

SPD SILICON VALLEY BANK CO.,LTD.

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2023 TO 31 DECEMBER 2023
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS ENGLISH
TRANSLATION, THE CHINESE VERSION WILL PREVAIL

AUDITOR'S REPORT

KPMG Huazhen Hu Shenzi NO. 2402301

SPD Silicon Valley Bank Co., Ltd.:

Opinion

We have audited the accompanying financial statements of SPD SILICON VALLEY BANK CO.,LTD. ("the Bank") set out on pages 1 to 75, which comprise the balance sheet as at 31 December 2023, the income statement, the cash flow statement, the statement of changes in owners' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and the financial performance and cash flows of the Bank for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The management of the Bank is responsible for other information. Other information includes the information covered in the 2023 annual report of the Bank, but does not include the financial statements and our audit report.

Our audit opinion on the financial statements does not cover other information, and we will not issue any form of assurance conclusion on other information.

In combination with our audit of the financial statements, our responsibility is to read other information and consider whether other information is materially inconsistent with the financial statements or the information we have learned in the audit process, or there seems to be material misstatement.

Based on the work we have performed, if we determine that there is a material misstatement in other information, we should report that fact. In this regard, we have nothing to report.

AUDITOR'S REPORT (continued)

KPMG Huazhen Hu Shenzi NO. 2402301

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

AUDITOR'S REPORT (continued)

KPMG Huazhen Hu Shenzi NO. 2402301

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- (5) Evaluate the overall presentation, including the disclosures, structure, content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Huazhen LLP
Shanghai Branch

Certified Public Accountants
Registered in the People's Republic of China

Shanghai, China

Shi Haiyun

Liu Tong

Date: 30 04 2024

SPD SILICON VALLEY BANK CO.,LTD.
Balance sheet
as at 31 December 2023
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>31 December 2023</i>	<i>31 December 2022</i>
Assets			
Cash and deposits			
with central bank	5(1)	1,064,413,350	2,633,766,831
Deposits with banks	5(2)	3,107,511,252	2,850,722,563
Placements with banks and other			
financial institutions	5(3)	2,611,098,400	2,424,946,389
Derivative financial assets	5(4)	29,983,424	121,336,102
Loans and advances	5(5)	9,850,243,916	11,320,546,878
Financial investments:	5(6)		
- Financial assets held-for-trading		-	9,004,134
- Debt investments		505,578,411	504,818,534
- Other debt investments		1,000,610,671	2,991,234,597
Fixed assets	5(7)	24,476,138	35,246,015
Intangible assets	5(8)	143,820,238	161,536,318
Development costs	5(9)	2,586,913	2,146,714
Long-term deferred expenses		3,671,348	5,325,538
Deferred tax assets	5(10)	79,339,769	59,152,452
Other assets	5(11)	41,626,753	56,491,677
Total assets		<u>18,464,960,583</u>	<u>23,176,274,742</u>

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
Balance sheet
as at 31 December 2023 (continued)
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>31 December 2023</i>	<i>31 December 2022</i>
Liabilities			
Derivative financial liabilities	5(4)	53,981,767	2,003,952
Customer deposits	5(12)	16,136,488,619	20,969,199,197
Employee benefits payable	5(13)	68,683,005	66,874,668
Taxes payable	5(14)	20,783,706	8,371,021
Provisions	5(15)	1,214,299	1,161,605
Other liabilities	5(16)	42,075,708	60,025,282
Total liabilities		<u>16,323,227,104</u>	<u>21,107,635,725</u>
Owners' equity			
Paid-in capital	5(17)	2,000,000,000	2,000,000,000
Capital reserve		34,777,987	34,777,987
Other comprehensive income	5(18)	5,798,538	472,432
Surplus reserve	5(19)	12,802,202	6,025,366
General risk reserve	5(20)	88,354,752	27,363,232
Retained earnings		-	-
Total owners' equity		<u>2,141,733,479</u>	<u>2,068,639,017</u>
Total liabilities and owners' equity		<u>18,464,960,583</u>	<u>23,176,274,742</u>

These financial statements were approved by the shareholders of the Bank on 30 04 2024.

Jade Lu
President

Hanna Zhu
Chief Finance Officer

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2023</i>	<i>2022</i>
Operating income		409,055,930	400,805,172
Net interest income	5(21)	341,091,705	407,754,490
Interest income		602,780,840	541,289,700
Interest expense		(261,689,135)	(133,535,210)
Net fee and commission income	5(22)	7,047,686	7,168,468
Fee and commission income		8,986,686	8,597,122
Fee and commission expense		(1,939,000)	(1,428,654)
Losses from investment	5(23)	(26,138,761)	(38,451,657)
Other income		5,349,842	2,830,244
Losses on changes in fair value	5(24)	(1,397,928)	(31,562,900)
Net gains from foreign exchange	5(25)	83,096,979	39,613,066
Other operating income		153,302	13,453,461
Gains from asset disposals		(146,895)	-
Operating expense		(343,373,609)	(356,218,691)
Taxes and surcharges		(3,851,519)	(3,466,615)
General and administrative expenses	5(26)	(341,703,683)	(320,159,980)
Credit gains/(losses)	5(27)	2,181,593	(32,592,096)
Net operating profit		65,682,321	44,586,481
Non-operating income		823,174	43,587
Non-operating expense		(53,954)	(2,382)

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
INCOME STATEMENT(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>2023</i>	<i>2022</i>
Profit before income tax		66,451,541	44,627,686
Reversals of income tax expenses	5(28)	<u>1,316,815</u>	<u>7,478,370</u>
Net profit		67,768,356	52,106,056
Other comprehensive income, net of tax			
Other comprehensive income that will be reclassified to profit or loss	5(18)	5,326,106	(2,380,749)
Total comprehensive income		<u>73,094,462</u>	<u>49,725,307</u>

These financial statements were approved by the shareholders of the Bank on 30 04 2024.

Jade Lu
President

Hanna Zhu
Chief Finance Officer

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	Note	2023	2022
1 Cash flows from operating activities			
Net decrease in deposits with central bank		407,359,147	267,045,229
Net decrease in deposits and placements with banks and other financial institutions		-	1,329,186,300
Net decrease in loans and advances to customers		1,551,769,284	-
Interest and commission received		648,575,292	688,302,060
Cash received relating to other operating activities		<u>176,038,322</u>	<u>26,703,304</u>
Subtotal of cash inflow		<u>2,783,742,045</u>	<u>2,311,236,893</u>
Net increase in deposits and placements with banks and other financial institutions		(602,673,160)	-
Net increase in loans and advances		-	(2,114,042,897)
Net decrease in deposits and placements from other banks		-	(191,271,000)
Net decrease in financial assets sold for repurchase		-	(95,000,000)
Net decrease in customer deposits		(5,024,656,182)	(1,212,775,997)
Interest and commission paid		(212,705,786)	(120,532,163)
Cash paid to employees or on behalf of employees		(213,099,477)	(196,645,250)
Tax paid		(46,053,712)	(48,408,871)
Cash paid relating to other operating activities		<u>(158,816,501)</u>	<u>(305,383,393)</u>
Subtotal of cash outflow		<u>(6,258,004,818)</u>	<u>(4,284,059,571)</u>
Net cash used in operating activities	5(29)	<u>(3,474,262,773)</u>	<u>(1,972,822,678)</u>

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
STATEMENT OF CASH FLOW(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	2023	2022
2 Cash flows from investing activities		
Cash received from investment recovery	3,672,537,249	2,793,137,996
Cash received from investment income	63,078,187	76,873,817
Cash received from disposal of long-term assets	5,682	-
Subtotal of cash inflow	<u>3,735,621,118</u>	<u>2,870,011,813</u>
Purchase of investment securities	(1,682,230,563)	(4,630,205,998)
Cash paid for purchase of long-term assets	<u>(15,387,776)</u>	<u>(106,163,910)</u>
Subtotal of cash outflow	<u>(1,697,618,339)</u>	<u>(4,736,369,908)</u>
Net cash flows from / (used in) investing activities	<u>2,038,002,779</u>	<u>(1,866,358,095)</u>
3 Cash flows from financing activities		
Cash paid relating to other financing activities	<u>(15,219,323)</u>	<u>(15,010,444)</u>
Subtotal of cash outflow	<u>(15,219,323)</u>	<u>(15,010,444)</u>
Net cash used in financing activities	<u>(15,219,323)</u>	<u>(15,010,444)</u>

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
STATEMENT OF CASH FLOW(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	Note	2023	2022
4 Effect of foreign exchange rate changes on cash and cash equivalents		<u>114,282,992</u>	<u>624,410,937</u>
5 Net decrease in cash and cash equivalents	5(29)	(1,337,196,325)	(3,229,780,280)
Add: Cash and cash equivalents at the beginning of year		<u>5,778,094,602</u>	<u>9,007,874,882</u>
Cash and cash equivalents at the year end	5(29)	<u>4,440,898,277</u>	<u>5,778,094,602</u>

These financial statements were approved by the shareholders of the Bank on 30 04 2024.

Jade Lu
President

Hanna Zhu
Chief Finance Officer

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>Paid-in capital</i>	<i>Capital Reserve</i>	<i>Other comprehensive income</i>	<i>Surplus reserve</i>	<i>General reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
Balance at 1 January 2023		2,000,000,000	34,777,987	472,432	6,025,366	27,363,232	-	2,068,639,017
Net gain for the year		-	-	-	-	-	67,768,356	67,768,356
Other comprehensive income	5(18)	-	-	5,326,106	-	-	-	5,326,106
Profit appropriation to surplus reserves	5(19)	-	-	-	6,776,836	-	(6,776,836)	-
Profit appropriation to general risk reserves	5(20)	-	-	-	-	60,991,520	(60,991,520)	-
Balance at 31 December 2023		<u>2,000,000,000</u>	<u>34,777,987</u>	<u>5,798,538</u>	<u>12,802,202</u>	<u>88,354,752</u>	<u>-</u>	<u>2,141,733,479</u>

These financial statements were approved by the shareholders of the Bank on 30 04 2024.

Jade Lu
President

Hanna Zhu
Chief Finance Officer

The notes on pages 10 to 75 form part of these financial statements.

SPD SILICON VALLEY BANK CO.,LTD.
STATEMENT OF CHANGES IN OWNERS' EQUITY(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(Expressed in Renminbi Yuan)

	<i>Note</i>	<i>Paid-in capital</i>	<i>Capital Reserve</i>	<i>Other comprehensive income</i>	<i>Surplus reserve</i>	<i>General reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
Balance at 1 January 2022		2,000,000,000	34,777,987	2,853,181	814,760	7,332,838	(26,865,056)	2,018,913,710
Net gain for the year		-	-	-	-	-	52,106,056	52,106,056
Other comprehensive income	5(18)	-	-	(2,380,749)	-	-	-	(2,380,749)
Profit appropriation to surplus reserves	5(19)	-	-	-	5,210,606	-	(5,210,606)	-
Profit appropriation to general risk reserves	5(20)	-	-	-	-	20,030,394	(20,030,394)	-
Balance at 31 December 2022		<u>2,000,000,000</u>	<u>34,777,987</u>	<u>472,432</u>	<u>6,025,366</u>	<u>27,363,232</u>	<u>-</u>	<u>2,068,639,017</u>

The notes on pages 10 to 75 form part of these financial statements.

