.31	5,686	(727)	–	(7)	4,952
Total		53,636	24,831	(20,515)	1,619	59,571

(i) Others include the recoveries of financial assets previously written off and an effect of changes in exchange rates.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

24 Deposits from Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2022	31 December 2021
In Mainland China		
– Banks	58,658	106,516
– Other financial institutions	174,969	126,531
Outside Mainland China		
– Other financial institutions	4,453	2,022
Interest accrued	1,345	1,907
Total	239,425	236,976

25 Placements from Banks and Other Financial Institutions

Analyzed by type and location of counterparties

	30 June 2022	31 December 2021
In Mainland China		
– Banks	37,137	32,858
– Other financial institutions	4,510	3,517
Outside Mainland China		
– Banks	5,634	4,358
Interest accrued	331	288
Total	47,612	41,021

26 Financial Liabilities at Fair Value through Profit or Loss

	30 June 2022	31 December 2021
Financial liabilities related to precious metals (i)	10,610	12,114
Short positions of trading bonds	1,522	398
Total	12,132	12,512

- (i) According to the risk management strategy, the Group matches the financial liabilities related to precious metals with precious metals or derivatives, and therefore recognizes them as financial liabilities measured at fair value through profit and loss.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

27 Financial Assets Sold Under Repurchase Agreements

Analyzed by type of collateral

	30 June 2022	31 December 2021
Bonds sold under repurchase agreements	5,000	–
Interest accrued	4	–
Total	5,004	–

28 Customer Deposits

	30 June 2022	31 December 2021
Demand deposits		
– Corporate customers	636,559	566,580
– Personal customers	56,435	68,625
Subtotal	692,994	635,205
Time deposits		
– Corporate customers	805,608	644,897
– Personal customers	117,370	116,827
Subtotal	922,978	761,724
Other deposits	4,485	1,758
Interest accrued	20,007	17,018
Total	1,640,464	1,415,705

Pledged deposits are listed as follows:

	30 June 2022	31 December 2021
Bank acceptances deposits	16,097	12,208
Letters of credit and guarantee deposits	15,805	12,123
Other pledged deposits	102,523	93,683
Total	134,425	118,014

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

29 Employee Benefits Payable

	1 January 2022	Accrual during the period	Payments during the period	30 June 2022
Salaries, bonuses and allowances	5,180	3,909	(4,996)	4,093
Staff welfare	–	280	(280)	–
Housing fund	–	191	(191)	–
Social insurance				
– Medical insurance	–	107	(107)	–
– Work-related injury insurance	–	3	(3)	–
– Maternity insurance	–	3	(3)	–
Commercial insurance	–	7	(7)	–
Labour union fee and staff education fee	98	73	(85)	86
Post employment benefits	–	209	(209)	–
Unemployment insurance	–	7	(7)	–
Annuity	–	259	(259)	–
Total	5,278	5,048	(6,147)	4,179

	1 January 2021	Accrual during the year	Payments during the year	31 December 2021
Salaries, bonuses and allowances	4,789	6,939	(6,548)	5,180
Staff welfare	–	541	(541)	–
Housing fund	–	374	(374)	–
Social insurance				
– Medical insurance	–	211	(211)	–
– Work-related injury insurance	–	5	(5)	–
– Maternity insurance	–	8	(8)	–
Commercial insurance	–	52	(52)	–
Labour union fee and staff education fee	84	156	(142)	98
Post employment benefits	–	390	(390)	–
Unemployment insurance	–	14	(14)	–
Annuity	–	492	(492)	–
Total	4,873	9,182	(8,777)	5,278

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 Taxes Payable

	30 June 2022	31 December 2021
Income tax payable	2,853	3,293
Value added tax ("VAT") payable	437	1,813
Others	238	425
Total	3,528	5,531

31 Provisions

	30 June 2022	31 December 2021
Allowance for ECLs of off-balance sheet items (Note III.23)	5,092	4,952

32 Debt Securities Issued

	Note	30 June 2022	31 December 2021
Fixed-rate financial bonds – 2024	(1)	1,500	1,500
Fixed-rate financial bonds – 2025	(2)	1,400	–
Fixed-rate offering – tier 2 capital bond – 2028	(3)	15,000	15,000
Fixed-rate green financial bonds – 2022	(4)	5,000	5,000
Fixed-rate small and micro businesses financial bonds – 2023	(5)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2023	(6)	15,000	15,000
Fixed-rate small and micro businesses financial bonds – 2024	(7)	10,000	10,000
Fixed-rate small and micro businesses financial bonds – 2025	(8)	10,000	–
Fixed-rate small and micro businesses financial bonds – 2025	(9)	10,000	–
Fixed-rate USD medium term note – 2022	(10)	268	–
Fixed-rate USD medium term note – 2024	(11)	3,346	3,183
Certificates of deposit	(12)	2,978	3,001
Interbank certificates of deposit	(13)	234,347	255,190
Subtotal		318,839	317,874
Interest accrued		771	1,034
Total		319,610	318,908

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

32 Debt Securities Issued *(Continued)*

- (1) Zheyin Financial Leasing issued fixed-rate financial bonds of RMB1.5 billion on 22 July 2021, with a maturity of 3 years and a fixed coupon rate of 3.48%.
- (2) Zheyin Financial Leasing issued fixed-rate financial bonds of RMB1.4 billion on 2 June 2022, with a maturity of 3 years and a fixed coupon rate of 2.97%.
- (3) Fixed-rate offering – tier 2 capital bonds of RMB15 billion were issued on 13 June 2018, with a maturity of 10 years and a fixed coupon rate of 4.80%. The Bank has an option to redeem the bond at its par value in 2023.
- (4) Fixed-rate green financial bonds of RMB5 billion were issued on 16 September 2019, with a maturity of 3 years and a fixed coupon rate of 3.42%. The Bank has no option to redeem the bond before maturity.
- (5) Fixed-rate small and micro businesses financial bonds of RMB10 billion were issued on 3 March 2020, with a maturity of 3 years and a fixed coupon rate of 2.95%. The Bank has no option to redeem the bond before maturity.
- (6) Fixed-rate small and micro businesses financial bonds of RMB15 billion were issued on 8 April 2020, with a maturity of 3 years and a fixed coupon rate of 2.50%. The Bank has no option to redeem the bond before maturity.
- (7) Fixed-rate small and micro businesses financial bonds of RMB10 billion were issued on 24 September 2021, with a maturity of 3 years and a fixed coupon rate of 3.00%. The Bank has no option to redeem the bond before maturity.
- (8) Fixed-rate small and micro businesses financial bonds of RMB10 billion were issued on 23 February 2022, with a maturity of 3 years and a fixed coupon rate of 2.83%. The Bank has no option to redeem the bond before maturity.
- (9) Fixed-rate small and micro businesses financial bonds of RMB10 billion were issued on 7 April 2022, with a maturity of 3 years and a fixed coupon rate of 2.93%. The Bank has no option to redeem the bond before maturity.
- (10) Zero-coupon USD medium term note of USD40 million (total value amounted RMB268 million) was issued by the Hong Kong Branch on 24 January 2022. This note will mature in 2022.
- (11) Fixed-rate USD medium term note of USD0.5 billion (total value amounted RMB3.35 billion) was issued by the Hong Kong Branch on 16 March 2021 with a maturity of 3 years. This note will mature in 2024 with a fixed coupon rate of 1.10%.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Debt Securities Issued (Continued)

(12) There were five unpaid certificates of deposit at Hong Kong Branch at 30 June 2022, which have total face value amounted RMB2,978 million. The certificates of deposit were issued in US dollar with maturity less than one year (There were six unpaid certificates of deposit at Hong Kong Branch at 31 December 2021, which have total face value amounted RMB3,001 million and with maturity less than one year. Five of the certificates of deposit issued in US dollar have total face value amounted RMB2,801 million. One of the certificates of deposit were issued in offshore RMB and have total face value amounted RMB200 million).

(13) At 30 June 2022, the Bank has issued a total of 134 inter-bank certificates of deposit in the inter-bank market but not yet due, with maximum maturity of one year (At 31 December 2021, the Bank issued a total of 150 inter-bank certificates of deposit in the inter-bank market but not yet due, with maximum maturity of one year).

33 Other Liabilities

	30 June 2022	31 December 2021
Deposits related to finance lease	3,598	3,170
Account payable	3,430	1,824
Settlement and clearing accounts	2,705	2,894
Continuing involvement liabilities (Note III.42 (1))	1,948	1,948
Deferred income	637	654
Dividends payable	317	305
Others	1,487	1,084
Total	14,122	11,879

34 Share Capital

	30 June 2022	31 December 2021
Ordinary shares listed in Mainland China (A share)	16,715	16,715
Ordinary shares listed In Hong Kong (H share)	4,554	4,554
Total	21,269	21,269

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments

	Note	30 June 2022	31 December 2021
Preference shares	(1)	–	14,958
Perpetual bonds	(2)	24,995	24,995
Total		24,995	39,953

(1) Preference shares

(i) List of preference shares issued

Equity instruments in issue	Preference shares
Issue date	29 March 2017
Accounting treatment	Equity instrument
Dividend rate	5.45%
Original issuance price per share (USD/share)	20
Number (In millions)	108.75
In original currency (USD in millions)	2,175
In RMB (RMB in millions)	14,989
Issuance fee (RMB in millions)	31
Maturity date	No maturity date
Conversion condition	Mandatory
Conversion status	No conversion during the year

(ii) Main terms of preference shares

The dividend for offshore preference shares is non-cumulative. The offshore preference shares dividend will be calculated on following dividend yields:

- from the issuance date (including the issuance date) to the first reset date (excluding the reset date), at the rate of 5.45% per annum; and
- thereafter, for the period from the first reset date and the period from each reset date (including the former reset date) to the next coming reset date (excluding the latter reset date), at the relevant reset dividend rate.

On the premise of ensuring that the Bank's capital adequacy ratio meets regulatory requirements, the Bank has a distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and statutory general reserve, and the Bank's board of directors has announced the distribution in accordance with the Bank's articles of association. In the case of the dividend resolution, the Bank may distribute such dividends to shareholders of overseas preference shares.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(1) Preference shares *(Continued)*

*(ii) Main terms of preference shares *(Continued)**

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in total or in partial) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness which are due.

Under the circumstances where the Bank cancels a dividend in total or in partial, in accordance with the shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- Cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- On the conversion date, all or some of the offshore preference shares shall be irrevocably and compulsorily converted into H shares with equal number. The converted H shares number is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.7544) divided by the effective conversion price, rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares. Any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The "trigger event" refers to an additional tier 1 capital instrument trigger event or a non-viability trigger event, as the case may be. The "additional tier 1 capital instrument trigger event" refers to the occasion where the Bank's core tier 1 capital adequacy ratio of the Bank has fallen to 5.125% or below. The "non-viability trigger event" is defined as the earlier of: (i) the CBIRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(1) Preference shares (Continued)

(ii) Main terms of preference shares (Continued)

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (1) junior to holders of all liabilities of the Bank including subordinated liabilities and obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (2) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (3) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be *pari passu* with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

The Bank may, subject to obtaining the CBIRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from the immediately preceding dividend payment date (inclusive) to the date scheduled for redemption (exclusive).

(iii) Changes in preference shares outstanding

Pursuant to the terms of the perpetual Offshore Preference Shares and the reply letter from the CBIRC where no objection was raised to the Bank's redemption of the Offshore Preference Shares, the Bank redeemed the aforementioned Offshore Preference Shares in whole on 29 March 2022 (the "Redemption Date") at the redemption price, being the aggregate of an amount equal to the liquidation preference of each Offshore Preference Share plus any declared but unpaid dividends accrued in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the Redemption Date.

Please refer to Note III.40 for details of dividends paid by the Bank to preference shareholders.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other Equity Instruments (Continued)

(2) Perpetual bonds

(i) List of perpetual bonds issued at the end of the period

Equity instruments in issue	Perpetual bond
Issue date	25 November 2021
Accounting treatment	Equity instrument
Initial interest rate	3.85%
Issuance price per share (RMB/share)	100
Number (In millions)	250.00
Amount (RMB in millions)	25,000
Issuance fee (RMB in millions)	5
Maturity date	No maturity date
Conversion condition	None
Conversion status	None

(ii) Main terms of perpetual bonds

The duration of the perpetual bonds is the same as the continuing operation of the Bank. The perpetual bonds issuance sets conditional redemption rights for the issuer. The Bank shall have the right to redeem all or part of the perpetual bonds on each annual interest payment date (including the fifth interest payment date since the date of issuance) five years after the date of issuance. If, after the issuance of the perpetual bonds, unpredictable changes in regulations result in that the perpetual bonds is no longer classified in other tier-one capital, the Bank shall have the right to redeem all, but not part, of the perpetual bonds.