SPD Silicon Valley Bank Limited
Notes to the financial statements
(Expressed in Renminbi Yuan)

1 Bank status

SPD SILICON VALLEY BANK (hereinafter referred to as the “SPDSVB” or “the Bank”) is a Sino-foreign joint venture bank. The Bank was approved to open on July 30, 2012, with an initial registered capital equivalent to RMB 1 billion and a current registered capital equivalent to RMB 2 billion. The Bank later obtained Financial License from Regulatory Agency, and obtained Business License from Shanghai Administration for Industry and Commerce on 10 August 2012. The Bank's unified social credit code is 91310000051286571H. According to the provisions of the business license of the Bank, the term of its operation is unlimited. The Bank mainly operates foreign exchange business and RMB business with the approval from relevant regulatory agencies.

As of the end of 2023, there have been no significant changes in the shareholder composition of the Bank since the date when the financial statements for the year 2022 were issued.

2 Basis of preparation

The financial statements have been prepared on the going concern basis.

3 Significant accounting policies and accounting estimates

(1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) of the People’s Republic of China. These financial statements present truly and completely the financial position of the Bank as at 31 December 2023, and financial performance and cash flows of the Bank for the year then ended.

(2) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

(3) Functional currency

The Bank’s functional currency is Renminbi and these financial statements are presented in Renminbi. Functional currency is determined by the Bank on the basis of the currency in which major income and costs are denominated and settled.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdrawn on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Foreign currency transactions and translation of financial statements denominated in foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or rates that approximate the spot exchange rates on the dates of the transactions. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. For monetary items that are measured at fair value through other comprehensive income (FVOCI) in foreign currencies, the foreign currency translation differences are disaggregated as translation differences arising from changes in the amortised cost and translation differences arising from changes in other carrying amounts of these items. Translation differences arising from changes in the amortised cost are included in profit or loss; and those arising from changes in other carrying amounts of these items are included in other comprehensive income. The exchange differences of other monetary items in foreign currencies are included in profit or loss.

Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity investments at fair value through other comprehensive income, which are recognised in other comprehensive income.

(6) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of a financial instrument.

A financial asset or financial liability is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

(b) Classification and subsequent measurement of financial assets

(i) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Bank's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Bank also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(ii) Subsequent measurement of financial assets

Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iii) Subsequent measurement of financial assets

Financial liabilities at FVTPL

A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless:

- The financial liability is part of a hedging relationship;
- The financial liability is a financial liability designated at fair value through profit or loss, and changes in fair value arising from changes in the Bank's credit risks are included in other comprehensive income.

Other financial liabilities

Other financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities, financial guarantee contracts and loan commitments arising from transfers of financial assets that do not qualify for the derecognition conditions or continue to be involved in the transferred financial assets Note 3(6)(iv).

(iv) Financial guarantee liabilities and loan commitment

Financial guarantee liabilities

Financial guarantees are contracts that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are measured at fair value when they are initially recognized as liabilities. Subsequent to initial recognition, deferred income related to financial guarantee is amortised in profit or loss in accordance with the accounting policies set out in Note 3(16).

A financial guarantee liability is measured at the higher of:

- the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Note 3(6)(vii)); and
- the amount initially recognised less the cumulative amount of income.

Loan commitment

A loan commitment is a firm commitment to provide credit in accordance with the pre-determined terms and conditions.

Impairment of loan commitments provided by the Bank are assessed based on the expected credit losses (ECLs). The Bank has not committed on issuing loans at any price below the market interest rates, nor making cash payments or the issuance of other financial instruments as the net settlement of the loan commitments.

Loss allowances of loan commitments and financial guarantee contracts are presented in the provisions. However, if an instrument contains both a loan and an unused commitment, and the Bank cannot separate the ECLs arising from the loan portion from the unused commitment, the loss allowance for both portions is presented in the loss allowance for loans unless the total loss allowance for both portions exceeds the carrying amount of the loan, in which the loss allowance is presented in the provisions.

(v) Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Bank currently has a legally enforceable right to set off the recognised amounts;
- the Bank intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(vi) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- the Bank's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Bank transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Bank neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

The financial asset has been transferred, and if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and the Bank retains control over the financial asset, the Bank continues to recognise the relevant financial asset to the extent of involvement in the transferred financial asset, and the relevant liability is accordingly recognised.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Bank derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(vii) Impairment

The Bank recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- contract assets;
- debt investments measured at FVOCI;
- loan commitment and financial guarantee contracts issued, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).

The Bank measures expected credit losses (ECLs) of a financial instrument in a way that reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Bank is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

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

The three risk stages are defined as follows:

Stage 1: For financial instruments where the credit risk has not significantly increased since the initial recognition, the loss allowance is measured at the 12-month ECLs.

Stage 2: For financial instruments where the credit risk has significantly increased without credit impairment since the initial recognition, the loss allowance is measured at the lifetime ECLs.

Stage 3: For financial instruments that are credit impaired since the initial recognition, the loss allowance is measured at the lifetime ECLs.

Financial instruments that have low credit risk

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

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Bank compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

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

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

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

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

Credit-impaired financial assets

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

Presentation of allowance for ECL

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income. Refer to Note 5(15) the Bank recognises loss allowances for loan commitments and financial guarantee contracts issued, which are not measured at FVTPL through provisions.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(viii) Modification of financial asset contracts

The Bank may modify or renegotiate the financial asset contracts under certain circumstances (such as the restructured loans). The Bank will assess whether the modified or renegotiated contract terms have substantially changed.

If there are substantial changes in the contract terms after the modification, the Bank will derecognise the original financial asset and recognise a new financial asset in accordance with the modified terms.

If there is no substantial change in the contract terms after the modification but changes in the contractual cash flows is resulted in, the Bank will recalculate the book value of the financial asset and recognise relevant gains or losses in the profit or loss. The recalculated book value of the financial assets shall be recognised at the present value determined by discounting the modified or renegotiated contractual cash flows by the original effective interest rate of the financial asset (or the credit-adjusted effective interest rate of purchased or originated credit-impaired financial assets). For all the costs or expenses arising from the modified or renegotiated contract, the Bank shall adjust the book value of the financial assets and amortise it for the remaining life of the financial asset. The Bank shall compare the risk of default at the balance sheet date based on the new contract terms with the risk of default at initial recognition based on the original contract terms when evaluating whether the credit risk of the relevant financial instrument has increased significantly.

(7) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Bank acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Bank sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the balance sheet. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the balance sheet.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(8) Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. A derivative financial instrument with a positive fair value is recognized as an asset, and a negative fair value is recognized as a liability.

If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when: their economic characteristics and risks are not closely related to those of

the host contract; A separate instrument with the same terms would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

Profits and losses derived from changes in fair value of derivative financial instruments, if they do not meet the requirements of hedge accounting, should be directly included in the current profit and loss.

(9) Fixed assets

(a) Recognition of fixed assets

Fixed assets represent tangible assets held by the Bank for the conduct of business with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Bank in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Bank, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(b) Depreciation of fixed assets

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life unless the fixed assets meet the conditions for holding for sale. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

<u>Class</u>	<u>Estimate useful life</u>	<u>Residual value rate</u>	<u>Depreciation rate</u>
Electronic equipments	3 ~ 5 years	0% ~ 5%	19% ~ 33%
Office and other equipments	5 years	0% ~ 5%	19% ~ 20%

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(c) For the impairment of the fixed assets, refer to Note 3(13).

(d) Disposal of fixed assets

When fixed assets meet one of the following conditions, the carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or
- when no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

(10) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(13)). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale.

The respective amortisation periods for intangible assets are as follows:

<i>Class</i>	<i>Amortisation period</i>
New generation system	10 years
Software	3 ~ 5 years

The Bank reviews the useful life and amortization method of a finite useful life intangible assets at the end of each year and adjusts it if necessary.

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. At the balance sheet date, the Bank does not have any intangible assets with indefinite useful lives.

Expenditure on an internal research and development project is classified into expenditure during the research phase and expenditure during the development phase.

Expenditure during the research phase is expensed when incurred. Expenditure during the development phase is capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Bank has sufficient resources and the intention to complete development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see Note 3(13)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(11) Long-term deferred expenses

Long-term deferred expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortized on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(12) Repossessed assets

Repossessed assets refer to the physical assets or property rights of the debtor, guarantor or third party that are compensated by the Bank for exercising creditor's rights or security interests.

For the transferred financial-asset-linked debt-repaid assets, the Bank initially measures them at the fair value, then performs classification and subsequent measurement based on the accounting policies stated in Note 3(6).

For the transferred non-financial-asset-linked debt-repaid assets, the Bank initially measures them based on the fair value of the waived creditor's rights and other costs (such as taxes directly attributable to the assets) and performs subsequent measurement at the lower of the carrying amount of the debt-repaid assets and the recoverable amount. For the impairment testing methods and the provision for impairment, please see Note 3(13).

(13) Impairment of assets other than financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- right-of-use assets
- intangible assets
- long-term deferred expenses
- non-financial-asset-linked repossessed assets, etc.

If any indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value (see Note 3(14)) less costs to sell and its present value of expected future cash flows.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(14) Fair value measurement

Unless otherwise specified, the Bank measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Bank takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(15) Provisions and contingent liabilities

A contingent liability is a potential obligation arising from past transactions or events, its existence must be verified through the occurrence or non-occurrence of uncertain future events; in respect of present obligations arising from past transactions or events, the performance of such obligations is not likely to cause economic benefits to flow out of the Bank or the affected amount of the obligation cannot be reliably measured. The Bank does not recognise such obligations and only discloses the contingent liabilities in Note 6 Commitments and contingencies to the financial statements.

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Bank reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

(16) Revenue

(a) Interest income

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortised cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not expected credit losses.

Interest income is calculated by applying the effective interest rate to the book value of financial assets and is included in interest income, except for:

- For purchased or originated credit-impaired (POCI) financial assets, the interest income is recognised according to the amortised cost of the financial asset and the credit adjusted effective interest rate since initial recognition;
- Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

(b) Fee and commission income

The Bank collects fees and commissions by rendering services to customers. Revenue from fees and commissions is recognised when the Bank satisfies the performance obligation in the contract by transferring the control over services to customers at a point in time or over time.

The Bank satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a point in time:

- The customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- The customer controls the service provided by the Bank in the course of performance;
- The Bank does not provide service with an alternative use to the Bank, and the Bank has an enforceable right to payment for performance completed to date.

(17) Expense

(a) Interest expense

Interest expenses from financial liabilities are accrued on a time proportion basis in line with the amortised cost and the applicable effective interest rate.

(b) Other expenses

Other expenses are recognised on an accrual basis.

(18) Employee benefits

(a) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(b) Post-employment benefits

The contribution plans in which the Bank participates mainly include the basic pension insurance and the unemployment insurance.

Pursuant to the relevant laws and regulations of the PRC, the Bank participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Bank makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

(c) Other long-term employee compensation

According to the relevant requirements of the regulation and the Bank, the deferred portion of the bonus payable by the Bank will be paid annually over the next three years.

(19) Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Bank except for capital contributions from the government in the capacity as an investor in the Bank.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Bank will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Bank qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income. A grant that compensates the Bank for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income in the periods in which the expenses or losses are recognized, or included in other income directly.

(20) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Bank has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a single transaction that is not a business combination, affects neither accounting profit nor taxable profit (or deductible loss) and does not give rise to equal taxable and deductible temporary differences. Deferred tax is also not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the balance sheet date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;
- they relate to income taxes levied by the same tax authority on the same taxable entity or different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

(21) Leases

A contract is lease if the lessor conveys the right to control the use of an identified asset to lessee for a period of time in exchange for consideration.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset. An identified asset may be specified explicitly or implicitly specified in a contract and should be physically distinct, or capacity portion or other portion of an asset that is not physically distinct but it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the lessee has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the lessee has the right to direct the use of the asset.

For a contract that contains more separate lease components, the lessee and the lessor separate lease components and account for each lease component as a lease separately. For a contract that contains lease and non-lease components, the lessee and the lessor separate lease components from non-lease components.

The Bank as a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Impairment losses of right-of-use assets are accounted for in accordance with the accounting policy described in Note 3(13).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

A constant periodic rate is used to calculate the interest on the lease liability in each period during the lease term with a corresponding charge to profit or loss or included in the cost of assets where appropriate. Variable lease payments not included in the measurement of the lease liability is charged to profit or loss or included in the cost of assets where appropriate as incurred.

Under the following circumstances after the commencement date, the Bank remeasures lease liabilities based on the present value of revised lease payments:

- there is a change in the amounts expected to be payable under a residual value guarantee;
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments;
- there is a change in the assessment of whether the Bank will exercise a purchase, extension or termination option, or there is a change in the exercise of the extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases in profit or loss or as the cost of the assets where appropriate using the straight-line method over the lease term.

(22) Fiduciary activities

The Bank acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Bank, and the Bank grants loans to third parties ("entrusted loans") under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) Dividend distribution

After the reporting date, the dividends or profits to be distributed in the profit distribution plan which has been examined and approved are not really considered as liabilities on the balance sheet date and shall be disclosed separately in the notes.

(24) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

(25) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

(26) Significant accounting and judgements and estimates

In preparing the financial statements, the management of the Bank is required to apply estimates and assumptions which affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses. The reality may differ from these estimates. The Bank's management continuously evaluates the judgment of the key assumptions and uncertainties involved in the estimates, and the impact of changes in accounting estimates is recognized in the current and future periods of the changes.

In the course of implementing the Bank's accounting policies, management will make estimates and assumptions about the impact of future uncertainties on the financial statements. The management makes the following estimates and major assumptions on the significant future uncertainties at the balance sheet date, which may result in a significant adjustment in the carrying amount of the assets and liabilities in the next accounting period.

Measurement of ECLs

For debt instrument investments carried at amortised cost and FVOCI, loan commitments and financial guarantee contracts, complicated models and a huge amount of assumptions were adopted in the ECL measurement. These models and assumptions relate to the future macroeconomic conditions and the customers' credit behaviour (e.g., the likelihood of default by customers and the corresponding losses). Explanations on inputs, assumptions and estimation techniques of ECL measurement are indicated in Note 8(2).

Income tax

The Bank is required to make judgements on the future tax treatments of certain transactions in order to recognise the income tax. The Bank makes prudent judgements on the income tax effects corresponding to transactions and measures the income tax accordingly based on relevant tax regulations. Deferred tax assets are only recognised to the extent that the future taxable profit is likely to be available and can be used to offset relevant temporary differences. This requires significant judgements in relation to the tax treatments of certain transactions and significant estimates on the likelihood that sufficient future taxable profits will be available to offset the deferred tax assets.

Fair value of financial instruments

For financial instruments without active market, the Bank adopts valuation methods to determine the fair value. Valuation methods include estimations by reference to transaction prices determined in arm's length transactions between economic agents with complete information and willingness to trade in the market; estimations by reference to the fair value of another similar financial instrument in the market, or estimations by applying discounted cash flow analysis and option pricing models. The valuation methods utilise observable market information to the maximum extent possible, however, when observable market information is not available, management will estimate the significant unobservable information included in the valuation methods.

(27) Changes in accounting policies

In 2023, the Bank has adopted the revised accounting requirements and guidance under CASs newly issued by the MOF:

- “The accounting treatment of deferred tax related to assets and liabilities arising from a single transaction excluded from the scope of the initial recognition exemption” in CAS Bulletin No.16 (Caikuai [2022] No.31) (“CAS Bulletin No.16”)

According to the provisions, the Bank does not apply the initial recognition exemption under CAS 18 Income Taxes to temporary differences arising from the initial recognition of assets or liabilities in a single transaction that is not a business combination, affects neither accounting profits nor taxable profit (or deductible losses) and gives rise to equal taxable and deductible temporary differences, such as leases. When such transactions occur, the Bank recognises the corresponding deferred tax liabilities for the new taxable temporary differences arising from the initial recognition of the transaction in accordance with relevant provisions in CAS 18 Income Tax.

In addition, the Bank has sufficient deductible temporary differences, for which deferred tax assets have not yet been recognised, in the future periods when the aforementioned new taxable temporary differences are expected to reverse. Therefore, the Bank has recognised additional deferred tax assets at the equal amount to the new deferred tax liabilities. The additional deferred tax assets and liabilities meet the conditions for offsetting and are presented on a net basis in the balance sheet. As a result of the net presentation, applying the above provisions does not have a material impact on the financial position or financial performance of the Bank.

The adoption of the above standards does not have significant effect on the financial position and financial performance of the Bank.

4 Taxation

The types of taxes applicable to the Bank's as follows:

<u>Tax Name</u>	<u>Tax basis</u>	<u>applicable rate</u>
VAT	The output tax is calculated according to the applicable tax rate of taxable income stipulated by the tax law. After deducting the input tax allowed to be deducted in the current period, the difference is the value-added tax payable.	6%
Urban maintenance and construction tax	Calculated and levied based on the actual VAT paid.	7%
Education fee surcharges	Calculated and levied based on the actual VAT paid.	3%
Local education fee surcharges	Calculated and levied based on the actual VAT paid.	2%
Corporate income tax	Calculated on taxable income.	25%

5 Notes to financial statements items

(1) Cash and deposits with central bank

	31 December 2023	31 December 2022
Mandatory reserve deposits with the central bank	804,572,660	1,211,931,807
Surplus reserve deposits with the central bank	259,554,440	1,421,835,021
Interest receivables	286,250	3
	<hr/>	<hr/>
Total	1,064,413,350	2,633,766,831
	<hr/>	<hr/>

The statutory deposit reserve of the Bank with the central bank is the deposit reserve paid to the People's Bank of China in accordance with regulations, including RMB and foreign currency deposit reserves. Fiscal deposits are funds from financial institutions and deposited with the People's Bank of China in accordance with regulations. The above funds shall not be used for the Bank's daily business activities.

(2) Deposits with banks

	31 December 2023	31 December 2022
Domestic		
- Deposit with related parties	1,063,650,329	1,213,108,719
- Deposits with non affiliated banks	1,898,193,604	1,096,644,127
Oversea		
- Deposit with related parties	9,055,657	76,142,906
- Deposits with non affiliated banks	133,487,909	463,392,107
	<hr/>	<hr/>
Subtotal	3,104,387,499	2,849,287,859
	<hr/>	<hr/>
Interest receivables	3,199,692	1,485,617
	<hr/>	<hr/>
Less: Impairment allowance	(75,939)	(50,913)
	<hr/>	<hr/>
Total	3,107,511,252	2,850,722,563
	<hr/>	<hr/>

The bank's deposits with inter-bank are the deposits with shareholder banks and their branches. As at 31 December 2023 and 31 December 2022, the use of trading margin deposited in other banks is restricted.

(3) Placements with banks and other financial institutions

	31 December 2023	31 December 2022
Domestic		
- Placements with domestic non-bank financial institutions	2,128,990,600	1,589,774,000
- Placements with domestic banks	389,548,500	243,761,000
Oversea		
- Placements with domestic banks	70,827,000	574,169,190
Subtotal	2,589,366,100	2,407,704,190
Interest receivables	22,486,430	17,733,212
Less: Impairment allowance	(754,130)	(491,013)
Total	2,611,098,400	2,424,946,389

(4) Derivative financial instruments

31 December 2023			
	Nominal amount	Fair value	
		Assets	Liabilities
Interest rate swap	4,000,000,000	17,932,300	(28,628,987)
Foreign exchange options	3,550,990,000	155,949	(28,676)
Foreign exchange swap	2,671,061,414	11,895,175	(25,324,104)
Total		29,983,424	(53,981,767)

31 December 2022			
	Nominal amount	Fair value	
		Assets	Liabilities
Foreign exchange swap	5,338,645,656	120,739,921	(417,129)
Foreign exchange options	4,055,100,000	10,204	(718,208)
Interest rate swap	800,000,000	585,977	(868,615)
Total		121,336,102	(2,003,952)

(5) Loans and advances

	31 December 2023	31 December 2022
Corporate loans		
- Measured at Amortized Cost	8,122,540,026	9,919,028,473
- Measured at Fair Value through Profit and Loss	1,886,022,140	1,628,551,369
	<u>10,008,562,166</u>	<u>11,547,579,842</u>
Loans and advances, gross		
	<u>(37,450,468)</u>	<u>(43,612,163)</u>
Cumulative changes in fair value		
Interest receivables	<u>15,887,705</u>	<u>22,314,097</u>
Impairment allowance		
- Measured at Amortized Cost	<u>(136,755,487)</u>	<u>(205,734,898)</u>
Loans and advances, net	<u>9,850,243,916</u>	<u>11,320,546,878</u>