The Bank shall exercise the right of redemption subject to the approval of the CBIRC and on the condition that the following conditions are satisfied: (1) replacing the redeemed instrument with a capital instrument of equal or higher quality, and such replacement shall only be carried out at conditions which are sustainable for the income capacity; (2) or the capital position of the Bank after the redemption right is exercised will remain significantly higher than the regulatory capital requirements stipulated by the CBIRC.

The claims in respect of the perpetual bonds will be subordinated to the claims of depositors, general creditors, and subordinated debts that rank senior to the perpetual bonds, and will rank in priority to all classes of shares held by the Bank's shareholders and rank *pari passu* with the claims in respect of any other additional tier-one capital instruments of the Bank that rank *pari passu* with the bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(2) *Perpetual bonds (Continued)*

(ii) *Main terms of perpetual bonds (Continued)*

Upon the occurrence of a Non-Viability Trigger Event, the Bank has the right to write down/write off part or all of the principal of the perpetual bonds without the consent of the bondholders. The amount of the write-down/write-off shall be determined by the ratio of the outstanding principal amount of the Bonds to the aggregate principal amount of all additional tier 1 capital instruments with the identical Trigger Event. A Non-Viability Trigger Event refers to the earlier occurrence under the following circumstances: (1) the CBIRC deems that the Bank would become non-viable without a write-down/write-off; (2) the relevant authorities deem that the Bank would become non-viable without a public sector injection of capital or equivalent support. The write-down/write-off will not be restored.

The coupon rate of the perpetual bonds will be adjusted at defined intervals with a coupon rate adjustment period which is every 5 years since the payment settlement date. In any coupon rate adjusted period, the interest payments on the perpetual bonds will be made at a prescribed fixed coupon rate. The coupon rate at the time of issuance will be determined by book running and centralised allocation.

The coupon rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of the 5-year bond yield curve published on www.ChinaBond.com.cn (or other websites recognized by the China Central Depository & Clearing Co., Ltd.) 5 trading days prior to the Announcement Date of the Subscription Agreement or the adjustment date of the benchmark interest rate (excluding the current day) (rounded up to 0.01%). The fixed spread is the difference between the coupon rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

The Bank shall have the right to cancel all or part of the interest distribution of the perpetual bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Bank will take into full consideration the interest of the bondholders. The Bank may, at its sole discretion, use the proceeds from the cancelled distribution to meet other obligations as they fall due. The cancellation of all or part of interest distribution on the perpetual bonds will not impose any other restriction on the Bank, except in relation to dividend distributions to ordinary shareholders. Any cancellation of any all or part of interest distribution on the perpetual bonds will require the deliberation and approval of the general shareholders meeting. The Bank shall give notice to the investors on such cancellation in a timely manner.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

35 Other Equity Instruments *(Continued)*

(2) *Perpetual bonds (Continued)*

(ii) *Main terms of perpetual bonds (Continued)*

In the case of cancelling all or part of interest distributions on the perpetual bonds, the Bank shall not make any distribution to the ordinary shareholders from the next day following the resolution being approved by the general shareholders meeting, until its decision to resume the interest distribution in whole to the holders of the perpetual bonds. The Dividend Stopper on ordinary shares will not compromise the Bank's discretion to cancel distributions, and will not impede the Bank from replenishing its capital.

The interest distributions on the perpetual bonds must come from distributable items, and will not be affected by the rating of the Bank, nor will be reset based on any change to such rating. The interest distribution on the perpetual bonds are non-cumulative, namely, upon cancellation, any amount of distribution unpaid to the bondholders in the applicable period will not accumulate or compound to the subsequent distribution period thereafter. The perpetual bonds do not have any step-up mechanism or any other incentive to redeem. Investors are not allowed to sell the perpetual bonds.

(iii) *Changes in perpetual bonds outstanding*

There was no change in the perpetual bonds outstanding during the period.

(3) *Information related to the holders of the equity instruments*

	31 June 2022	31 December 2021
Equity attributable to:		
– Ordinary shareholders of the Bank	130,532	124,216
– Other equity instruments holders of the Bank	24,995	39,953
Non-controlling interests		
– Ordinary shareholders of non-controlling interests	2,825	2,714

(4) *Changes in other equity instruments outstanding at the end of the period*

	31 December 2021	Increase	Decrease	30 June 2022
Preference shares				
Number of shares (In millions)	108.75	–	(108.75)	–
In original currency (USD in millions)	2,175	–	(2,175)	–
Total in RMB (RMB in millions)	14,958	–	(14,958)	–
Perpetual Bond				
Number of shares (In millions)	250.00	–	–	250.00
Amount (RMB in millions)	24,995	–	–	24,995

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

36 Capital Reserve

	1 January 2022	Increase	Decrease	30 June 2022
Share premium	32,018	271	–	32,289

	1 January 2021	Increase	Decrease	31 December 2021
Share premium	32,018	–	–	32,018

37 Other Comprehensive Income

	Other comprehensive income in the consolidated statement of financial position		Other comprehensive income in the consolidated statement of comprehensive income for the six months ended 30 June 2022				
	1 January 2022	Net-of-tax amount attributable to shareholders of the Bank 30 June 2022	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Income tax expense	Net-of- tax amount attributable to shareholders of the Bank	
Items that will not be reclassified to profit or loss							
- Changes in fair value of financial investments designated to be measured at FVOCI	179	10	189	14	–	(4)	10
Items that may be reclassified to profit or loss							
- Changes in fair value of financial assets measured at FVOCI	166	(1,265)	(1,099)	(297)	(1,390)	422	(1,265)
- Allowance for ECLs of financial assets measured at FVOCI	684	568	1,252	758	–	(190)	568
- Exchange differences from the translation of foreign operations	(472)	596	124	596	–	–	596
Total	557	(91)	466	1,071	(1,390)	228	(91)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Other Comprehensive Income (Continued)

	Other comprehensive income in the consolidated statement of financial position		Other comprehensive income in the consolidated statement of comprehensive income for the year ended 31 December 2021				
	1 January 2021	Net-of-tax amount attributable to shareholders of the Bank 31 December 2021	Before-tax amount of the period	Previously recognized amount transferred to profit or loss	Income tax expense	Net-of- tax amount attributable to shareholders of the Bank	
Items that will not be reclassified to profit or loss							
– Changes in fair value of financial investments designated to be measured at FVOCI	165	14	179	18	-	(4)	14
Items that may be reclassified to profit or loss							
– Changes in fair value of financial assets measured at FVOCI	(572)	738	166	151	830	(243)	738
– Allowance for ECLs of financial assets measured at FVOCI	586	98	684	130	-	(32)	98
– Exchange differences from the translation of foreign operations	82	(554)	(472)	(554)	-	-	(554)
Total	261	296	557	(255)	830	(279)	296

38 Surplus Reserve

	Statutory surplus reserve
Balance at 1 January 2021	8,499
Appropriation (Note III.40)	1,244
Balance at 31 December 2021	9,743
Appropriation (Note III.40)	-
Balance at 30 June 2022	9,743

Pursuant to the Company Law of the PRC and the Articles, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserve.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

39 Statutory General Reserve

	Statutory general reserve
Balance at 1 January 2021	21,118
Appropriation (Note III.40)	2,684
Balance at 31 December 2021	23,802
Appropriation (Note III.40)	2,584
Balance at 30 June 2022	26,386

Pursuant to *the Administrative Measures on Accrual of Provisions by Financial Enterprises* (Caijin [2012] No. 20), the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks, which should not be less than 1.5% of the year-end balance of its risk assets.

40 Dividends

	Note	31 June 2022	31 December 2021
Balance at the beginning of the period/year		36,827	32,389
Add: Net profit attributable to shareholders of the Bank		6,974	12,648
Deduct: Appropriation to surplus reserve		–	(1,244)
Appropriation to statutory general reserve		(2,584)	(2,684)
Distribution to ordinary shareholders	(a)	–	(3,424)
Distribution to offshore preference shareholders	(b)	(838)	(858)
Balance at the end of the period/year		40,379	36,827

(a) Approved and distributed dividends of ordinary shareholders

As approved by shareholders in 2020 Annual General Meeting on 30 June 2021, based on the Bank's total ordinary shares amounting to 21,269 million shares on the record date of profit distribution, the Bank declared a cash dividend of RMB1.61 for each 10 ordinary shares, with total amount of RMB3,424 million.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

40 Dividends *(Continued)*

(b) Approved and distributed dividends of offshore preference shareholders

On 25 January 2022, the board of directors approved to distribute dividends with a total amount of USD132 million (tax inclusive) to offshore preference shareholders. It is calculated at a dividend rate of 5.45% (after tax), equivalent to RMB838 million. The dividend issuance date was 29 March 2022.

On 5 January 2021, the board of directors approved to distribute dividends with a total amount of USD132 million (tax inclusive) to offshore preference shareholders. It is calculated at a dividend rate of 5.45% (after tax), equivalent to RMB858 million. The dividend issuance date was 29 March 2021.

41 Notes to Cash Flow Statements

(1) Cash and cash equivalents

	30 June 2022	30 June 2021
Cash	559	503
Surplus deposit reserve with the central bank	28,221	9,699
Deposits with banks and other financial institutions with original maturities of less than three months	39,743	35,197
Placements with banks and other financial institutions with original maturities of less than three months	–	43,821
Financial assets purchased under resale agreements with original maturities of less than three months	88,418	31,447
Total	156,941	120,667

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

41 Notes to Cash Flow Statements *(Continued)*

(2) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Debt securities issued	Dividend payable	Lease liabilities	Total
At 1 January 2022	318,908	305	2,926	322,139
Cash changes:				
Proceeds from issuance of debt securities	209,534	–	–	209,534
Repayments of principal on debt securities issued	(209,061)	–	–	(209,061)
Repayments of interest on debt securities issued	(4,910)	–	–	(4,910)
Payment for dividend distribution	–	(914)	–	(914)
Payment for principal element of lease liabilities	–	–	(319)	(319)
Payment for interest element of lease liabilities	–	–	(69)	(69)
Non-cash changes:				
Interest expense (Note III.1)	4,649	–	69	4,718
Dividends declared	–	926	–	926
Additions of lease liabilities	–	–	377	377
Exchange difference	490	–	–	490
At 30 June 2022	319,610	317	2,984	322,911

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

41 Notes to Cash Flow Statements *(Continued)*

(2) Reconciliation of liabilities arising from financing activities (Continued)

	Debt securities issued	Dividend payable	Lease liabilities	Total
At 1 January 2021	236,682	261	2,981	239,924
Cash changes:				
Proceeds from issuance of debt securities	242,709	-	-	242,709
Repayments of principal on debt securities issued	(186,544)	-	-	(186,544)
Repayments of interest on debt securities issued	(5,131)	-	-	(5,131)
Payment for dividend distribution	-	(858)	-	(858)
Payment for principal element of lease liabilities	-	-	(288)	(288)
Payment for interest element of lease liabilities	-	-	(71)	(71)
Non-cash changes:				
Interest expense (Note III.1)	4,191	-	71	4,262
Dividends declared	-	4,357	-	4,357
Additions of lease liabilities	-	-	304	304
At 30 June 2021	291,907	3,760	2,997	298,664

42 Transfer of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned, the Group fully or partially derecognize the transferred financial assets. In other cases where these transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these financial assets, the Group continued to recognize the transferred financial assets.

(1) Securitization transactions

The Group transfers credit assets to structured entities which issue asset-backed securities to investors. The Group would determine whether or not to derecognize the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets or if cease to retain control over the asset.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. For the six months ended 30 June 2022, the Group has transferred the ownership of the loans amounted to RMB654 million (For the six months ended 30 June 2021: RMB445 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

42 Transfer of Financial Assets *(Continued)*

(1) Securitization transactions *(Continued)*

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognised the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of risks and rewards undertaken by the Group with value changes of the transferred financial assets. For the six months ended 30 June 2022, there is no Group's continuing involvement (For the six months ended 30 June 2021: Nil). At 30 June 2022, the carrying amount of the assets and liabilities that the Group continues to recognise on the statement of financial position was RMB1,948 million (31 December 2021: RMB1,948 million). The Group also recognised other assets and other liabilities of the same amount arising from such continuing involvement.

(2) Loan transfers

For the six months ended 30 June 2022, the Group transferred non-performing loans amounting to RMB1,713 million (For the six months ended 30 June 2021: RMB720 million) to the asset management companies. As the Group transferred substantially all the risks and rewards of these non-performing loans, the Group derecognized these non-performing loans.

(3) Securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include securities delivered as collateral in a repurchase transaction to a counterparty and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities lent under agreements to repurchase in the absence of default by the Group, but have obligations to return the securities at the maturity of the contracts. In some cases, if the value of the relevant securities rises or falls, the Group may require the counterparty to pay additional cash as collateral or need to return part of the cash collateral to the counterparty. The Group determined that it retained substantially all the risks and rewards of these securities and therefore had not derecognized them. At 30 June 2022, the face value of debt securities lent to counterparties was RMB14,860 million (31 December 2021: RMB21,960 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES

1 The equity in subsidiary

At the balance sheet date, details of the subsidiary included in the consolidated financial statements are as follows:

Name	Place of incorporation	Registered address	Business nature	Registered capital	Proportion of equity/ voting rights
Zhejiang Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Financial institution	RMB4 billion	51%

At 16 December 2021, the Bank's subsidiary, Zheyin Financial Leasing, received an additional capital contribution of RMB1 billion, of which RMB0.51 billion was made by the Bank, accounting for 51% of the contribution. The Bank's shareholding percentage remains unchanged.

2 Interests in the unconsolidated structured entities

The Group manages or invests in multiple structured entities, which include fund investments, trust schemes, asset management plans and asset-backed securities. To determine whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities.

If the Group has power over such structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements. If the Group does not have substantive rights to the primary activities of the structured entities, or the Group only has insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements.

Except those consolidated structured entities, basic information of unconsolidated structured entities is as follow:

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES *(Continued)*

2 Interests in the unconsolidated structured entities *(Continued)*

(1) Basic information of unconsolidated structured entities directly held by the Group

The unconsolidated structured entities directly held by the Group include investment funds, trust schemes and asset management plans and asset-backed securities initiated and established by third-party institutions directly held by the Group.

Considering the relevant agreements and the Group's investments in the structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

The following table sets out an analysis of the line items in the consolidated statement of financial position in which assets were recognized relating to the Group's interests in structured entities sponsored by third party institutions and directly held by the Group:

	30 June 2022			Total
	Financial investments measured at FVTPL	Financial investments measured at AC	Financial investments measured at FVOCI	
Fund investments	106,510	–	–	106,510
Trust schemes and asset management plans	3,982	70,635	–	74,617
Asset-backed securities	38,133	951	12,187	51,271
Total	148,625	71,586	12,187	232,398

	31 December 2021			Total
	Financial investments measured at FVTPL	Financial investments measured at AC	Financial investments measured at FVOCI	
Fund investments	88,881	–	–	88,881
Trust schemes and asset management plans	4,337	78,785	–	83,122
Asset-backed securities	45,979	1,302	5,401	52,682
Total	139,197	80,087	5,401	224,685

The maximum exposures to loss in the above unconsolidated structured entities directly held by the Group are the fair value or amortized cost of the assets held by the Group in the consolidated statement of financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IV THE EQUITY IN OTHER ENTITIES *(Continued)*

2 Interests in the unconsolidated structured entities *(Continued)*

(2) Interests in structured entities, of which the Group is the sponsor, but which are not included in the consolidated financial statements:

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

At 30 June 2022, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group was RMB241,728 million (31 December 2021: RMB245,092 million). For the six months ended 30 June 2022, the commission income received by the Group for providing asset management services for such financial products was RMB301 million (For the six months ended 30 June 2021: RMB199 million). At the balance sheet date, the balance of service charges receivable for asset management services of the Group was not material.

V SEGMENT REPORTING

1 Business segment

For management purposes, the Group is organized into different operating segments, namely corporate banking, retail banking and treasury operations, based on internal organizational structure, management requirement and internal reporting system.

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and other institutions. The products and services include corporate loans and advances, trade financing, deposit products and various types of corporate intermediary services, etc.

Retail banking

The retail banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans and advances, deposit products, card business and various types of personal intermediary services, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

1 Business segment *(Continued)*

Treasury operations

The treasury operations segment covers the Group's treasury operations which include money market transactions, repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, as well as financial products and services provided to other financial institutions. The division also manages the liquidity level of the Group, including the issuance of debt securities.

Other business

Other business segments refer to other businesses not included in the above reporting segments and related businesses of the subsidiary.

The accounting policies adopted in the preparation of segment reports are consistent with those adopted in the preparation of the Group's consolidated financial statements.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as internal net interest income/expense. Net interest income and expense relating to third parties are referred to as external net interest income/expense.

Segment revenues, expenses, profits, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, profits, assets and liabilities are included in the internal balances and internal transactions that are offsetted in preparing the financial statements. Segment capital expenditure refers to the total cash outflow of purchasing fixed assets, intangible assets and other long-term assets in the accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2022/30 June 2022				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	8,470	9,443	4,536	788	23,237
Inter-segment net interest income/ (expenses)	5,439	(3,096)	(2,343)	–	–
Net interest income	13,909	6,347	2,193	788	23,237
Net fee and commission income	1,795	447	374	16	2,632
Net trading gains	–	–	4,361	–	4,361
Net gains on financial investments	251	–	1,058	–	1,309
Other operating income	–	–	28	211	239
Operating income	15,955	6,794	8,014	1,015	31,778
Operating expenses	(4,137)	(1,913)	(1,549)	(389)	(7,988)
Expected credit losses	(4,156)	(4,861)	(5,955)	(329)	(15,301)
Total operating expenses	(8,293)	(6,774)	(7,504)	(718)	(23,289)
Profit before taxation	7,662	20	510	297	8,489
Segment assets	1,206,180	395,662	828,199	70,933	2,500,974
Unallocated assets					20,270
Total assets					2,521,244
Segment liabilities	(1,465,559)	(176,964)	(706,063)	(14,306)	(2,362,892)
Other segment information:					
Credit commitments and financial guarantee	767,742	13,917	–	–	781,659
Depreciation and amortization	468	210	155	71	904
Capital expenditure	1,458	478	1,001	86	3,023

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

1 Business segment (Continued)

	For the six months ended 30 June 2021/30 June 2021				
	Corporate banking	Retail banking	Treasury operations	Others	Total
External net interest income	8,875	6,070	4,855	578	20,378
Inter-segment net interest income/ (expenses)	2,268	(171)	(2,097)	-	-
Net interest income	11,143	5,899	2,758	578	20,378
Net fee and commission income/ (expenses)	1,488	282	229	(2)	1,997
Net trading gains	-	-	2,831	-	2,831
Net gains on financial investments	221	-	320	-	541
Other operating income	-	12	37	152	201
Operating income	12,852	6,193	6,175	728	25,948
Operating expenses	(3,760)	(1,697)	(1,300)	(206)	(6,963)
Expected credit losses	(4,361)	(2,772)	(3,459)	(242)	(10,834)
Total operating expenses	(8,121)	(4,469)	(4,759)	(448)	(17,797)
Profit before taxation	4,731	1,724	1,416	280	8,151
Segment assets	1,002,256	389,589	707,856	38,216	2,137,917
Unallocated assets					16,480
Total assets					2,154,397
Segment liabilities	(1,110,109)	(263,820)	(627,185)	(18,166)	(2,019,280)
Other segment information:					
Credit commitments and financial guarantee	670,995	14,668	-	-	685,663
Depreciation and amortization	454	204	150	19	827
Capital expenditure	169	66	119	6	360

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING *(Continued)*

2 Regional division

The Group operates principally in mainland China, and also has a branch in Hong Kong, China. Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

“Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Shaoxing, Zhoushan, Shanghai, Nanjing, Suzhou, Hefei, Jinhua;

“Bohai Rim Region” refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;

“Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits” refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou, Hong Kong, Fuzhou; and

“Midwestern China” refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Guiyang, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou, Changsha, Hohhot, Nanchang, Nanning, Taiyuan.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

2 Regional division (Continued)

	For the six months ended 30 June 2022/30 June 2022					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China	Elimination	Total
External net interest income	14,949	2,221	2,092	3,975	–	23,237
Inter-segment net interest (expenses)/ income	(2,596)	2,116	105	375	–	–
Net interest income	12,353	4,337	2,197	4,350	–	23,237
Net fee and commission income	753	680	503	696	–	2,632
Net trading gains	4,176	73	39	73	–	4,361
Net gains on financial investments	922	141	50	196	–	1,309
Other operating income	156	27	7	49	–	239
Operating income	18,360	5,258	2,796	5,364	–	31,778
Operating expenses	(4,899)	(1,143)	(676)	(1,270)	–	(7,988)
Expected credit losses	(9,270)	(844)	(1,810)	(3,377)	–	(15,301)
Total operating expenses	(14,169)	(1,987)	(2,486)	(4,647)	–	(23,289)
Profit before taxation	4,191	3,271	310	717	–	8,489
Segment assets	2,086,757	363,023	237,746	347,821	(534,373)	2,500,974
Unallocated assets						20,270
Total assets						2,521,244
Segment liabilities	(1,952,319)	(361,028)	(236,972)	(346,946)	534,373	(2,362,892)
Other segment information :						
Credit commitments and financial guarantee	344,088	176,020	74,180	187,371	–	781,659
Depreciation and amortization	506	157	76	165	–	904
Capital expenditure	2,955	17	7	44	–	3,023

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

V SEGMENT REPORTING (Continued)

2 Regional division (Continued)

	For the six months ended 30 June 2021/30 June 2021					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	Midwestern China	Elimination	Total
External net interest income	12,009	1,780	1,604	4,985	-	20,378
Inter-segment net interest (expenses)/ income	(265)	1,179	153	(1,067)	-	-
Net interest income	11,744	2,959	1,757	3,918	-	20,378
Net fee and commission income	675	455	154	713	-	1,997
Net trading gains/(losses)	2,622	106	(7)	110	-	2,831
Net gains on financial investments	368	46	90	37	-	541
Other operating income	134	19	10	38	-	201
Operating income	15,543	3,585	2,004	4,816	-	25,948
Operating expenses	(4,393)	(980)	(518)	(1,072)	-	(6,963)
Expected credit losses	(7,223)	(659)	(1,395)	(1,557)	-	(10,834)
Total operating expenses	(11,616)	(1,639)	(1,913)	(2,629)	-	(17,797)
Profit before taxation	3,927	1,946	91	2,187	-	8,151
Segment assets	1,818,623	305,378	205,620	283,359	(475,063)	2,137,917
Unallocated assets						16,480
Total assets						2,154,397
Segment liabilities	(1,703,865)	(305,557)	(204,749)	(280,172)	475,063	(2,019,280)
Other segment information:						
Credit commitments and financial guarantee	304,542	154,343	55,265	171,513	-	685,663
Depreciation and amortization	445	150	76	156	-	827
Capital expenditure	251	42	28	39	-	360

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES

1 Credit commitments and financial guarantee

Bank acceptances refer to the Group's commitment to honor bills issued by customers. Letter of credit and financial guarantee refer to guarantee of customers' performance the Group provides to third parties. Approved loan commitments, finance lease commitments and undrawn credit card limit refer to the Group's credit commitments. Block chain receivables confirmation refer to the Group's commitment to block chain receivables confirmation issued by customers.

The amount of bank acceptances, letter of credit, letter of guarantee, block chain receivables confirmation and other financial guarantee contracts disclosed is the maximum potential loss amount that the Group will recognize at the balance sheet date if the counterparties fail to oblige. The amount of loan commitments, finance lease commitment and undrawn credit line of credit card are the contract amount assumed to be fully issued. The Group expects that bank acceptances, letter of credit, letter of guarantee and block chain receivables confirmation will be settled at the same time as the payment of customers. Loan commitments, finance lease commitment and undrawn credit line of credit card may not be used before maturity. Therefore, the contract amount mentioned below does not represent the expected cash outflow in the future.