(a) Analysis by industry sector

	<u>31 December 2023</u>		<u>31 December 2022</u>	
	Amount	%	Amount	%
Manufacturing	3,361,088,714	33.58	3,313,951,475	28.70
Scientific research and technology services	1,637,766,499	16.36	1,520,459,011	13.17
Information transmission, software and information technology services	1,587,966,183	15.87	2,132,907,702	18.47
Leasing and commercial services	1,051,577,622	10.51	1,319,820,044	11.43
Financing	1,026,481,360	10.26	1,424,170,034	12.33
Wholesale and retail	876,777,975	8.76	1,437,567,616	12.45
Mining	177,067,500	1.77	174,115,000	1.51
Health and social work	140,986,760	1.41	134,524,259	1.16
Culture, sports and entertainment	79,851,960	0.80	24,000,000	0.21
Education	37,445,384	0.37	36,821,003	0.32
Construction	22,081,013	0.22	20,000,000	0.17
Residential services, repairs and other services	9,471,196	0.09	-	0.00
Accommodation and catering	-	0.00	9,243,698	0.08
	<u>10,008,562,166</u>	<u>100.00</u>	<u>11,547,579,842</u>	<u>100.00</u>
Loans and advances, gross				

(b) Analysis by geographic sector

	31 December 2023	31 December 2022
Eastern China	5,411,754,022	5,453,816,055
North China	2,276,196,771	2,227,407,360
South China	656,023,489	1,056,547,956
Other regions in China	728,374,950	632,752,610
Overseas region	936,212,934	2,177,055,861
Loans and advances, gross	<u>10,008,562,166</u>	<u>11,547,579,842</u>

(c) Analysis by collateral type

	31 December 2023	31 December 2022
Unsecured loans	3,540,195,035	3,200,619,119
Guaranteed loans	3,990,925,496	4,828,072,311
Mortgaged loans	120,405,561	256,252,551
Pledged loans	2,357,036,074	3,262,635,861
Loans and advances, gross	<u>10,008,562,166</u>	<u>11,547,579,842</u>

(d) Analysis by overdue situation

	31 December 2023				
	Overdue for 1 day to 90 days (including 90 days)	Overdue 90 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for more than 3 years	Total
Guaranteed loans	428,580	4,442,844	23,870,168	140,055	28,881,647
Mortgaged loans	-	-	14,020,336	-	14,020,336
Pledged loans	-	29,270,692	37,445,384	-	66,716,076
Total	<u>428,580</u>	<u>33,713,536</u>	<u>75,335,888</u>	<u>140,055</u>	<u>109,618,059</u>

	31 December 2022				
	Overdue for 1 day to 90 days (including 90 days)	Overdue 90 days to 1 year (including 1 year)	Overdue for 1 to 3 years (including 3 years)	Overdue for more than 3 years	Total
Guaranteed loans	-	23,870,168	140,055	-	24,010,223
Mortgaged loans	-	13,786,555	69,646,000	-	83,432,555
Pledged loans	-	6,096,081	36,821,003	-	42,917,084
Total	-	43,752,804	106,607,058	-	150,359,862

The bank classifies all loans whose principal or interest is overdue for one day or more as overdue loans.

(e) Allowance for impairment losses

Changes in impairment losses of loans and advances measured at amortized cost

2023				
	Stage 1	Stage 2	Stage 3	Total
1 January 2023	75,465,086	23,662,754	106,607,058	205,734,898
Transfer during the year:				
Transfer to stage 1	3,278,837	(3,278,837)	-	-
Transfer to stage 2	(304,920)	304,920	-	-
Transfer to stage 3	(80,159)	(8,812,466)	8,892,625	-
(Reductions)/Additions during the year	(10,232,275)	(7,763,315)	15,477,598	(2,517,992)
Written-off during the year	-	-	(76,914,081)	(76,914,081)
Recoveries or reversals during the year	-	-	3,411,662	3,411,662
Other changes	2,094,000	-	4,947,000	7,041,000
31 December 2023	70,220,569	4,113,056	62,421,862	136,755,487

2022				
	Stage 1	Stage 2	Stage 3	Total
1 January 2022	83,248,667	18,020,964	128,000,676	229,270,307
Transfer during the year:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(3,349,830)	3,349,830	-	-
Transfer to stage 3	-	(18,020,964)	18,020,964	-
(Reductions)/Additions during the year	(6,879,992)	18,980,246	21,887,415	33,987,669
Written-off during the year	-	-	(70,671,417)	(70,671,417)
Recoveries or reversals during the year	-	-	3,480,420	3,480,420
Other changes	2,446,241	1,332,678	5,889,000	9,667,919
31 December 2022	75,465,086	23,662,754	106,607,058	205,734,898

(6) Financial investments

	<i>31 December 2023</i>	<i>31 December 2022</i>
Financial assets held-for-trading	-	9,004,134
Debt investments	505,578,411	504,818,534
Other debt investments	1,000,610,671	2,991,234,597
	<hr/>	<hr/>
Total	1,506,189,082	3,505,057,265
	<hr/>	<hr/>

(a) Financial assets held-for-trading

	<i>31 December 2023</i>	<i>31 December 2022</i>
Monetary fund	-	9,004,134
	<hr/>	<hr/>

(b) Debt investments

	<i>31 December 2023</i>	<i>31 December 2022</i>
US Treasuries	367,755,814	360,949,424
Interbank deposit certificates	135,078,051	-
Policy bank bonds	-	139,292,000
	<hr/>	<hr/>
Debt investments, gross	502,833,865	500,241,424
Interest receivables	2,744,546	4,577,110
Impairment allowance	-	-
	<hr/>	<hr/>
Debt investments, net	505,578,411	504,818,534
	<hr/>	<hr/>

(c) Other debt investments

	<i>31 December 2023</i>	<i>31 December 2022</i>
Policy bank bonds	983,274,850	2,885,396,005
US Treasuries	-	34,062,605
	<hr/>	<hr/>
Subtotal	983,274,850	2,919,458,610
Interest receivables	17,335,821	71,775,987
	<hr/>	<hr/>
Total	1,000,610,671	2,991,234,597
	<hr/>	<hr/>

(7) Fixed assets

	<i>Electronic equipments</i>	<i>Office and other equipments</i>	<i>Total</i>
Cost			
31 December 2021	43,200,630	2,537,453	45,738,083
Additions	26,091,278	1,361,156	27,452,434
Disposals	(2,682,053)	-	(2,682,053)
31 December 2022	66,609,855	3,898,609	70,508,464
Additions	2,068,655	-	2,068,655
Disposals	(141,161)	(218,160)	(359,321)
31 December 2023	68,537,349	3,680,449	72,217,798
Accumulated Depreciation			
31 December 2021	(25,848,447)	(1,561,626)	(27,410,073)
Charge	(10,152,196)	(382,233)	(10,534,429)
Disposals	2,682,053	-	2,682,053
31 December 2022	(33,318,590)	(1,943,859)	(35,262,449)
Charge	(12,119,550)	(566,405)	(12,685,955)
Disposals	-	206,744	206,744
31 December 2023	(45,438,140)	(2,303,520)	(47,741,660)
Net book value			
31 December 2023	23,099,209	1,376,929	24,476,138
31 December 2022	33,291,265	1,954,750	35,246,015

(8) Intangible assets

	<i>Software</i>
Cost	
31 December 2021	104,871,831
Additions	57,372,794
Transferred from development costs	<u>80,519,728</u>
31 December 2022	242,764,353
Additions	10,370,783
Transferred from development costs	<u>2,167,618</u>
31 December 2023	<u>255,302,754</u>
Accumulated amortization	
31 December 2021	(56,834,776)
Amortization	<u>(24,393,259)</u>
31 December 2022	(81,228,035)
Amortization	<u>(30,254,481)</u>
31 December 2023	<u>(111,482,516)</u>
Net book value	
31 December 2023	<u>143,820,238</u>
31 December 2022	<u>161,536,318</u>

(9) Development costs

	<i>R&D Expenditure</i>
Cost	
31 December 2021	82,666,442
Transfer out	<u>(80,519,728)</u>
31 December 2022	2,146,714
Additions	2,607,817
Transfer out	<u>(2,167,618)</u>
31 December 2023	<u>2,586,913</u>

(10) Deferred tax assets

Deferred tax assets and deferred tax liabilities without taking into consideration the offsetting of balances:

	2023		2022	
	<i>Deductible/ (Taxable) temporary differences</i>	<i>Deferred tax Assets/ (Liabilities)</i>	<i>Deductible/ (Taxable) temporary differences</i>	<i>Deferred tax Assets/ (Liabilities)</i>
Deferred tax assets:				
Impairment allowance	211,191,998	52,798,000	258,494,666	64,623,667
Changes in the fair value of financial instruments measured at fair value through profit or loss	80,244,753	20,061,188	54,494,282	13,623,571
Tax differences on intangible assets amortization	30,963,986	7,740,997	29,247,481	7,311,870
The difference between accrued and actually paid salaries	24,904,579	6,226,145	24,904,579	6,226,145
Tax differences on lease liabilities	17,450,012	4,362,503	24,568,916	6,142,229
Others	11,359,094	2,839,773	11,933,362	2,983,340
Total deferred tax assets	<u>376,114,422</u>	<u>94,028,606</u>	<u>403,643,286</u>	<u>100,910,822</u>
Deferred tax liabilities:				
Depreciation of fixed assets	(34,429,454)	(8,607,364)	(32,583,468)	(8,145,867)
Right-of-use assets	(17,162,210)	(4,290,553)	(24,425,015)	(6,106,254)
Changes in the fair value of financial instruments measured at fair value through other comprehensive income	(7,163,681)	(1,790,920)	(625,816)	(156,454)
Changes in the fair value of financial instruments measured at fair value through profit or loss	-	-	(109,399,178)	(27,349,795)
Total deferred tax liabilities	<u>(58,755,345)</u>	<u>(14,688,837)</u>	<u>(167,033,477)</u>	<u>(41,758,370)</u>
Deferred tax assets, net	<u>317,359,077</u>	<u>79,339,769</u>	<u>236,609,809</u>	<u>59,152,452</u>

Movement of deferred tax assets

	2023	2022
Balance at the beginning of the period	59,152,452	58,357,846
Charge to profit or loss	21,821,783	-
Charge to other comprehensive income	(1,634,466)	794,606
Balance at the end of the year	<u>79,339,769</u>	<u>59,152,452</u>

The deductible temporary difference amount of the accumulated and unrecognized deferred income tax assets in this year is RMB 42,969,648. (As of December 31, 2022: RMB 113,228,720)

(11) Other assets

	31 December 2023	31 December 2022
Right-of-use assets	17,162,210	24,425,015
Prepaid expenses	4,529,865	3,431,307
Deposit receivable	3,818,700	3,902,820
Deferred expenses	2,594,874	2,278,040
Inter bank service fee receivables	162,500	12,055,829
Interest receivable	-	1,296,739
Others	13,372,110	9,112,790
	<hr/>	<hr/>
Subtotal	41,640,259	56,502,540
Less: Allowance	(13,506)	(10,863)
Total	<u>41,626,753</u>	<u>56,491,677</u>