	30 June 2022	31 December 2021
Bank acceptances	412,946	364,967
Letters of credit issued	160,067	134,755
Letters of guarantee issued		
– financing letters of guarantee	32,637	19,409
– non-financing letters of guarantee	10,770	12,632
Corporate loan commitments and finance lease commitments	3,399	4,431
Undrawn credit card facility	13,917	14,097
Block chain receivables confirmation and other financial guarantee contracts	147,923	185,355
Total	781,659	735,646

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VI COMMITMENTS AND CONTINGENCIES *(Continued)*

2 Capital commitments

At the balance sheet date, the Group's capital commitments are as follows:

	30 June 2022	31 December 2021
Contracted but not yet incurred	3,563	2,615
Authorized but not contracted	1,961	1,864
Total	5,524	4,479

3 Bond underwriting and redemption commitments

- (1) At 30 June 2022, the Group has outstanding bond underwriting commitment with an amount of RMB2,680 million (31 December 2021: RMB3,090 million).
- (2) As a member of the saving bonds underwriting syndicate of the Central Government, the Group is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds deducting commissions for early redeemed, plus any interest accrued up to the redemption date. The interest accrued shall be calculated in accordance with the relevant rules of the Ministry of Finance (the "MOF") and the PBOC.

At 30 June 2022, the Group had underwritten bonds with an accumulated amount of RMB1,200 million (31 December 2021: RMB1,184 million) to the general public, and these government bonds have not yet matured nor been redeemed. The Group expects that the amount of redemption of these government bonds through the Group prior to maturity will not be material.

4 Litigations and arbitrations

At the balance sheet date, the Group was involved in certain legal proceedings in the ordinary course of business. The Group expects that such pending litigations will not materially affect the Group's financial position.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VII FIDUCIARY BUSINESS

1 Entrusted loan business

Entrusted loan business means that under the entrusted loan arrangement, the Group acts as an intermediary to provide loans to borrowers based on the instructions of the principal. The Group is responsible for assisting in supervising the use and the recovery of the loan, and charging commissions for the services provided. As the Group does not assume the economic risks and rewards arising from the entrusted loans, the entrusted loans will not be recognized as assets and liabilities of the Group.

At the balance sheet dates, the entrusted business assets and liabilities of the Group are as follows:

	30 June 2022	31 December 2021
Entrusted loans	25,508	22,190
Entrusted loan funds	25,508	22,190

2 Wealth management services

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with agreements. The Group receives fee incomes, such as custodian fees, sale fees and investment management fees, in return for its services provided under the agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's balance sheet.

At balance sheet date, please refer to Note IV.2 (2) for information about wealth management services.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

VIII COLLATERAL INFORMATION

1 Assets pledged as security

The book value (excluding interest accrued) of the Group's secured liabilities related to the assets as collateral on the balance sheet dates are presented as due to the central bank, financial assets sold under repurchase agreements and customer deposits. These transactions are conducted on the general standard terms of the relevant business.

	30 June 2022	31 December 2021
Due to the central bank	55,801	50,784
Financial assets sold under repurchase agreements	5,000	–
Customer deposits	59,707	47,418
Total	120,508	98,202

(1) Analyzed by collateral type

	30 June 2022	31 December 2021
Bond investments	113,146	93,109
Bills	17,355	13,284
Total	130,501	106,393

In addition, the Group provides collateral for the securities borrowed through the security lending and swap business. At 30 June 2022, the assets as collateral under the security lending and swap business of the Group were RMB101 million (31 December 2021: RMB216 million).

2 Assets received as collateral

At 30 June 2022, the Group received securities amounting to RMB100 million (31 December 2021: RMB200 million) as collateral for financial assets purchased under resale agreements, the Group could sell or repledge the collateral in the absence of default by the owner of the collateral. The Group has an obligation to return the collateral to the owner on the date of resale, at the balance sheet date, none of the collateral is re-sold or re-pledged. Details of collateral related information in the granting of loans and advances to customers and financial investments that are credit-impaired could be referred to in Note X.1(10).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1 Shareholders

At the balance sheet date, the shareholding of major shareholder units directly or indirectly holding more than 5% of the Bank's shares are as follows:

	Number of shares held (in million shares)	Shareholding Percentage
Zhejiang Provincial Financial Holdings Co., Ltd.	2,655	12.49%
Zhejiang Provincial Energy Group Co., Ltd. and its group members, Zheneng Capital Investment (Hong Kong) Limited and Zhejiang Energy International Co., Ltd.	1,487	6.99%
Traveller Automobile Group Co., Ltd.	1,347	6.33%
Zhejiang Hengyi Group Co., Ltd. and its group members Zhejiang Hengyi High-tech Material Co., Ltd. and Zhejiang Hengyi Petrochemical Co., Ltd.	1,243	5.84%
Hengdian Group Holdings Limited	1,243	5.84%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

2 Related party transactions

The amount of major transactions between the Group and related parties and the balance of major current accounts at the balance sheet date are as follows:

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Group Co., Ltd. and its subsidiaries	Traveller Automobile Group Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengqian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/ balance of related similar transactions
The amount of significant transactions from 1 January 2022 to 30 June 2022 is as follows:								
Interest income	1	-	-	50	1	57	109	0.22%
Interest expense	(109)	(2)	-	(4)	-	(5)	(120)	0.45%
Fee and commission income	-	-	-	14	-	-	14	0.47%
Net trading gains	20	-	-	-	47	-	67	1.54%
At 30 June 2022, the balance of major current accounts is as follows:								
Loans and advances to customers	25	-	-	1,266	-	2,325	3,616	0.25%
Financial investments measured at FVTPL	2,509	-	-	-	3,422	-	5,931	3.34%
Financial investments measured at AC	-	-	-	1,500	-	600	2,100	0.58%
Other assets	-	-	-	-	-	195	195	0.36%
Customer deposits	(6,819)	(241)	-	(321)	(38)	(1,044)	(8,463)	0.52%
The major off balance sheet items at 30 June 2022 are as follows:								
Credit commitments and financial guarantee	-	-	-	2,428	135	-	2,563	0.44%
Loan balance guaranteed by related parties	4,029	-	-	410	9	2,860	7,308	0.50%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS (Continued)

2 Related party transactions (Continued)

	Zhejiang Provincial Financial Holdings Co., Ltd. and its subsidiaries	Zhejiang Provincial Energy Group Co., Ltd. and its subsidiaries	Traveller Automobile Group Co., Ltd. and its subsidiaries	Zhejiang Hengyi Group Co., Ltd. and its subsidiaries	Hengdian Group Holdings Limited and its subsidiaries	Others	Total	Proportion in the amount/ balance of related similar transactions
The amount of significant transactions from 1 January 2021 to 30 June 2021 is as follows :								
Interest income	1	-	-	50	-	31	82	0.18%
Interest expense	(192)	(2)	-	(9)	(2)	(44)	(249)	1.01%
Fee and commission income	-	-	-	8	-	1	9	0.39%
Net trading gains/(losses)	26	-	-	-	(8)	-	18	0.64%
At 31 December 2021, the balance of major current accounts is as follows:								
Loans and advances to customers	140	-	-	1,038	-	305	1,483	0.11%
Financial investments measured at FVTPL	1,322	-	-	-	4,180	-	5,502	3.07%
Financial investments measured at AC	-	-	-	1,500	-	600	2,100	0.55%
Financial investments measured at FVOCI	121	-	-	60	-	71	252	0.26%
Customer deposits	(8,438)	(308)	-	(503)	(29)	(446)	(9,724)	0.70%
The major off balance sheet items at 31 December 2021 are as follows:								
Credit commitments and financial guarantee	19	-	-	2,620	132	15	2,786	0.39%
Loan balance guaranteed by related parties	2,270	-	-	340	-	90	2,700	0.20%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(Continued)*

3 Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. The Group enters into banking transactions with key management personnel in the normal course of business. For the reporting period, the Group had no material banking transactions and balances with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	For the six months ended 30 June	
	2022	2021
Fees	1	1
Salaries and allowances and benefits	4	6
Discretionary bonuses	2	5
Contribution to pension	1	1
Total	8	13

The total compensation packages for directors and key management personnel have not been finalised. The total compensation packages will be further disclosed when determined.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

IX RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(Continued)*

4 Transactions between the Bank and the subsidiary

The transactions between the Bank and its subsidiary are mainly subject to general business terms and carried out in accordance with normal business procedures or in accordance with the contractual agreements of the Bank, and shall be approved by the corresponding decision-making authority depending on the nature and the amount of the transaction. The transactions between the Bank and its subsidiary are as follows:

	For the six months ended 30 June	
	2022	2021
Interest income	46	43
Interest expense	(1)	(2)
Fee and commission income	16	1
Fee and commission expense	(45)	–
Net gains on financial investments	92	78
Other operating income	4	4

	30 June	31 December
	2022	2021
Placements with banks and other financial institutions	3,002	3,003
Other assets – Dividend receivable	92	–
Deposits from banks and other financial institutions	(360)	(52)
Other liabilities	(4)	(4)
Credit commitments and financial guarantee	422	191

5 Plan and transaction of annuity

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks arising from its operating activities. The Group analyzes, evaluates, accepts and manages those risks or risk portfolios of a certain degree. Managing those risks is critical to the financial industry, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

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

The board of directors takes the ultimate responsibility for comprehensive risk management; the board of supervisors is responsible for supervising comprehensive risk management; and the senior management is responsible for implementing comprehensive risk management. The position of chief risk officer has been established in place. The senior management has established special committees including risk management and internal control committee, asset and liability management committee, credit extension, investment and transaction review committee, asset risk classification review committee and business continuity management committee.

The risk management department at the head office is the coordination department for comprehensive risk management and the leading executive department for management of credit risk, market risk (excluding interest rate risk of banking book), country risk and information technology risk. The planning and finance department (the asset and liability management department) at the head office is the leading executive department for management of the interest rate risk of banking book and liquidity risk. The internal control, compliance and legal department at the head office is the leading executive department for operational risk and compliance risk management. The general office at the head office is the leading executive department for reputational risk management. The development and planning department at the head office is the leading executive department for strategic risk management.

The primary financial risks to which the Group is exposed to when using financial instruments are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

1 Credit Risk

The Group is exposed to credit risk, which is the risk of loss arising from a client or counterparty's failure to discharge its contractual obligations. Exposure to credit risk mainly arises from interbank transactions, corporate and retail loans, as well as loan commitments from lending activities. It can also be derived from credit enhancement provided by the Group, such as credit derivatives (credit default swaps), letters of credit, financial guarantees and acceptances. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department at the head office and reported to the Bank's senior management in a timely manner.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement

Loans and advances to customers, loan commitments and financial guarantees

Based on changes in external business environment, internal business conditions and risk profile, the Group has formulated basic credit policies, and specified the policy orientation in respect of customer structure, industry structure, regional structure and key business areas of the Group's credit business. In addition, the Group regularly adjusts its credit policy on the basis of continuous tracking of macro and industry economic development trends. The Group shall continue to improve the credit system construction, the unified credit extension management system for corporate and institutional customers, group customer identification and unified credit extension management, the overall management and unified control of the total credits of corporate and institutional customers, and the standardized credit approval process, group customer management. The Bank shall also establish a differentiated authorization system, and timely adjust the credit policy and take effective measures to guard against credit risks.

The Group has established the credit risk limit framework system, credit risk limit management plans and methods, and specified a management mechanisms in respect of setting, adjusting, monitoring and processing quota indicators to effectively transmit risk preferences. Financial assets are written off when the Group is unable to recover the whole or a part of them even after taking necessary measures and implementing necessary procedures, and when the write-off conditions set by the Ministry of Finance and the Group are met.

Bond investment

The Group manages investment in bonds and other instruments based on the internal credit rating and credit rating of external rating agencies. Except for financial instruments with available credit ratings such as government bonds, local government debts, central bank bills and policy bank financial bonds, all other bonds are subject to credit approval process and credit rating requirements. At the same time, the Group continues to focus on the credit access, rating access, business development and changes in the industry, and performs continuous evaluation and management of credit risk.

Non-bond debt investment

Non-bond debt investment includes trust schemes and asset management plans. The Group implements rating assessment system for cooperative trust companies and securities companies, and sets credit lines for the ultimate financing party of the trust income and targeted asset management plans, and conducts follow-up review of risk management on a regular basis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(1) Credit risk measurement *(Continued)*

Interbank business

Credit risk of individual financial institutions is reviewed and managed on a regularly basis. Credit lines are set for individual banks or other financial institutions that engage in financial transactions with the Group.

(2) Risk limits and mitigation measures

The Group has established policies and procedures for credit risk limits management. Credit risk limits are set based on specific customers, industries and the quality of assets, and a working mechanism is established regarding credit risk limits management, including limits setting, adjustment, monitoring, reporting and processing.

The Group transfers or mitigates its credit risk exposure by way of guarantee, collateral (pledge), net settlement and credit derivatives. Other specific management and mitigation measures include:

Collateral and pledge

The Group has formulated a series of policies to mitigate credit risks through various measures. The acquisition of collateral and margins and obtaining corporate or individual guarantees is an important means measures for the Group to control credit risk. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties;
- Business assets such as commercial properties, inventories and accounts receivables; and
- Financial instruments such as debt securities and stocks

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(2) Risk limits and mitigation measures *(Continued)*

Collateral and pledge (Continued)

The fair value of collaterals and pledges are assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan amount to fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and the maximum loan-to-value ratio for corporate and retail loans are as follows:

	Maximum loan to value ratio
Collaterals and pledge assets	
Time deposits (RMB)	100%
Time deposits (Foreign currency)	90%
PRC treasury bonds	90%
Financial bonds	80%
Residential properties and commercial properties	70%
Land use rights	70%
Special equipment	70%
Vehicles	60%
General equipment	50%

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

Derivative financial instruments

The Group imposes strict restrictions on the trading of derivative financial instruments. The Group controls the credit risks associated with derivative financial instruments by collecting margins or grant credits from/to counterparties.

Deposits of credit commitments and financial guarantee

The main purpose of credit commitments and financial guarantee is to ensure that customers can receive the funds needed. The letter of guarantee and the letter of credit represent the Group's irrevocable undertaking, that is, the Group will perform the payment obligations on behalf of its customers who fail to meet their payment obligations to third parties, and the Group bears the same credit risk as the case of loans. In the event that the amount of credit commitments and financial guarantee requested by the customer exceeds its original credit limit, the Group will collect deposit to reduce the credit risk involved in providing the service.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs

The ECL model is used for the measurement of the provision for financial assets at AC, financial assets at FVOCI and credit commitments and financial guarantee.

The ECL model is developed in accordance with the accounting standards. Based on credit risk characteristics such as product type, customer type, customer industry, the Group has conducted a risk subgroup on financial assets and established different models for corporate business, personal business, including the regression model of risk parameters and macroeconomic indicators such as GDP and etc. The Group applies the ECL model to calculate credit losses under multiple scenarios to regularly predict three macro scenarios, including optimistic, neutral and pessimistic.

Staging classification of financial instruments

The Group classifies financial instruments into three stages and makes provisions for ECLs accordingly, depending on whether credit risk of a financial instrument has increased significantly since initial recognition. The three risk stages are defined as follows:

Stage 1: Credit risk has not increased significantly since initial recognition. A 12-month ECL is recognized.

Stage 2: Credit risk has increased significantly since initial recognition but there is no objective evidence of impairment of the financial instrument. A lifetime ECL is recognized.

Stage 3: When there is objective evidence of impairment of the financial assets at the balance sheet date. A lifetime ECL is recognized.

The Group's staging criteria has taken into consideration the probability of default, overdue days, credit risk rating, etc.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Definition of significant increase in credit risk

At each balance sheet date, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since initial recognition. The Group fully considers all reasonable information with solid evidence, including forward-looking information that reflects significant changes in its credit risk. The main considerations are regulatory and operating environment, internal and external credit rating, solvency, operating capacity, loan contract terms, and repayment behavior. The Group determines the changes in credit risk over the expected lifetime of the financial instruments by comparing the credit risk of the financial instruments at the balance sheet date with that at the date of initial recognition.

The Group determines whether the credit risk of financial instruments has changed significantly since initial recognition by setting quantitative and qualitative criteria. The judgment criteria mainly include more than 30 days overdue, special mention for five-category classification, changes in probability of default and other cases that indicate a significant change in credit risk.

Definition of credit-impaired financial assets

Generally, financial assets are considered to be credit-impaired if:

- The borrower is more than 90 days overdue after the contractual payment date;
- The five-category classification of the borrower is substandard, doubtful or loss;
- For economic or contractual reasons related to the financial difficulties of the borrower, concessions which normally are not available are being made to the borrower;
- The borrower is experiencing significant financial difficulties;
- The borrower is likely to enter bankruptcy or other financial restructuring; and
- The active market for the financial assets disappears as a result of the financial difficulties of the issuer or debtor.

An impairment of financial assets may be caused by the combined effect of multiple events, and may not be the result of a separately identifiable events.

The above criteria apply to all financial instruments and credit commitments and financial guarantee of the Group; the definition of credit-impaired financial assets is consistently applied to the calculation of ECLs of the Group and when considering about historical statistics and forward-looking information.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Measurement of allowance for ECLs: explanation of parameters, assumptions and valuation techniques

Except for the credit-impaired financial assets, depending on whether there is a significant increase in credit risk and whether the assets are credit-impaired, the Group recognizes allowance for different financial instruments with expected credit losses over 12 months or the lifetime of the instrument, respectively. Allowance for ECLs is the result of multiplication of probability of default (PD), loss given default (LGD) and exposure at default (EAD) and discount factor. Related definitions are as follows:

- Probability of default (PD) refers to the possibility that the debtor will not be able to fulfil his obligations in the next 12 months or throughout the life of the asset. The Group's PD is calculated based on the results of the Internal Rating-Based Approach. The PD of the entire duration is calculated based on the 12-month probability of default;
- Loss given default (LGD) is the percentage of risk exposure loss at the time of default. The default loss rate varies depending on the type of counterparty, the way of recourse and priority and the availability of collateral or other credit support. The LGD varies by financial assets; and
- Exposure at default (EAD) refers to the amount that the Group should pay when the default occurs in the next 12 months or throughout the life of the asset. The Group's exposure at default is determined by the expected repayment arrangements, and it varies depending on the types of products. For installments payment and lump sum repayment, the Group determines the exposure at default according to the repayment plan stipulated in the contract.

The Group determines the ECLs by forecasting the probability of default, loss given default and exposure at default of future individual debt. The Group multiplies the three parameters to calculate the ECLs for future periods, and then discount the results of each period to the report date in lump sum. The discount rate used in the calculation of expected credit loss is the initial effective interest rate or its approximate value.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Measurement of allowance for ECLs: explanation of parameters, assumptions and valuation techniques (Continued)

The measurement of ECLs for credit-impaired corporate loans and advances to customers and investments applied cash flow discount method, if there is objective evidence that an financial asset is credit-impaired, the amount of the ECLs is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. In determining ECLs on an individual basis, the following factors are considered:

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

Forward-looking information and other adjustments included in the ECL model

The Group has established a forward-looking model and developed regression models for different macro-economic indicators such as Gross Domestic Product growth rate year-on-year (GDP). The Group uses forecasting results of macro-indicators to achieve "forward-looking" calculation of ECLs.

The Group has conducted forecasts regularly to establish three economic scenarios, optimistic, neutral and pessimistic along with adjustments from internal economy experts. Neutral scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios which are better and worse than neutral scenario respectively. It can also be used as one of the sources of sensitivity analysis.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(3) Measurement of ECLs *(Continued)*

Forward-looking information and other adjustments included in the ECL model (Continued)

At 30 June 2022, the key macro-indicators the Group has applied include the GDP growth rate, the PPI growth rate, and China Caixin PMI. Among which, the forecasts of macro-indicators are listed as follows:

Indicators	Scenarios
GDP growth rate	From 2.5% to 5.6%
PPI growth rate	From -2.0% to 6.4%
China Caixin PMI	From 47.9% to 52.1%

Through sensitivity analysis, when the weight of optimistic scenario increases by 10% and the weight of neutral scenario decreases by 10%, the allowance for ECLs will decrease by no more than 1.5%. When the weight of pessimistic scenario increases by 10% and the weight of neutral scenario decreases by 10%, the allowance for ECLs will increase by no more than 2.5%.

When managing ECL model, the Bank fully considered the impact of the pandemic of Covid-19 on credit risk exposure and makes allowance for ECLs prudently, thereby enhancing the Group's risk compensation capability.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(4) Maximum exposure to credit risk

The following table provides an analysis of the exposure to credit risk of financial instruments applicable to the expected credit loss measurement. The carrying amount of the following financial assets is the maximum exposure to credit risk of the Group:

	30 June 2022	31 December 2021
Cash and balances with the central bank	151,645	141,510
Deposits with banks and other financial institutions	48,423	39,391
Placements with banks and other financial institutions	3,830	12,762
Financial assets purchased under resale agreements	88,499	22,352
Loans and advances to customers		
– measured at AC	1,171,330	1,062,484
– measured at FVOCI	263,235	249,405
Financial investments		
– measured at AC	351,324	374,558
– measured at FVOCI	149,754	96,805
Other financial assets	47,080	42,294
Total	2,275,120	2,041,561

At the balance sheet date, the Group's maximum exposure to credit risk in respect of off-balance-sheet credit commitments and financial guarantee contracts is disclosed in Note VI.1.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(5) Risk concentration

The credit risk usually increases if the counterparties are concentrated in a certain industry, region or based on certain economic characteristics. Meanwhile, the economic development is differentiated by the unique characteristics of industries and regions, so the credit risk varies from industry to industry and region to region.

Geographical segments

The gross amount of loans and advances to customers (excluding fair value changes and interest accrued) granted by the Group are listed as follows by region:

	30 June 2022		31 December 2021	
	Gross amount	Proportion	Gross amount	Proportion
Yangtze River Delta Region	795,226	54.13%	731,277	54.43%
Midwestern China	270,122	18.38%	242,868	18.08%
Bohai Rim Region	216,321	14.72%	193,924	14.44%
Pearl River Delta Region and Economic Zone on the Western Coast of the Taiwan Straits	187,657	12.77%	175,270	13.05%
Total	1,469,326	100.00%	1,343,339	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

1 Credit Risk (Continued)

(5) Risk concentration (Continued)

Industry segments

The gross amount of loans and advances to customers (excluding fair value changes and interest accrued) granted by the Group are listed as follows by industry:

	30 June 2022		31 December 2021	
	Gross amount	Proportion	Gross amount	Proportion
Corporate loans and advances				
Leasing and commercial services	214,700	14.62%	189,602	14.13%
Manufacturing	200,926	13.68%	174,473	12.99%
Real estate	178,150	12.12%	168,724	12.56%
Wholesale and retail trade	156,662	10.66%	127,356	9.48%
Administration of water conservancy, environment and public facilities	60,016	4.09%	50,091	3.73%
Construction	58,236	3.96%	57,425	4.27%
Financing	27,537	1.87%	30,277	2.25%
Production and supply of electricity, heat, gas and water	13,696	0.93%	14,999	1.12%
Transportation, storage and postal services	13,066	0.89%	11,466	0.85%
Scientific research, technology services and geological exploration	12,785	0.87%	10,223	0.76%
Agriculture, forestry, animal husbandry and fishery	12,218	0.83%	7,741	0.58%
Accommodation and catering	11,877	0.81%	12,493	0.93%
Information transmission, computer services and software industry	11,560	0.79%	11,468	0.85%
Mining	10,068	0.69%	8,113	0.60%
Culture, sports and entertainment	4,464	0.30%	3,954	0.29%
Health, social security and social welfare	1,914	0.13%	2,026	0.15%
Education	1,530	0.10%	1,286	0.10%
Household services and other services	1,367	0.09%	1,254	0.09%
Public administration and social organization	15	0.00%	19	0.00%
Corporate loans and advances	990,787	67.43%	882,990	65.73%
Personal loans and advances	384,780	26.19%	381,494	28.40%
Discounted bills	93,759	6.38%	78,855	5.87%
Total	1,469,326	100.00%	1,343,339	100.00%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(6) Credit risk analysis of loans and advances to customers

At the balance sheet date, the stage, overdue information and allowance for ECLs of loans and advances to customers of the Group are listed as follows:

	30 June 2022	31 December 2021
Credit-impaired	29,397	25,955
Less: Allowance for ECLs	(18,033)	(16,688)
Subtotal	11,364	9,267
Overdue but not credit-impaired	4,879	2,981
Less: Allowance for ECLs	(907)	(601)
Subtotal	3,972	2,380
Neither overdue nor credit-impaired	1,435,586	1,314,641
Interest accrued	4,199	3,662
Less: Allowance for ECLs	(20,556)	(18,061)
Subtotal	1,419,229	1,300,242
Total	1,434,565	1,311,889

At 30 June 2022, the total allowance for ECLs of the loans and advances to customers measured at FVOCI which were either credit-impaired, overdue but not credit-impaired or neither overdue nor credit-impaired, were RMB143 million (31 December 2021: RMB57 million), RMB11 million (31 December 2021: RMB1 million) and RMB1,155 million (31 December 2021: RMB679 million), respectively. The allowance for ECLs are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(7) Credit risk analysis of the amount due from banks and other financial institutions