(12) Customer deposits

	31 December 2023	31 December 2022
Deposits measured at amortized cost		
- Corporate demand deposits	6,948,483,656	9,560,118,366
- Corporate time deposits	5,489,930,550	7,193,494,230
- Remittance outstanding and outward remittance	54,285,297	115,885,682
	<hr/>	<hr/>
Subtotal	12,492,699,503	16,869,498,278
Structured deposits measured at fair value	3,566,457,541	4,072,692,623
Interest receivables	<u>77,331,575</u>	<u>27,008,296</u>
Total	<u>16,136,488,619</u>	<u>20,969,199,197</u>

(13) Employee benefits payable

	Note	31 December 2023	31 December 2022
Short-term payroll and welfare payable	(a)	38,325,687	36,758,394
Post-employment benefits			
- defined contribution plans	(b)	-	-
Other long-term employee benefits	(c)	<u>30,357,318</u>	<u>30,116,274</u>
Total		<u>68,683,005</u>	<u>66,874,668</u>

(a) Short-term payroll and welfare payable

2023

	<i>Balance at 1 January <u>2023</u></i>	<i>Accrued <u>during the year</u></i>	<i>Paid <u>during the year</u></i>	<i>Balance at 31 December <u>2023</u></i>
Salaries and bonuses	36,758,394	162,151,998	(160,584,705)	38,325,687
Employee welfare and benefits	-	4,023,417	(4,023,417)	-
Social insurance				
Include: Medical insurance	-	8,172,187	(8,172,187)	-
Industrial injury insurance	-	138,727	(138,727)	-
Housing fund	-	15,261,094	(15,261,094)	-
Total	<u>36,758,394</u>	<u>189,747,423</u>	<u>(188,180,130)</u>	<u>38,325,687</u>

2022

	<i>Balance at 1 January <u>2022</u></i>	<i>Accrued <u>during the year</u></i>	<i>Paid <u>during the year</u></i>	<i>Balance at 31 December <u>2022</u></i>
Salaries and bonuses	35,000,089	151,545,319	(149,787,014)	36,758,394
Employee welfare and benefits	-	5,265,877	(5,265,877)	-
Social insurance				
Include: Medical insurance	-	7,207,215	(7,207,215)	-
Industrial injury insurance	-	117,681	(117,681)	-
Housing fund	-	13,812,297	(13,812,297)	-
Total	<u>35,000,089</u>	<u>177,948,389</u>	<u>(176,190,084)</u>	<u>36,758,394</u>

(b) Defined contribution plans

2023

	<i>Balance at 1 January 2023</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December 2023</i>
Basic endowment insurance	-	13,461,346	(13,461,346)	-
Unemployment insurance	-	397,783	(397,783)	-
Total	-	13,859,129	(13,859,129)	-

2022

	<i>Balance at 1 January 2022</i>	<i>Accrued during the year</i>	<i>Paid during the year</i>	<i>Balance at 31 December 2022</i>
Basic endowment insurance	-	11,430,496	(11,430,496)	-
Unemployment insurance	-	342,547	(342,547)	-
Total	-	11,773,043	(11,773,043)	-

(c) Other long-term employee benefits

Based on the relevant regulations of the regulatory authorities and the Bank, the deferred payments of the bonus payable by the Bank will be paid annually over the next three years, all of which are defined contribution plans.

(14) Taxes payable

	<i>31 December 2023</i>	<i>31 December 2022</i>
Corporate income tax payable	12,283,435	-
VAT payable	6,526,270	6,994,105
Taxes and surcharges payable	1,974,001	1,376,916
Total	20,783,706	8,371,021

(15) Provisions

	31 December 2023	31 December 2022
Provision for impairment of financial guarantee contracts and loan commitments	<u>1,214,299</u>	<u>1,161,605</u>

(16) Other liabilities

	31 December 2023	31 December 2022
Lease liabilities	16,855,322	24,661,394
Accrued expense	12,722,765	14,268,189
Deferred fee income on loans	6,934,994	10,051,794
Other	<u>5,562,627</u>	<u>11,043,905</u>
Total	<u>42,075,708</u>	<u>60,025,282</u>

(17) Paid-in capital

In the paid-in capital account, the exchange rate used when the foreign currency is converted into RMB is the exchange rate published by the PBOC on the day when the capital contribution is received.

On 19 June 2012, the Bank received paid-in capital of RMB 327,000,000 and USD 27,458,138 from Shanghai Pudong Development Bank (hereinafter referred to as the “SPD”), equivalent to RMB 500 million (or USD 79,613,744). And the Bank received paid-in capital of USD 79,748,632 from Silicon Valley Bank (hereinafter referred to as the “SVB”), equivalent to RMB 500 million. On 15 June 2020, SPD and SVB each remitted a paid-in capital of RMB 250,000,000. According to the resolution of the Board and the approval of the relevant regulatory authorities, on 29 September 2021, SPD and SVB each remitted a paid-in capital of RMB 250,000,000. As of December 31, 2023, a total of RMB 2 billion paid-in capital has been received from investors.

(18) Other comprehensive income

<u>2023</u>						
	<i>Balance at 1 January 2023</i>	<i>Amount before income tax</i>	<i>Less: other comprehensive income transferred to profit and loss in the current period</i>	<i>Less: income tax expense</i>	<i>Net after tax</i>	<i>Balance at 31 December 2023</i>
Changes in fair value of Other debt investments	472,432	17,844,830	(10,884,258)	(1,634,466)	5,326,106	5,798,538
	<u>472,432</u>	<u>17,844,830</u>	<u>(10,884,258)</u>	<u>(1,634,466)</u>	<u>5,326,106</u>	<u>5,798,538</u>
<u>2022</u>						
	<i>Balance at 1 January 2022</i>	<i>Amount before income tax</i>	<i>Less: other comprehensive income transferred to profit and loss in the current period</i>	<i>Less: income tax expense</i>	<i>Net after tax</i>	<i>Balance at 31 December 2022</i>
Changes in fair value of Other debt investments	2,853,181	10,528,485	(13,703,840)	794,606	(2,380,749)	472,432
	<u>2,853,181</u>	<u>10,528,485</u>	<u>(13,703,840)</u>	<u>794,606</u>	<u>(2,380,749)</u>	<u>472,432</u>

(19) Surplus reserve

<u>2023</u>			
	<i>Balance at the beginning of the year</i>	<i>Addition</i>	<i>Balance at the end of the year</i>
Statutory surplus reserve	6,025,366	6,776,836	12,802,202
	<u>6,025,366</u>	<u>6,776,836</u>	<u>12,802,202</u>
<u>2022</u>			
	<i>Balance at the beginning of the year</i>	<i>Addition</i>	<i>Balance at the end of the year</i>
Statutory surplus reserve	814,760	5,210,606	6,025,366
	<u>814,760</u>	<u>5,210,606</u>	<u>6,025,366</u>

In accordance with relevant regulations, after making up the accumulated losses, the Bank is required to appropriate 10% of its net profit in statutory financial statements to non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the registered capital.

(20) General risk reserve

<i>2023</i>		
	<i>Balance at the beginning of the year</i>	<i>Balance at the end of the year</i>
	<i>Addition</i>	
General risk reserve	<u>27,363,232</u>	<u>88,354,752</u>
	<u>60,991,520</u>	
<i>2022</i>		
	<i>Balance at the beginning of the year</i>	<i>Balance at the end of the year</i>
	<i>Addition</i>	
General risk reserve	<u>7,332,838</u>	<u>27,363,232</u>
	<u>20,030,394</u>	

The Bank appropriates general risk reserve pursuant to Cai Jin [2012] No. 20 “Requirements on Impairment Allowance for Financial Institutions” (the “requirement”) issued by Ministry of Finance since 31 December 2016. According to the requirement, the general risk reserve should not be less than 1.5% of the aggregate amount of risk assets.

(21) Net interest income

	<i>2023</i>	<i>2022</i>
Interest Income:		
Loans and advances	341,472,796	324,812,157
Placements with banks and other financial institutions	111,721,569	76,191,541
Deposits with central and related banks	88,903,639	63,412,185
Financial investments	<u>60,682,836</u>	<u>76,873,817</u>
Subtotal	<u>602,780,840</u>	<u>541,289,700</u>
Interest expense:		
Customer deposits	(247,908,861)	(121,981,410)
Placements from banks and other financial institutions	(10,582,387)	(6,005,856)
Financial assets sold for repurchase	(2,452,478)	(4,649,140)
Lease liabilities	(599,070)	(633,116)
Deposits from banks and other financial institutions	<u>(146,339)</u>	<u>(265,688)</u>
Subtotal	<u>(261,689,135)</u>	<u>(133,535,210)</u>
Net interest income	<u>341,091,705</u>	<u>407,754,490</u>

(22) Net fee and commission income

	2023	2022
Credit related fees	6,605,327	5,063,201
Settlement and clearing fees	2,181,024	2,454,993
Other	200,335	1,078,928
	<hr/>	<hr/>
Fee and commission income	8,986,686	8,597,122
Fee and commission expense	(1,939,000)	(1,428,654)
	<hr/>	<hr/>
Net fee and commission income	<u>7,047,686</u>	<u>7,168,468</u>

(23) Losses from investment

	2023	2022
Loans and advances measured at fair value through profit and loss	76,510,845	99,239,715
Other debt investments	10,884,258	13,703,840
Financial assets held-for-trading	8,550	4,134
Derivative financial instruments	(1,162,385)	(3,034,288)
Structured deposits measured at fair value	(112,380,029)	(148,365,058)
	<hr/>	<hr/>
Total	<u>(26,138,761)</u>	<u>(38,451,657)</u>

(24) Losses on changes in fair value

	2023	2022
Loans and advances measured at fair value through profit and loss	6,055,763	(51,563,747)
Structured deposits measured at fair value	2,125,081	20,901,585
Derivative financial instruments	(9,578,772)	(900,738)
	<hr/>	<hr/>
Total	<u>(1,397,928)</u>	<u>(31,562,900)</u>

(25) Net gains from foreign exchange

	2023	2022
Fair value changes on foreign currency derivatives	(133,751,721)	109,399,178
Investment gains/(losses) on foreign currency derivatives	178,511,311	(141,746,583)
Others	38,337,389	71,960,471
	<hr/>	<hr/>
Total	83,096,979	39,613,066
	<hr/>	<hr/>