Amount due from banks and other financial institutions include deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets purchased under resale agreements. At the balance sheet date, the carrying amount of the Group's due from banks and other financial institutions classified by stage, overdue information and counterparties are analyzed as follows:

	30 June 2022	31 December 2021
Neither overdue nor credit-impaired		
– Commercial banks	46,698	49,043
– Other financial institutions	93,940	25,429
Interest accrued	229	107
Less: Allowance for ECLs	(115)	(74)
Total	140,752	74,505

At 30 June 2022, there is no credit-impaired due from banks and other financial institutions held by the Group (31 December 2021: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(8) Credit risk analysis of debt investments

The Group continuously monitors the credit risk profile of the debt instrument portfolios held. At the balance sheet date, the carrying amount of the debt instruments which are subjected to the ECL model is listed as follows:

	30 June 2022	31 December 2021
Credit-impaired	28,079	24,947
Less: Allowance for ECLs	(14,684)	(13,691)
Subtotal	13,395	11,256
Overdue but not credit-impaired	2,011	15,395
Less: Allowance for ECLs	(177)	(875)
Subtotal	1,834	14,520
Neither overdue nor credit-impaired		
– Government	196,512	181,754
– Policy banks	77,763	84,118
– Commercial banks	34,386	13,129
– Other financial institutions	4,888	3,875
– Corporate entities	168,454	157,007
Interest accrued	8,263	7,813
Less: Allowance for ECLs	(4,417)	(2,109)
Subtotal	485,849	445,587
Total	501,078	471,363

At 30 June 2022, the total allowance for ECLs of the debt investments measured at FVOCI which were either credit-impaired or neither overdue nor credit-impaired, were RMB65 million (31 December 2021: RMB28 million) and RMB295 million (31 December 2021: RMB146 million), respectively. The ECL allowance are recognized in other comprehensive income, without offsetting the carrying amount of these financial assets in the balance sheet.

(9) Restructured loans and advances to customers

Restructured loans refer to those whose repayment terms of loan contracts are amended because of deterioration in the financial position or insolvency of the borrower. At 30 June 2022, the Group has credit-impaired loans and advances with carrying amount of RMB332 million (31 December 2021: RMB385 million) and the relevant contract terms have been renegotiated.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

1 Credit Risk *(Continued)*

(10) Collaterals and other credit enhancement

The Group closely monitors the collateral corresponding to credit-impaired financial assets, as compared with other collaterals, the Group is more likely to confiscate these collaterals to reduce potential credit losses. At the balance sheet date, the Group's credit-impaired loans and advances to customers and financial investments and the value of collateral held to reduce its potential losses are listed as follows:

	30 June 2022			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	23,692	(13,918)	9,774	18,358
– Personal loans and advances	5,705	(4,115)	1,590	2,237
Financial investments				
– Financial assets measured at AC	27,994	(14,684)	13,310	11,887
– Financial assets measured at FVOCI	85	–	85	–
Total	57,476	(32,717)	24,759	32,482

	31 December 2021			
	Gross amount	Allowance for ECLs	Carrying amount	Fair value of collateral
Loans and advances to customers				
– Corporate loans and advances	21,674	(13,987)	7,687	15,846
– Personal loans and advances	4,281	(2,701)	1,580	1,886
Financial investments				
– Financial assets measured at AC	24,884	(13,691)	11,193	12,461
– Financial assets measured at FVOCI	63	–	63	–
Total	50,902	(30,379)	20,523	30,193

The fair value of the above collateral is determined by the Group on the basis of the latest available external evaluation value according to the collateral disposal experience and market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk

Market risk refers to the risk of losses of on-balance sheet and off-balance sheet business arising from unfavorable changes in market prices including interest rates, exchange rates, stock prices and commodity prices. The Group's exposures to market risk arise from the trading and non-trading businesses.

The Group's market risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, risk management department, financial market department, FinTech department, audit department, other departments, as well as branches, subbranches and subsidiaries. Senior management is responsible for implementing and organizing the market risk management, overseeing the implementation of market risk appetite, as well as formulating and carrying out relevant systems and policies for market risk management and establishing market risk management information system, so as to ensure the Group can effectively identify, measure, monitor and control a series of market risks assumed by various businesses.

The market risk measurement methods adopted by the Group include duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, Value at Risk (VaR) measurement etc., and the measures taken by the Group to control market risks include, among others, limit management, hedging, reducing risk exposures etc. The Group has established a market risk management system pursuant to the relevant measures and guidelines of CBIRC. The Group has formulated market risk management policies and procedures applicable to the nature, scale, complexity and risk features of its business and aligned such policies and procedures with its overall business development strategy, management capabilities, capital strength and overall risk level that can be assumed by the Group.

The Group updates its market risk appetite and limit management system on a regular basis, further improves the market risk management systems and market risk measurement systems. The Group conducts market risk measurement, monitoring and routine management by using the independent market risk management system. The Group performs daily valuation of trading book positions, continuously monitors non-stop-loss limits and stop-loss limits, and regularly evaluates market risks through stress testing and other methods.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk

Interest rate risk in the banking book refers to the risk of losses in the economic value and overall gains of the banking book arising from adverse changes in interest rate levels and term structure, mainly including gap risk, benchmark risk and optional risk.

The Group's interest rate risk management system of banking book consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), financial market department, FinTech department, audit department and other operation and management departments at the head office, as well as branches, sub-branches and subsidiaries. Senior management is responsible for implementing the interest rate risk management of banking book, establishing the framework for interest rate risk management and the system for measurement of interest rate risk of banking book, and promoting the effective implementation of relevant systems and policies for interest rate risk management of banking book.

The Group measures and evaluates the interest rate risk of banking book mainly through repricing gap analysis, sensitivity analysis, scenario simulation analysis, stress test etc. During the reporting period, the Group pays close attention to external environment and internal situation of interest rate risk of banking book and adjusts the structure of assets and liabilities flexibly. At the balance sheet date, the interest rate risk of banking book of the Group is within the target limit and the risk is under control as a whole.

Due to fluctuations in market interest rates, the Group's interest margin may increase, or may decrease or even incur losses due to unexpected changes. The Group operates its business in accordance with the deposit and loan interest rate policies of the PBOC.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

(1) Interest rate risk (Continued)

The following tables indicate the financial assets and financial liabilities of the Group at the balance sheet date by the expected next repricing date or by maturity date, whichever is earlier.

	30 June 2022					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	5,387	146,258	–	–	–	151,645
Deposits with banks and other financial institutions	177	42,861	5,385	–	–	48,423
Placements with banks and other financial institutions	44	240	3,546	–	–	3,830
Derivative financial assets	12,191	–	–	–	–	12,191
Financial assets purchased under resale agreements	8	88,491	–	–	–	88,499
Loans and advances to customers	4,199	245,236	611,947	361,453	211,730	1,434,565
Financial investments						
– measured at FVTPL	113,874	9,910	14,011	34,213	5,618	177,626
– measured at AC	7,085	44,000	60,488	181,448	58,303	351,324
– measured at FVOCI	2,453	2,477	33,678	93,075	19,347	151,030
Other financial assets	3,718	5,337	13,336	23,051	1,638	47,080
Total financial assets	149,136	584,810	742,391	693,240	296,636	2,466,213
Financial liabilities						
Due to the central bank	(682)	(9,801)	(46,000)	–	–	(56,483)
Deposits from banks and other financial institutions	(1,345)	(133,065)	(101,415)	(3,600)	–	(239,425)
Placements from banks and other financial institutions	(331)	(20,511)	(25,370)	(1,400)	–	(47,612)
Financial liabilities at fair value through profit or loss	(10,610)	–	–	–	(1,522)	(12,132)
Derivative financial liabilities	(12,257)	–	–	–	–	(12,257)
Financial assets sold under repurchase agreements	(4)	(5,000)	–	–	–	(5,004)
Customer deposits	(24,492)	(920,795)	(416,411)	(278,766)	–	(1,640,464)
Debt securities issued	(771)	(66,753)	(200,840)	(36,246)	(15,000)	(319,610)
Lease liabilities	–	(121)	(473)	(1,918)	(472)	(2,984)
Other financial liabilities	(9,698)	(221)	(1,424)	–	–	(11,343)
Total financial liabilities	(60,190)	(1,156,267)	(791,933)	(321,930)	(16,994)	(2,347,314)
Interest rate exposure	88,946	(571,457)	(49,542)	371,310	279,642	118,899

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

	31 December 2021					Total
	Non-interest bearing	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	
Financial assets						
Cash and balances with the central bank	527	140,983	-	-	-	141,510
Deposits with banks and other financial institutions	94	34,600	4,697	-	-	39,391
Placements with banks and other financial institutions	10	9,449	3,303	-	-	12,762
Derivative financial assets	14,264	-	-	-	-	14,264
Financial assets purchased under resale agreements	3	22,349	-	-	-	22,352
Loans and advances to customers	3,662	236,103	569,759	323,914	178,451	1,311,889
Financial investments						
- measured at FVTPL	96,378	4,886	32,906	38,561	6,466	179,197
- measured at AC	6,775	45,739	63,535	204,003	54,506	374,558
- measured at FVOCI	2,300	6,419	10,361	60,882	18,105	98,067
Other financial assets	3,902	7,551	19,183	11,315	343	42,294
Total financial assets	127,915	508,079	703,744	638,675	257,871	2,236,284
Financial liabilities						
Due to the central bank	(206)	(10,448)	(40,336)	-	-	(50,990)
Deposits from banks and other financial institutions	(1,907)	(123,159)	(111,910)	-	-	(236,976)
Placements from banks and other financial institutions	(288)	(16,853)	(23,460)	(420)	-	(41,021)
Financial liabilities at fair value through profit or loss	(12,114)	-	-	(346)	(52)	(12,512)
Derivative financial liabilities	(13,162)	-	-	-	-	(13,162)
Customer deposits	(18,436)	(790,217)	(309,203)	(289,659)	(8,190)	(1,415,705)
Debt securities issued	(1,034)	(48,328)	(214,863)	(39,683)	(15,000)	(318,908)
Lease liabilities	-	(178)	(381)	(1,919)	(448)	(2,926)
Other financial liabilities	(7,338)	(202)	(1,017)	-	-	(8,557)
Total financial liabilities	(54,485)	(989,385)	(701,170)	(332,027)	(23,690)	(2,100,757)
Interest rate exposure	73,430	(481,306)	2,574	306,648	234,181	135,527

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(1) Interest rate risk *(Continued)*

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

	30 June 2022		31 December 2021	
	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase	Net interest income (Decrease)/ Increase	Other comprehensive income (Decrease)/ Increase
Change in interest rate				
Increase by 100 basis points	(3,890)	(2,921)	(3,151)	(2,634)
Decrease by 100 basis points	3,890	4,949	3,151	3,837

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining commercial conditions and financial parameters:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) all assets and liabilities that are repriced or due within one year are assumed to be repriced or due at the beginning of the respective periods;
- (iii) same fluctuations in interest rates of different interest-bearing assets and interest-bearing liabilities are the same;
- (iv) yield curves move in parallel with change in interest rates;
- (v) there are no other changes in the assets or liabilities portfolio;
- (vi) no consideration of impact on market price, customer behavior and off-balance sheet business resulting from interest rate changes; and
- (vii) no consideration of actions taken by the Group in response to interest rate changes.

Therefore, the actual results on net interest income and other comprehensive income due to changes in interest rates may differ from the analysis above.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk

The Group's business is mainly operated in China and settled in RMB. The tables below show the Group's exposure to currency risk at the balance sheet date with the book values of various financial assets and liabilities converted into RMB.

	30 June 2022				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	146,852	4,763	26	4	151,645
Deposits with banks and other financial institutions	35,663	7,654	849	4,257	48,423
Placement with banks and other financial institutions	3,830	–	–	–	3,830
Derivative financial assets	10,918	1,195	40	38	12,191
Financial assets purchased under resale agreements	88,499	–	–	–	88,499
Loans and advances to customers	1,378,693	45,688	8,759	1,425	1,434,565
Financial investments					
– measured at FVTPL	162,248	15,378	–	–	177,626
– measured at AC	348,595	2,729	–	–	351,324
– measured at FVOCI	104,226	42,407	1,426	2,971	151,030
Other financial assets	45,952	1,124	–	4	47,080
Total financial assets	2,325,476	120,938	11,100	8,699	2,466,213
Financial liabilities					
Due to the central bank	(56,483)	–	–	–	(56,483)
Deposits from banks and other financial institutions	(223,264)	(13,897)	(2,257)	(7)	(239,425)
Placements from banks and other financial institutions	(31,269)	(15,482)	(641)	(220)	(47,612)
Financial liabilities at fair value through profit or loss	(12,132)	–	–	–	(12,132)
Derivative financial liabilities	(11,170)	(1,011)	(42)	(34)	(12,257)
Financial assets sold under repurchase agreements	–	(5,004)	–	–	(5,004)
Customer deposits	(1,578,821)	(54,871)	(649)	(6,123)	(1,640,464)
Debt securities issued	(309,269)	(10,341)	–	–	(319,610)
Lease liabilities	(2,927)	–	(57)	–	(2,984)
Other financial liabilities	(11,058)	(95)	(15)	(175)	(11,343)
Total financial liabilities	(2,236,393)	(100,701)	(3,661)	(6,559)	(2,347,314)
Net amount	89,083	20,237	7,439	2,140	118,899
Credit commitments and financial guarantee	735,942	40,966	1,619	3,132	781,659

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

(2) Foreign exchange risk (Continued)

	31 December 2021				Total
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Financial assets					
Cash and balances with the central bank	137,519	3,967	19	5	141,510
Deposits with banks and other financial institutions	25,227	10,845	901	2,418	39,391
Placement with banks and other financial institutions	3,604	9,158	–	–	12,762
Derivative financial assets	13,743	504	13	4	14,264
Financial assets purchased under resale agreements	22,352	–	–	–	22,352
Loans and advances to customers	1,267,327	36,422	6,377	1,763	1,311,889
Financial investments					
– measured at FVTPL	159,868	19,329	–	–	179,197
– measured at AC	373,967	591	–	–	374,558
– measured at FVOCI	68,486	22,867	2,029	4,685	98,067
Other financial assets	41,799	491	–	4	42,294
Total financial assets	2,113,892	104,174	9,339	8,879	2,236,284
Financial liabilities					
Due to the central bank	(50,990)	–	–	–	(50,990)
Deposits from banks and other financial institutions	(219,664)	(16,541)	(771)	–	(236,976)
Placements from banks and other financial institutions	(28,393)	(10,493)	(2,035)	(100)	(41,021)
Financial liabilities at fair value through profit or loss	(12,512)	–	–	–	(12,512)
Derivative financial liabilities	(12,783)	(355)	(19)	(5)	(13,162)
Customer deposits	(1,366,665)	(43,940)	(775)	(4,325)	(1,415,705)
Debt securities issued	(309,366)	(9,542)	–	–	(318,908)
Lease liabilities	(2,864)	–	(62)	–	(2,926)
Other financial liabilities	(8,254)	(20)	(14)	(269)	(8,557)
Total financial liabilities	(2,011,491)	(80,891)	(3,676)	(4,699)	(2,100,757)
Net amount	102,401	23,283	5,663	4,180	135,527
Credit commitments and financial guarantee	699,348	32,209	218	3,871	735,646

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk *(Continued)*

The Group measures the potential effect of changes in foreign exchange rates on the Group's net profit and equity by the sensitivity analysis method. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with other variables held constant.

	Sensitivity of net profit and equity	
	30 June 2022 Increase/ (Decrease)	31 December 2021 Increase/ (Decrease)
Change in USD exchange rate		
Appreciation against RMB by 100 bps	152	175
Depreciation against RMB by 100 bps	(152)	(175)
Change in HKD exchange rate		
Appreciation against RMB by 100 bps	56	42
Depreciation against RMB by 100 bps	(56)	(42)

The sensitivity analysis is based on the following assumptions:

- (i) the analysis is based on the static gap at the balance sheet date, regardless of subsequent changes;
- (ii) the foreign exchange rate sensitivity is the gains or losses recognized as a result of a 100-basis point fluctuation in the absolute value of foreign exchange rates against the closing price (middle price) of RMB at the balance sheet date;
- (iii) the fluctuation of exchange rates by 100 basis points at the balance sheet date is based on the assumption of exchange rates movement over the next 12 months;
- (iv) when calculating the foreign exchange exposure, spot and forward from foreign exchange exposure and swaps are included;
- (v) other variables (including interest rates) remain unchanged;

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

2 Market Risk *(Continued)*

(2) Foreign exchange risk (Continued)

- (vi) no consideration of impact on customers' behavior and market price resulting from exchange rate changes; and
- (vii) the assets and liabilities have a static exchange rate risk structure and no consideration is given to the measures that the Group may take to eliminate the adverse impact of foreign exchange exposure on net profit and equity.

Therefore, the actual results of net profit and equity due to changes in foreign currency exchange rates may differ from the analysis above.

3 Liquidity Risk

Liquidity risk refers to the risk of failure to obtain adequate funds in time at reasonable costs to repay debts when they are due, perform other payment obligations and meet other capital needs in the ordinary course of business. Factors affecting liquidity risks are divided into external factors and internal factors. External factors include domestic and foreign financial situation, macroeconomic regulation policies, depth and width of developments of financial markets and the competition status of the banking industry. Internal factors include maturities of assets and liabilities, business structures, stability of deposits, and market financing capacity and various unexpected events, etc.

The Group's liquidity risk management system consists of the board of directors, the board of supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, planning and finance department (asset and liability management department), financial market department, FinTech department, audit department, other operation and management departments of the head office, as well as branches, subbranches and subsidiaries. Senior management is responsible for implementing and organizing the liquidity risk management as well as the formulation and implementation of relevant systems and policies for liquidity risk management.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

The Group manages the liquidity risk in a centralized manner. By establishing a scientific and complete liquidity risk management system, the Group can effectively identify, measure, monitor, control and report its liquidity risk. Specific measures for liquidity risk management include: continuously improving systems related to liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting the asset and liability management strategies in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the construction of diversified of financing channels and actively expanding financing channels while maintaining good relationships with major financing counterparties; strengthening the early-warning monitoring and management of liquidity, optimizing the emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying weak points in respect of the Group's liquidity risk management based on results of such tests, adjusting liquidity risk management strategies and size and structure of high quality liquid assets if necessary, and modifying the liquidity risk management measures in a timely manner to improve liquidity risk management mechanism.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non-derivative financial assets and financial liabilities

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

	30 June 2022					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial assets						
Cash and balances with the central bank	-	151,645	-	-	-	151,645
Deposits with banks and other financial institutions	-	30,043	12,962	5,528	-	48,533
Placements with banks and other financial institutions	-	-	267	3,650	-	3,917
Financial assets purchased under resale agreements	-	-	88,508	-	-	88,508
Loans and advances to customers	11,084	-	259,597	644,398	414,425	1,579,374
Financial investments						
- measured at FVTPL	60	110,833	12,294	14,769	36,287	180,279
- measured at AC	10,244	-	36,747	67,891	222,188	402,830
- measured at FVOCI	85	1,276	3,615	37,513	94,280	158,933
Other financial assets	664	3,286	5,306	14,877	25,164	51,170
Total financial assets	22,137	297,083	419,296	788,626	792,344	2,665,189

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	30 June 2022					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities						
Due to the central bank	-	-	(9,811)	(47,185)	-	(56,996)
Deposits from banks and other financial institutions	-	(61,919)	(73,840)	(101,829)	(3,895)	(241,483)
Placements from banks and other financial institutions	-	-	(20,803)	(25,942)	(1,478)	(48,223)
Financial liabilities at fair value through profit or loss	-	(39)	(4,640)	(6,007)	(177)	(12,606)
Financial assets sold under repurchase agreements	-	-	(5,004)	-	-	(5,004)
Customer deposits	-	(784,876)	(127,573)	(448,512)	(315,912)	(1,676,873)
Debt securities issued	-	-	(67,981)	(204,830)	(41,102)	(329,633)
Lease liabilities	-	-	(142)	(549)	(2,251)	(3,508)
Other financial liabilities	-	(7,752)	(357)	(3,234)	-	(11,343)
Total financial liabilities	-	(854,586)	(310,151)	(838,088)	(364,815)	(18,029)
Net amount	22,137	(557,503)	109,145	(49,462)	427,529	279,520

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity Risk (Continued)

(1) Analysis of contractual undiscounted cash flows of non derivative financial assets and financial liabilities (Continued)

	31 December 2021					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial assets						
Cash and balances with the central bank	-	141,510	-	-	-	141,510
Deposits with banks and other financial institutions	-	25,902	8,754	4,873	-	39,529
Placements with banks and other financial institutions	-	-	9,459	3,423	-	12,882
Financial assets purchased under resale agreements	-	-	22,362	-	-	22,362
Loans and advances to customers	7,581	-	249,112	600,054	373,802	1,447,561
Financial investments						
- measured at FVTPL	-	93,014	5,412	35,021	43,903	184,312
- measured at AC	20,296	-	28,390	92,959	258,524	459,401
- measured at FVOCI	63	1,262	7,658	13,361	68,195	108,894
Other financial assets	623	3,492	4,749	13,007	22,303	45,970
Total financial assets	28,563	265,180	335,896	762,698	766,727	2,462,421

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2021					Total
	Overdue	On demand/ indefinite	Within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	
Financial liabilities						
Due to the central bank	-	-	(10,515)	(41,445)	-	(51,960)
Deposits from banks and other financial institutions	-	(537)	(123,704)	(114,530)	-	(238,771)
Placements from banks and other financial institutions	-	-	(16,967)	(24,214)	(456)	(41,637)
Financial liabilities at fair value through profit or loss	-	(60)	(6,165)	(5,935)	(394)	(12,612)
Customer deposits	-	(718,111)	(89,749)	(320,387)	(313,273)	(8,430)
Debt securities issued	-	-	(49,282)	(219,283)	(43,990)	(16,440)
Lease liabilities	-	-	(193)	(414)	(2,106)	(502)
Other financial liabilities	-	(6,705)	(229)	(1,646)	-	(8,580)
Total financial liabilities	-	(725,413)	(296,804)	(727,854)	(360,219)	(25,430)
Net amount	28,563	(460,233)	39,092	34,844	406,508	277,927
						326,701

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

The Group's derivatives settled on a net basis mainly include interest rate derivatives. The table below analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a net basis by remaining contractual maturities from the balance sheet date to the contractual maturity date:

	30 June 2022					
	After 1 month but within 1 month	After 3 months but within 3 months	After 1 year but within 1 year	After 1 year but within 5 years	After 5 years	Total
(Outflow)/inflow	(5)	(75)	(242)	106	1	(215)

	31 December 2021					
	After 1 month but within 1 month	After 3 months but within 3 months	After 1 year but within 1 year	After 1 year but within 5 years	After 5 years	Total
Inflow	4	157	374	89	1	625

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(2) Analysis of cash flows of derivative financial instruments (Continued)

The Group's derivative settled on a gross basis mainly include foreign exchange derivatives. The following table analyzes the contractual undiscounted cash flows of the Group's derivative financial instruments settled on a gross basis by remaining contractual maturities from the balance sheet date to the contractual maturity date:

	30 June 2022					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Outflow	(27,742)	(31,279)	(64,226)	(15,970)	–	(139,217)
Inflow	27,713	31,237	63,958	15,952	–	138,860
Total	(29)	(42)	(268)	(18)	–	(357)

	31 December 2021					
	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Total
Outflow	(39,906)	(46,278)	(84,765)	(16,915)	(1)	(187,865)
Inflow	41,262	46,374	84,801	16,966	3	189,406
Total	1,356	96	36	51	2	1,541

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

X FINANCIAL RISK MANAGEMENT *(Continued)*

3 Liquidity Risk *(Continued)*

(3) Liquidity risk analysis of off-balance sheet items

The Group's off-balance sheet items include bank acceptances, letters of credit, letters of guarantee, undrawn credit card limit, corporate loan commitments and finance lease commitments, block chain receivables confirmation and other financial guarantee contracts. The table below shows the liquidity analysis of the Group's off-balance sheet items:

	30 June 2022			Total
	Within 1 year	After 1 year but within 5 years	After 5 years	
Bank acceptances	412,946	–	–	412,946
Letters of credit issued	159,893	174	–	160,067
Letters of guarantee issued	22,762	20,539	106	43,407
Undrawn credit card facility	13,917	–	–	13,917
Corporate loan commitments and finance lease commitments	3,234	165	–	3,399
Block chain receivables confirmation and other financial guarantee contracts	140,526	7,397	–	147,923
Total	753,278	28,275	106	781,659

	31 December 2021			Total
	Within 1 year	After 1 year but within 5 years	After 5 years	
Bank acceptances	364,967	–	–	364,967
Letters of credit issued	134,197	558	–	134,755
Letters of guarantee issued	26,674	5,353	14	32,041
Undrawn credit card facility	14,097	–	–	14,097
Corporate loan commitments and finance lease commitments	3,872	559	–	4,431
Block chain receivables confirmation and other financial guarantee contracts	177,179	8,176	–	185,355
Total	720,986	14,646	14	735,646

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XI CAPITAL MANAGEMENT

The core of the Group's capital management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management. The Group prudently determines the objective of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives.