(26) General and administrative expenses

	2023	2022
Payroll	214,907,814	204,898,683
Depreciation and amortization	59,214,877	51,508,535
Telecommunications and computers maintenance expenses	34,340,151	28,966,976
Insurance	8,579,175	8,955,210
Professional service expenses	5,866,453	3,806,841
Rental and utilities	2,192,418	4,223,922
Marketing expenses	742,815	1,155,722
Other	15,859,980	16,644,091
	<hr/>	<hr/>
Total	341,703,683	320,159,980
	<hr/>	<hr/>

(27) Credit (gains)/losses

	2023	2022
Placements with banks and other financial institutions	272,392	(69,428)
Provisions	33,595	(887,342)
Deposits with banks	27,629	(176,010)
Other assets	2,783	(22,439)
Debt investments	-	(240,354)
Loans and advances	(2,517,992)	33,987,669
	<hr/>	<hr/>
Total	(2,181,593)	32,592,096
	<hr/>	<hr/>

(28) Income tax expense

	2023	2022
Current income tax	20,504,968	-
Deferred tax	(21,821,783)	-
Final settlement difference adjustment	-	(7,478,370)
Total	<u>(1,316,815)</u>	<u>(7,478,370)</u>

Reconciliation between income tax expenses and accounting profit:

	Note	2023	2022
Profit before taxation		66,451,541	44,627,686
Expected income tax expenses at tax rate of 25%		16,612,885	11,156,922
Tax effect arising from non-taxable income		-	(4,399,733)
Tax effect of expenses that are not deductible for tax purposes		1,716,788	1,844,673
Final settlement difference adjustment		-	(7,478,370)
Use in temporary differences of unrecognized deferred income tax assets		(17,564,768)	(7,884,366)
Other	(i)	<u>(2,081,720)</u>	<u>(717,496)</u>
Income tax expense		<u>(1,316,815)</u>	<u>(7,478,370)</u>

(i) In 2023, Other account is mainly composed of R&D expenses deduction.

(29) Notes to the statement of cash flows

(a) Cash and cash equivalents

	31 December 2023	31 December 2022
Surplus reserve deposits with the central bank which can be used for payment	259,554,440	1,421,835,021
Deposits with banks with maturity less than three months from acquisition date	3,083,525,337	2,839,147,207
Placements with banks and other financial institutions with maturity less than three months from acquisition date	1,097,818,500	1,508,108,240
Financial assets held-for-trading	-	9,004,134
Cash and cash equivalents at the end of the year	<u>4,440,898,277</u>	<u>5,778,094,602</u>

(b) Reconciliation from net profit to cash flows from operating activities

	2023	2022
Net profit:	67,768,356	52,106,056
Credit (gains)/losses	(2,181,593)	32,592,096
Depreciation and amortization	59,214,877	51,508,535
Interest expense on lease liabilities	599,070	633,116
Net gains from changes in fair value	1,397,928	31,562,900
Net gains from disposal of fixed assets, intangible assets and other long-term assets	146,895	-
Losses on foreign exchange	(114,282,990)	(624,410,935)
Net investment gains	(10,892,808)	(13,707,974)
Interest income from investment in debt instruments	(60,682,836)	(76,873,817)
Decrease/(Increase) in operating receivables	1,263,319,255	(632,036,927)
Decrease in operating payables	(4,678,668,927)	(794,195,728)
Net cash used in operating activities	<u>(3,474,262,773)</u>	<u>(1,972,822,678)</u>

(c) Net changes in cash and cash equivalents

Cash and cash equivalents at end of the year	4,440,898,277	5,778,094,602
Less: Cash and cash equivalents at beginning of the year	<u>(5,778,094,602)</u>	<u>(9,007,874,882)</u>
Net decrease in cash and cash equivalents	<u>(1,337,196,325)</u>	<u>(3,229,780,280)</u>

(30) Collateral information

(i) Assets serve as collateral security

As at 31 December 2023 and 31 December 2022, the Bank's assets serving as collaterals were not significant.

(ii) Collateral received

The Bank is engaged in loan origination activities and purchase and resale transactions in accordance with the general commercial terms and holds collaterals under the underlying transactions. At the balance sheet date, the Bank did not hold any collateral that could be directly disposed of or re-pledged without default of the counterparties.

6 Contingent liabilities and commitments

The Bank's credit commitments include unspent loans and letter of credit services that have been approved and signed contracts. The contract amount of loan commitment refers to the amount when the loan is fully used; The contract amount of the letter of credit refers to the maximum loss that may occur if the other party fails to fully perform the contract.

The relevant loan commitments may not be used before maturity, so the amounts described below do not represent expected future cash outflows.

(1) Off-balance sheet items

	<i>31 December 2023</i>	<i>31 December 2022</i>
Irrevocable loan commitment	486,128,109	330,265,400
Standby letters of credit issued	4,249,620	4,178,760
	<u>490,377,729</u>	<u>334,444,160</u>

(2) Capital commitments

Capital expenditures contracted for by the Bank but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	<i>31 December 2023</i>	<i>31 December 2022</i>
Signed but not performed contract	<u>3,591,242</u>	<u>12,433,893</u>
Approved but not signed contract	<u>44,896,931</u>	<u>42,104,833</u>

(3) Entrusted loan business

The Bank provides entrusted loan business for third parties, and assets held as a result of the entrusted loan business are not included in the balance sheet.

The entrusted assets and liabilities on the balance sheet date are as follows:

	<i>31 December 2023</i>	<i>31 December 2022</i>
Entrusted loan	<u>801,634,994</u>	<u>790,947,227</u>
Entrusted loan fund	<u>801,634,994</u>	<u>790,947,227</u>

7 Related parties relationships and transactions

(1) Related parties with controlling relationship

Related parties with whom the Bank has a control relationship represent shareholders who have contributed paid-in capital to the Bank. As of the end of 2023, there have been no significant changes in the shareholder composition of the Bank since the date when the financial statements for the year 2022 were issued.

(2) Shareholdings of related parties with controlling relationship

During the reporting period, in addition to the related party transactions with group subsidiaries under the major shareholders, the Bank also entered into transactions with other related parties with which it did not have any control relationship as described below.

<i>Name of related party</i>	<i>Relations with the Bank</i>
China Mobile Communications Group Jiangsu Co., Ltd	Subsidiaries of the investor of a major shareholder
Shanghai Junlian Qisheng Management Consulting Co., Ltd.	Enterprises with significant influence on key management personnel and their close relatives
Hainan Junqi Venture Capital Co., Ltd.	Enterprises with significant influence on key management personnel and their close relatives
Junlian Capital Management Co., Ltd.	Enterprises with significant influence on key management personnel and their close relatives

(3) Related party transactions

(a) Pricing policy

The major related party transactions of the Bank mainly involve interbank fund transactions and other related businesses between related parties. All transactions of the Bank with related parties follow the general commercial terms and are arranged in the ordinary business course of the Bank. The pricing policy is consistent with that of independent third-party transactions.

(b) Transactions with related parties other than key management personnel

The amount of major transactions with related parties other than key management personnel and related natural persons, the balance of major current accounts and major off balance sheet items on the balance sheet date are as follows:

	Major shareholders	Other major related parties - under direct or indirect control of SPD and its shareholders	Other major related parties - group companies of SVB	Other major related parties - companies with significant influence by key management personnel	Total	Proportion in the amount / balance of similar transactions
Amount of major transactions in 2023:						
Interest income	11,228,109	2,811,536	-	429,753	14,469,398	2.40%
Interest expenses	(7,177,895)	-	(243,566)	(976,083)	(8,397,544)	3.21%
Fee and commission income	-	-	1,853,418	-	1,853,418	20.62%
Fee and commission expense	(277,054)	(158,196)	-	-	(435,250)	22.45%
Gains on changes in fair value	9,837,899	-	-	-	9,837,899	-703.75%
Net gains from foreign exchange	1,600,092	-	-	(1,229,041)	371,051	-1.42%
Other operating income	23,084,531	-	-	-	23,084,531	27.78%
Balance of major current accounts as of December 31, 2023:						
Deposits with banks	1,072,705,986	-	-	-	1,072,705,986	34.52%
Borrowings from banks and other financial institutions	-	84,992,400	-	-	84,992,400	3.26%
Derivate financial assets	18,780,169	-	-	-	18,780,169	62.64%
Other assets	162,500	-	-	-	162,500	0.39%
Customer deposits	-	-	(6,286,364)	-	(6,286,364)	0.04%
Derivate financial liabilities	(11,349,495)	-	-	-	(11,349,495)	21.02%
Other liabilities	-	(734)	(1,023,774)	-	(1,024,508)	2.43%
Balance of major off balance sheet items as of December 31, 2023:						
Notional amount of derivative financial instruments	1,113,030,869	-	-	-	1,113,030,869	10.89%

	Major shareholders	Other major related parties - under direct or indirect control of SPD and its shareholders	Other major related parties - group companies of SVB	Other major related parties - companies with significant influence by key management personnel	Total	Proportion in the amount / balance of similar transactions
Amount of major transactions in 2022:						
Interest income	19,224,193	3,073,409	-	544,628	22,842,230	4.22%
Interest expenses	(715,340)	-	(9,947)	(1,624)	(726,911)	0.54%
Fee and commission income	-	-	4,828,972	-	4,828,972	56.17%
Fee and commission expense	(148,296)	(88,631)	-	-	(236,927)	16.58%
Gains on changes in fair value	506,854	-	-	-	506,854	-1.61%
Net gains from foreign exchange	16,105,601	-	-	-	16,105,601	40.66%
Other operating income	13,453,461	-	-	-	13,453,461	100.00%
	Major shareholders	Other major related parties - under direct or indirect control of SPD and its shareholders	Other major related parties - group companies of SVB	Other major related parties - companies with significant influence by key management personnel	Total	Proportion in the amount / balance of similar transactions
Balance of major current accounts as of December 31, 2022:						
Deposits with banks	1,289,253,758	-	-	-	1,289,253,758	45.23%
Borrowings from banks and other financial institutions	365,231,190	174,115,000	-	-	539,346,190	22.24%
Loans and advances	-	-	-	25,000,000	25,000,000	0.22%
Derivate financial assets	17,553,910	-	-	-	17,553,910	14.47%
Other assets	12,055,829	-	-	-	12,055,829	21.34%
Customer deposits	-	-	(102,087)	(18,997)	(121,084)	0.00%
Derivate financial liabilities	(63,863)	-	-	-	(63,863)	3.19%
Balance of major off balance sheet items as of December 31, 2022:						
Notional amount of derivative financial instruments	751,129,002	-	-	-	751,129,002	7.37%

(c) Transactions with key management personnel

Key management personnel refer to persons who have the authority and responsibility to plan, direct and control the business of the Bank directly or indirectly, including directors, supervisors and senior management personnel.

	2023	2022
Salary, bonus and other welfare	<u>43,927,522</u>	<u>38,454,934</u>

At the end of 2023, the salaries and bonuses payable to unpaid key management personnel were RMB 41,045,184 (at the end of 2022: RMB 34,734,547).

8 FINANCIAL RISK MANAGEMENT

(1) Overview

The Bank's business activities are exposed to a variety of risks, and thus the Bank analyse, evaluate, accept and manage these risks or combination of risks. Risk management is core to the financial industry, and business operations will definitely bring about operating risks. The Bank's goal is to achieve an appropriate balance between risk and return while minimising potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse related risks, to set appropriate risk limits and control procedures, and to monitor the risks and risk limits with the support of reliable information systems.

The Board exercises overall risk supervision and assumes the ultimate responsibility for overall risk management. The Risk Management Committee and the Audit Committee are established under the Board of Directors to supervise and inspect the management's implementation of risk management policies and procedures.

The Bank is exposed to major business risks including credit risk, market risk and liquidity risk. Market risk includes foreign currency risk and interest rate risk in the banking book (IRRBB).

(2) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly comes from the Bank's credit business and debt instrument investment and other treasury businesses. Management of the Bank closely monitors its exposure to credit risk. In terms of credit business and credit risk management, the Bank adopts the following organisation structure where front office, middle office and back office are segregated. The Board of Directors ("BOD") has the ultimate decision-making power over all the matters related to credit business and credit risk management. The BOD, and assigned by the BOD, the Risk Management Committee (RMC), the Related-party Transactions Control Committee (RTCC), the President, Chief Risk Officer, Chief Credit Officer, Senior Credit Officer, Senior Credit Manager and Senior Client Manager assigned by the BOD have been delegated with certain authorities and responsibilities in relation to credit business and credit risk management. The Credit Management Department and the Risk Management Department are responsible for the

credit risk management of the Bank, and keep regular communication and negotiation with Senior Management of the Bank.

The Bank manages, restricts and controls the identified credit risk concentration, especially on individual borrower, group, industry and region. The Bank sets limit to the same individual borrower or group borrower to optimize credit risk structures. Such risks are monitored on a regular basis and are subject to an annual or more frequent review when necessary.

(a) Credit Business

The Bank uses the bank's internal CRR10 rating system to measure the credit risk of credit assets. In order to ensure that the current risk classification mechanism of credit assets of the Bank complies with the requirements of relevant regulations of the CBIRC, the risk classification of credit assets of the Bank shall be adjusted dynamically in real time. According to the level of credit risk, credit assets are divided into five categories: namely pass, special mention, sub-standard, doubtful and loss, among which sub-standard, doubtful and loss are regarded as non-performing credit assets.

The core definition of the five-level classification of credit assets is:

Normal: the debtor is able to perform the contract, and there is no objective evidence showing that it is unable to repay the principal, interest or earnings in full and on time.

Special-mentioned: although there are some factors which are likely to have adverse impact on the performance of the contract, the debtor is currently able to repay the principal, interest or earnings.

Substandard: the debtor is unable to repay the principal, interest or earnings in full, or the financial asset has suffered from credit impairment.

Doubtful: the debtor is unable to repay the principal, interest or earnings in full, and the financial asset has suffered from significant credit impairment.

Loss: after all possible measures are taken, only a very small part of financial assets is recovered, or all of the financial assets are lost.

(b) Funds Business

The bank's fund business includes investment in national bonds, policy bank bonds, interbank deposit certificates and interbank financing, and interbank customer credit risk is mainly controlled by the risk management department according to the credit risk management policies, procedures and systems. The risk management department reviews and manages the credit risks of individual financial institutions on a regular basis, sets credit lines for individual banks or non-bank financial institutions that have funds with the Bank, and monitors the risk exposure of peer groups at the level of large risk exposure to ensure that regulatory requirements are met.

(c) Measurement of expected credit losses

Risk stage division of financial instruments

Based on whether the credit risk of the financial instrument has significantly increased or has undergone credit impairment since the initial recognition, the Bank divides each business into three risk stages and makes provision for expected credit losses. Please refer to Note 3(6)(vii) for the definitions of the three risk stages, the judgment criteria for the significant increase of credit risk, the definition of default and the definition of financial assets with credit impairment.

Groups of credit risk exposure

The Bank groups the assets with similar credit risk characteristics into the same portfolio. When grouping, the Bank has obtained sufficient information to ensure the reliability of its statistics. The Bank groups the credit risk exposure according to the credit risk characteristics such as product types, client types and client industries. The Bank re-examines and corrects the reasonableness of the groupings and conduct quantitative and qualitative assessments on a regular basis. When the credit risk characteristics of risk exposures in the portfolio change, the Bank shall re-examine the reasonableness of the groupings in a timely manner, and re-group the assets according to the risk characteristics of relevant credit risk exposures when necessary.

Description of parameters, assumptions and estimation techniques

According to whether the credit risk has increased significantly since the initial recognition and whether the credit impairment of the financial instrument has occurred, the Bank shall measure the loss provisions for different financial instruments at the expected credit losses of 12 months or the whole life respectively. Expected credit loss is the weighted average of the product of default probability, default loss rate and default risk exposure. Relevant definitions are as follows:

- Probability of default refers to the probability that the debtor will default in the next 12 months or throughout the remaining life of the debtor. The default probability of the Bank is adjusted based on the estimation method using the 10-level classification transfer matrix, and forward-looking information is added to reflect the impact of macroeconomic changes on the default probability of the future point in time;
- The default loss ratio refers to the proportion of the loss amount caused by a default to the risk exposure of the default debt. Due to the small sample size of our bank's historical default, we set the default loss rate by referring to regulatory standards;
- Default exposure is the amount of a debt payable in the event of default.

The Bank monitors and reviews quarterly assumptions related to the calculation of expected credit losses, including changes in default probabilities and default loss rates for each term.

During the reporting period, there were no major changes in estimating techniques or key assumptions.

Forward-looking information contained in expected credit losses

Forward-looking information is involved in the assessment of whether the credit risk of a financial instrument has increased significantly since the initial recognition and in the measurement of expected credit losses.

The bank presupposes three kinds of economic scenarios: one is the baseline scenario, that is, the neutral scenario set internally according to the prediction of variables by the vector autoregressive model; The other two scenarios are optimistic scenarios and pessimistic scenarios, and the historical data volatility method is used to predict the predicted values of macro factors respectively.

Through historical data analysis, the Bank identifies key economic indicators, such as the year-on-year growth rate of gross domestic product (GDP), that influence the credit risk and expected credit losses of each business type. The Bank evaluates and forecasts these economic indicators at least annually to provide the best estimate for the future and periodically tests the results.

At the end of 2023, the Bank set the weightings for the standard, optimistic and pessimistic macroeconomic scenarios in 2024 at 30%, 20% and 50% respectively. The Bank set the volatility of scenario model in 2024 as the 90th percentile for optimistic scenario and the 30th percentile for pessimistic scenario. The key economic indicators used by the Bank in 2024 are foretasted as: a cumulative year-on-year increase of 4.80% in GDP; a cumulative year-on-year increase of 1.10% in CPI; the spot exchange rate of USD to RMB reached 6.88.

Similar to other economic forecasts, estimates of projected economic indicators and likelihood of occurrence are subject to a high degree of inherent uncertainty, so actual results may differ materially from projections. The Bank believes that these forecasts represent the Bank's best estimate of likely outcomes. Weighted credit loss is calculated by multiplying the expected credit loss in each scenario by the weight of the corresponding scenario.

(d) Maximum exposure to credit risk

Without taking account of any collateral and other credit enhancements, the maximum credit risk exposure of the Bank at 31 December 2023 was attributable to the following financial assets, and guarantees and commitments.

Financial assets and guarantee and commitment included in impairment assessment

The table below analyses maximum exposure to credit risk of financial instruments included in expected credit losses assessment.

As at 31 December 2023				
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Cash and deposits with central bank	1,064,413,350	-	-	1,064,413,350
Deposits with banks	3,107,511,252	-	-	3,107,511,252
Placements with banks and other financial institutions	2,611,098,400	-	-	2,611,098,400
Loans and advances				
- Measured at amortized cost	7,948,184,492	53,487,752	-	8,001,672,244
Financial investments:				
- Debt investment	505,578,411	-	-	505,578,411
- Other debt investment	1,000,610,671	-	-	1,000,610,671
Other financial assets	4,798,739	-	-	4,798,739
Total	<u>16,242,195,315</u>	<u>53,487,752</u>	<u>-</u>	<u>16,295,683,067</u>

As at 31 December 2022				
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Cash and deposits with central bank	2,633,766,831	-	-	2,633,766,831
Deposits with banks	2,850,722,563	-	-	2,850,722,563
Placements with banks and other financial institutions	2,424,946,389	-	-	2,424,946,389
Loans and advances				
- Measured at amortized cost	9,618,485,617	117,122,055	-	9,735,607,672
Financial investments:				
- Debt investment	504,818,534	-	-	504,818,534
- Other debt investment	2,991,234,597	-	-	2,991,234,597
Other financial assets	25,071,439	-	1,285,876	26,357,315
Total	<u>21,049,045,970</u>	<u>117,122,055</u>	<u>1,285,876</u>	<u>21,167,453,901</u>

	As at 31 December <u>2023</u> Maximum exposure to credit risk	As at 31 December <u>2022</u> Maximum exposure to credit risk
Loan commitments and financial guarantee contracts		
- Irrevocable loan commitment	484,927,917	329,103,795
- Standby Letter of Credit	4,235,513	4,178,760
	<hr/>	<hr/>
Total	489,163,430	333,282,555
	<hr/>	<hr/>

Financial assets not included in impairment assessment

The table below analyses maximum exposure to credit risk of financial assets that are not included in expected credit losses assessment.

	As at 31 December <u>2023</u> Maximum exposure to credit risk	As at 31 December <u>2022</u> Maximum exposure to credit risk
Financial assets at fair value through profit or loss		
- Financial assets held-for-trading	-	9,004,134
- Loans and advances	1,848,571,672	1,584,939,206
- Derivate financial assets	29,983,424	121,336,102
	<hr/>	<hr/>
Total	1,878,555,096	1,715,279,442
	<hr/>	<hr/>

(e) Loans and advances with impaired credit

Collaterals and other credit enhancements covered and not covered

	2023	2022
Covering part	80,736,413	126,349,639
Uncovering part	28,881,646	24,010,223
	<hr/>	<hr/>
Total	109,618,059	150,359,862
	<hr/>	<hr/>

The covering part of the collaterals above refers to the ending balance of mortgaged loans and pledged loans.

(3) Market risk

The Bank is exposed to market risks. This risk refers to the risk of fluctuations in the fair value or future cash flow of exposure to financial instruments held by the Bank due to fluctuations in market prices. Market risk arises from the impact of general or specific changes in market interest rates and foreign exchange rates on exposure positions in interest rate products and currency products.