The Group's business has maintained stable growth in recent years and the assets have become increasingly capital intensive. In order to ensure that the capital adequacy ratio meets the regulatory requirements and to maximize the returns to shareholders with the risks under control, the Group has actively expanded the capital replenishment channels from external sources, while continuing to improve the self-generating function in operations, so as to replenish capital from internal sources.

Since 1 January 2013, the Group has calculated and disclosed capital adequacy ratio in accordance with the *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* issued by the former CBRC on 7 June 2012 and other relevant regulations.

Core tier 1 capital includes paid-in capital, capital reserve, surplus reserve, generic risk reserve, retained earnings, and the portion of non-controlling shareholders' capital that may be included in core tier 1 capital. Other tier 1 capital includes other tier 1 capital instruments and their premiums, and the portion of non-controlling shareholders' capital that may be included in other tier 1 capital. Tier 2 capital includes tier 2 capital instruments and their premium, and the portion of excessive allowance for loan losses that may be included, and the portion of non-controlling shareholders' capital that may be included in tier 2 capital.

The Group calculates the capital adequacy ratio in accordance with *Administrative Measures on the Capital of Commercial Banks (Trial Implementation)* and relevant requirements is listed as below:

	30 June 2022	31 December 2021
Net core tier 1 capital	128,357	122,602
Net tier 1 capital	153,800	162,826
Net capital	187,554	194,356
Risk-weighted assets	1,596,179	1,507,438
Core tier 1 capital adequacy ratio	8.04%	8.13%
Tier 1 capital adequacy ratio	9.64%	10.80%
Capital adequacy ratio	11.75%	12.89%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS

1 Fair values of financial assets and liabilities

(1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at balance sheet date on a recurring basis. The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities; and

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

The tables below analyzes financial instruments, measured at fair value at the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	30 June 2022			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	–	12,191	–	12,191
Loans and advances to customers	–	263,235	–	263,235
Financial investments				
– measured at FVTPL	27,414	144,409	5,803	177,626
– measured at FVOCI	–	149,754	1,276	151,030
Total assets measured at fair value on a recurring basis	27,414	569,589	7,079	604,082
Financial liabilities at fair value through profit or loss	–	(12,132)	–	(12,132)
Derivative financial liabilities	–	(12,257)	–	(12,257)
Total liabilities measured at fair value on a recurring basis	–	(24,389)	–	(24,389)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(1) Fair value hierarchy *(Continued)*

	31 December 2021			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
Derivative financial assets	-	14,264	-	14,264
Loans and advances to customers	-	249,405	-	249,405
Financial investments				
– measured at FVTPL	17,944	155,616	5,637	179,197
– measured at FVOCI	-	96,805	1,262	98,067
Total assets measured at fair value on a recurring basis	17,944	516,090	6,899	540,933
Financial liabilities at fair value through profit or loss	-	(12,512)	-	(12,512)
Derivative financial liabilities	-	(13,162)	-	(13,162)
Total liabilities measured at fair value on a recurring basis	-	(25,674)	-	(25,674)

(2) Level 1 fair value measurement

For financial instruments with unadjusted quoted prices in active markets that are observable for identical assets or liabilities, the Group takes the unadjusted quoted price as fair value. The financial instruments defined as level 1 by the Group mainly include open-end funds and equity investments in listed companies.

(3) Level 2 fair value measurement

If the main parameters used in the valuation are observable and available from the active open market, the relevant financial instruments are defined as level 2 fair value measurement. The Group's level 2 financial instruments mainly include bond investment, term-ended funds, discounted bills, trade finance, foreign exchange forwards and swaps, interest rate swaps, foreign exchange options, and precious metal contracts.

For the fair value of RMB bonds, the Group adopts the valuation results issued by China Central Depository & Clearing Co., Ltd. or China Securities Depository and Clearing Co., Ltd. according to the bond market. For the fair value of foreign currency bonds, the Group adopts Bloomberg results. For discounted bills and trade finance, the Group adopts discounted cash flow model for valuation. Based on SHIBOR, the Group constructs the interest rate curve by adjusting the credit spread based on credit and liquidity risk.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

1 Fair values of financial assets and liabilities (Continued)

(3) Level 2 fair value measurement (Continued)

For non-derivative financial instruments and some derivative financial instruments including interest rate swaps, foreign exchange forwards etc. that could not be quoted from the active market, the Group adopts discounted cash flow analysis. The main parameters used include the recent transaction price, relevant yield curve, exchange rate and counterparty risk. For the valuation of option derivatives, the Group adopts Black-Scholes model with main parameters of relevant yield curve, exchange rate, volatility, and counterparty risk.

During the reporting period, there were no changes in the valuation techniques used in the Group's recurring Level 2 fair value measurement as described above.

(4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value.

Financial instruments of level 3 fair value adopt discounted cash flow model. Based on the interest rate curve issued by China Central Depository & Clearing Co., Ltd., the Group constructs an interest rate curve by adjusting the credit spreads in accordance with credit risk. The valuation model of level 3 fair value mentioned above involves both observable and unobservable parameters. Observable parameters include the application of market interest rates. Unobservable parameters include credit spreads. Quantitative information of level 3 fair value measurement is as follows:

	Fair value at 30 June 2022	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	717	Discounted cash flow method	Risk-adjusted discount rate
– Trust schemes and asset management plans	223	Net assets analysis	Net assets, Liquidity discount
– Bonds and asset-backed securities	2,356	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	2,225	Net assets analysis Market	Net assets
– Equity investments	282	multiplier method	Liquidity discount
Financial investments measured at FVOCI			
– Equity investments	1,276	Net assets analysis	Net assets, Liquidity discount

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement *(Continued)*

	Fair value at 31 December 2021	Valuation technique	Unobservable inputs
Financial investments measured at FVTPL			
– Trust schemes and asset management plans	717	Discounted cash flow method	Risk-adjusted discount rate
– Trust schemes and asset management plans	256	Net assets analysis	Net assets, Liquidity discount
– Bonds and asset-backed securities	2,197	Discounted cash flow method	Risk-adjusted discount rate
– Equity investments	2,237	Net assets analysis	Net assets
– Equity investments	230	Market multiplier method	Liquidity discount
Financial investments measured at FVOCI			
– Equity investments	1,262	Net assets analysis	Net assets, Liquidity discount

At the balance sheet date, replacing the original unobservable assumptions with other reasonable unobservable assumptions has no significant impact on the measurement results of fair value. The above assumptions and methods provide a unified basis for the calculation of the fair value of the Group's assets and liabilities. However, due to the different methods and assumptions that may be used by other institutions, the fair values disclosed by different financial institutions may not be completely comparable.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

1 Fair values of financial assets and liabilities *(Continued)*

(4) Level 3 fair value measurement *(Continued)*

Reconciliation of the opening and closing balance for assets of level 3 fair value on a recurring basis is as follows:

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Total
At 1 January 2022	5,637	1,262	6,899
Total gains recognized in profit or loss	174	–	174
Total gains recognized in other comprehensive income	–	14	14
Purchase	171	–	171
Disposals and settlements	(179)	–	(179)
At 30 June 2022	5,803	1,276	7,079
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	161	–	161

	Financial investments measured at FVTPL	Financial investments measured at FVOCI	Total
At 1 January 2021	3,764	994	4,758
Total (losses)/gains recognized in profit or loss	(154)	3	(151)
Total gains recognized in other comprehensive income	–	18	18
Purchase	2,558	250	2,808
Disposals and settlements	(531)	(3)	(534)
At 31 December 2021	5,637	1,262	6,899
Total gains or losses for the year included in profit or loss for assets held at the end of the year	(179)	–	(179)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(In RMB millions, unless otherwise stated)

XII FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

2 Transfers between items measured at different levels of fair value

During the reporting period, there were no transfers, between Level 1, Level 2 and Level 3, of the Group's above assets and liabilities which are measured at fair value.

3 Change in valuation techniques and the rationale

During the reporting period, there were no changes in the valuation techniques adopted by the Group for fair value measurement.

4 Financial assets and liabilities not measured at fair value

All financial instruments of the Group are carried at amounts not materially different from their fair value at the balance sheet date except as follows:

	30 June 2022				Carrying amount
	Level 1	Level 2	Level 3	Fair Value	
Financial assets					
Financial investments measured at AC	–	223,910	127,914	351,824	351,324
Financial liabilities					
Debt securities issued	–	320,329	–	320,329	319,610

	31 December 2021				Carrying amount
	Level 1	Level 2	Level 3	Fair Value	
Financial assets					
Financial investments measured at AC	–	227,261	148,436	375,697	374,558
Financial liabilities					
Debt securities issued	–	319,474	–	319,474	318,908

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

The fair value of financial investments measured at AC and debt securities issued are quoted in the valuation system of relevant registration and settlement institutions that employs observable inputs that reflect the market in the formation of quotations. For those quotations not available in relevant institutions, the fair value shall be estimated by discounted cash flow method.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

I ILLUSTRATION OF DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRSS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

There are no differences between the profit attributable to equity holders of the Bank under IFRSs and PRC GAAP for the six months ended 30 June 2022 (for the six months ended 30 June 2021: no differences). There are no differences between the equity attributable to equity holders of the Bank under IFRSs and PRC GAAP at 30 June 2022 (31 December 2021: no differences).

II LIQUIDITY COVERAGE RATIO

	30 June 2022	31 December 2021
Liquidity Coverage Ratio	160.09%	163.50%

The liquidity coverage ratio is calculated in accordance with the relevant requirements of the CBIRC.

III INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China. International claims are local claims in foreign currencies and cross-border claims.

International claims include balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

III INTERNATIONAL CLAIMS *(Continued)*

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

		Official	Non-bank private	
	Bank	sector	sector	Total
At 30 June 2022				
Local claims in foreign currencies	7,149	6,608	70,775	84,532
Asia Pacific excluding Mainland China	6,476	556	32,233	39,265
– of which attributed to Hong Kong	5,480	556	31,953	37,989
Europe	4,714	–	814	5,528
North America	2,842	6,093	–	8,935
Oceania	67	–	–	67
Total	21,248	13,257	103,822	138,327

		Official	Non-bank private	
	Bank	sector	sector	Total
At 31 December 2021				
Local claims in foreign currencies	6,407	6,356	48,633	61,396
Asia Pacific excluding Mainland China	13,485	1,085	29,852	44,422
– of which attributed to Hong Kong	6,226	1,085	29,532	36,843
Europe	2,644	–	857	3,501
North America	6,131	5,337	364	11,832
Oceania	221	–	–	221
Total	28,888	12,778	79,706	121,372

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(In RMB millions, unless otherwise stated)

IV CURRENCY CONCENTRATIONS

	RMB Equivalent			Total
	USD	HKD	Others	
At 30 June 2022				
Spot assets	120,938	11,100	8,699	140,737
Spot liabilities	(100,701)	(3,661)	(6,559)	(110,921)
Forward purchases	313,836	–	46,086	359,922
Forward sales	(298,598)	(361)	(44,743)	(343,702)
Net options position	(5,978)	–	(3,852)	(9,830)
Net long/(short) position	29,497	7,078	(369)	36,206

	RMB Equivalent			Total
	USD	HKD	Others	
At 31 December 2021				
Spot assets	104,174	9,339	8,879	122,392
Spot liabilities	(80,891)	(3,676)	(4,699)	(89,266)
Forward purchases	303,133	1,528	25,940	330,601
Forward sales	(339,516)	(269)	(27,217)	(367,002)
Net options position	(8,272)	–	(1,703)	(9,975)
Net (short)/long position	(21,372)	6,922	1,200	(13,250)

V NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business conducted in Mainland China. At 30 June 2022, the Group's non-bank exposures are substantially arising from businesses with Mainland China corporates and individuals.

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