The Bank classifies market exposure into either trading or non-trading portfolios. The trading portfolio category includes positions that arise from transactions between the Bank and its clients or market participants, namely market makers. The non-traded portfolio category mainly includes interest rate risk management of commercial bank assets and liabilities.

The risk management department of the Bank is the centralized management department of the bank's market risk management. The risk management department monitors and analyzes the market risk changes and the implementation of quotas, and reports to the senior management regularly.

(a) Currency risk

The Bank is exposed to exchange rate risk, which means that the level of position and cash flow of the Bank's foreign exchange exposure may be affected as a result of fluctuations in major foreign exchange rates.

The Bank's main principle for controlling currency risk is to match assets and liabilities in different currencies as much as possible and to keep currency risk within the limits set by the Bank. Exposure to each currency is capped and monitored regularly. In accordance with the guiding principles of the Risk Management Committee, relevant regulatory requirements and management's assessment of the current environment, the Bank sets risk tolerance limits and minimizes the possible currency mismatching of assets and liabilities by reasonably arranging the sources and utilization of foreign currency funds.

The Bank's exposure to currency risk at the balance sheet date is as follows:

31 December 2023	RMB	USD(RMB equivalent)	HKD(RMB equivalent)	Other currencies (RMB equivalent)	Total
Financial assets:					
Cash and deposits with the central bank	794,973,642	268,533,488	906,220	-	1,064,413,350
Deposits with banks	1,078,779,048	1,934,105,172	27,175,422	67,451,610	3,107,511,252
Placements with banks and other financial institutions	160,507,755	2,450,590,645	-	-	2,611,098,400
Derivative financial assets	29,983,424	-	-	-	29,983,424
Loans and advances	9,052,703,751	644,765,632	-	152,774,533	9,850,243,916
Financial investments:					
- Debt investments	-	505,578,411	-	-	505,578,411
- Other debt investments	1,000,610,671	-	-	-	1,000,610,671
Other financial assets	4,798,739	-	-	-	4,798,739
Subtotal of financial assets	12,122,357,030	5,803,573,348	28,081,642	220,226,143	18,174,238,163
Financial liabilities					
Derivative financial liabilities	53,981,767	-	-	-	53,981,767
Customer deposits	9,224,984,129	6,850,944,103	26,346,527	34,213,860	16,136,488,619
Other financial liabilities	16,855,322	-	-	-	16,855,322
Subtotal of financial liabilities	9,295,821,218	6,850,944,103	26,346,527	34,213,860	16,207,325,708
Net balance sheet	2,826,535,812	(1,047,370,755)	1,735,115	186,012,283	1,966,912,455
Currency derivative contract	(909,101,100)	1,068,791,630	-	(163,119,567)	(3,429,037)
Financial guarantee and credit commitment	13,727,191	475,436,239	-	-	489,163,430

31 December 2022	RMB	USD(RMB equivalent)	HKD(RMB equivalent)	Other currencies (RMB equivalent)	Total
Financial assets:					
Cash and deposits with the central bank	2,177,123,862	450,122,098	6,520,871	-	2,633,766,831
Deposits with banks	1,225,943,117	1,584,282,291	5,263,789	35,233,366	2,850,722,563
Placements with banks and other financial institutions	267,536,247	2,070,097,998	87,312,144	-	2,424,946,389
Derivative financial assets	121,336,102	-	-	-	121,336,102
Loans and advances	9,052,379,963	2,028,744,247	71,246,871	168,175,797	11,320,546,878
Financial investments:					
- Financial assets held-for-trading	9,004,134	-	-	-	9,004,134
- Debt investments	-	504,818,534	-	-	504,818,534
- Other debt investments	2,957,150,107	34,084,490	-	-	2,991,234,597
Other financial assets	13,021,261	13,336,054	-	-	26,357,315
Subtotal of financial assets	15,823,494,793	6,685,485,712	170,343,675	203,409,163	22,882,733,343
Financial liabilities					
Derivative financial liabilities	2,003,952	-	-	-	2,003,952
Customer deposits	13,233,863,331	7,588,655,682	123,451,180	23,229,004	20,969,199,197
Other financial liabilities	24,661,394	-	-	-	24,661,394
Subtotal of financial liabilities	13,260,528,677	7,588,655,682	123,451,180	23,229,004	20,995,864,543
Net balance sheet	2,562,966,116	(903,169,970)	46,892,495	180,180,159	1,886,868,800
Currency derivative contract	(758,472,420)	1,121,730,287	(55,453,201)	(173,669,939)	134,134,727
Financial guarantee and credit commitment	28,266,869	305,015,686	-	-	333,282,555

The following table lists the exchange rate sensitivity analysis results of financial assets and financial liabilities on the balance sheet date.

Net profit	31 December 2023		31 December 2022	
	Exchange rate changes		Exchange rate changes	
(decrease)/increase	-1%	1%	-1%	1%
USD/RMB	(160,657)	160,657	(1,639,202)	1,639,202
Other currencies/RMB	(184,709)	184,709	15,379	(15,379)

Based on the static exchange rate risk structure of assets and liabilities, the sensitivity analysis above calculates the impact of reasonably possible changes in foreign currency exchange rate against RMB exchange rate on net profit when other factors remain unchanged. The analysis is based on the following assumptions : (1) various exchange rate sensitivities refer to exchange gains and losses resulting from 1% fluctuations in the absolute value of the exchange rate of each currency against the RMB at the closing (central parity) of the reporting date; (2) Changes in exchange rates of other foreign currencies refer to simultaneous and simultaneous fluctuations of exchange rates of other foreign currencies against RMB; (3) Calculation of foreign exchange exposure includes spot foreign exchange exposure and forward foreign exchange exposure. Based on the above assumptions, the actual changes in the bank's net profit caused by exchange rate changes may be different from the results of this sensitivity analysis.

(b) Interest rate risk

In response to the impact of future interest rate changes, the main tool to assess current and expected risk for the Bank net interest income sensitivity analysis, namely fixed calculate a certain period expires or the need to the difference between the pricing of interest-bearing assets and debt servicing both (gap), and use the benchmark interest rate gap data sensitivity analysis of the changing circumstances. The Bank has established a reporting system for sensitivity analysis, and regularly collects the sensitivity analysis results of net interest income and submits them to senior management, asset and liability management committee and risk management Committee.

The following table sets out the bank's interest rate exposure. The items of assets and liabilities in the statement are classified as the earlier of the contract repricing date and the earlier of the contract maturity date and are presented at carrying value.

31 December 2023	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Financial assets:						
Cash and deposits with the central bank	1,064,127,100	-	-	-	286,250	1,064,413,350
Deposits with banks	3,104,311,560	-	-	-	3,199,692	3,107,511,252
Placements with banks and other financial institutions	2,145,433,080	443,178,890	-	-	22,486,430	2,611,098,400
Derivative financial assets	-	-	-	-	29,983,424	29,983,424
Loans and advances	3,518,577,461	4,017,062,052	2,298,716,698	-	15,887,705	9,850,243,916
Financial investments:						
- Debt investments	-	502,833,865	-	-	2,744,546	505,578,411
- Other debt investments	-	-	832,079,350	151,195,500	17,335,821	1,000,610,671
Other financial assets	-	-	-	-	4,798,739	4,798,739
Subtotal of financial assets	<u>9,832,449,201</u>	<u>4,963,074,807</u>	<u>3,130,796,048</u>	<u>151,195,500</u>	<u>96,722,607</u>	<u>18,174,238,163</u>
Financial liabilities						
Derivative financial liabilities	-	-	-	-	53,981,767	53,981,767
Customer deposits	13,688,330,279	2,297,849,569	57,509,655	-	92,799,116	16,136,488,619
Other financial liabilities	4,216,269	5,958,525	6,680,528	-	-	16,855,322
Subtotal of financial liabilities	<u>13,692,546,548</u>	<u>2,303,808,094</u>	<u>64,190,183</u>	<u>-</u>	<u>146,780,883</u>	<u>16,207,325,708</u>
Net interest re-pricing gap	<u>(3,860,097,347)</u>	<u>2,659,266,713</u>	<u>3,066,605,865</u>	<u>151,195,500</u>	<u>(50,058,276)</u>	<u>1,966,912,455</u>

31 December 2022	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Financial assets:						
Cash and deposits with the central bank	2,633,766,828	-	-	-	3	2,633,766,831
Deposits with banks	2,849,236,946	-	-	-	1,485,617	2,850,722,563
Placements with banks and other financial institutions	1,865,798,162	351,453,762	189,961,253	-	17,733,212	2,424,946,389
Derivative financial assets	-	-	-	-	121,336,102	121,336,102
Loans and advances	3,138,336,802	5,308,311,224	2,851,584,755	-	22,314,097	11,320,546,878
Financial investments:						
- Financial assets held-for-trading	9,004,134	-	-	-	-	9,004,134
- Debt investments	141,155,417	-	363,663,117	-	-	504,818,534
- Other debt investments	-	34,084,490	2,320,931,737	636,218,370	-	2,991,234,597
Other financial assets	-	-	-	-	26,357,315	26,357,315
Subtotal of financial assets	<u>10,637,298,289</u>	<u>5,693,849,476</u>	<u>5,726,140,862</u>	<u>636,218,370</u>	<u>189,226,346</u>	<u>22,882,733,343</u>
Financial liabilities						
Derivative financial liabilities	-	-	-	-	2,003,952	2,003,952
Customer deposits	17,731,927,722	1,669,082,238	1,523,588,319	-	44,600,918	20,969,199,197
Other financial liabilities	4,814,024	9,749,749	10,097,621	-	-	24,661,394
Subtotal of financial liabilities	<u>17,736,741,746</u>	<u>1,678,831,987</u>	<u>1,533,685,940</u>	<u>-</u>	<u>46,604,870</u>	<u>20,995,864,543</u>
Net interest re-pricing gap	<u>(7,099,443,457)</u>	<u>4,015,017,489</u>	<u>4,192,454,922</u>	<u>636,218,370</u>	<u>142,621,476</u>	<u>1,886,868,800</u>

The table below illustrates the potential impact to the fiscal year after the balance sheet date of the Bank when the yield curve shifts by 100 basis points:

	31 December 2023	31 December 2022
the yield curve shifts up by 100 basis points	(17,852,701)	(35,356,951)
the yield curve shifts down by 100 basis points	2,720,895	18,762,376

In performing sensitivity analysis, the Bank has made the following assumptions in deciding the commercial conditions and financial parameters:

- i. Business changes after the balance sheet date are not considered, and the analysis is based on the static gap on the balance sheet date;
- ii. All assets and liabilities repriced are supposed to be repriced in the middle of the related period;
- iii. Impacts of interest rate changes to market prices are not considered;
- iv. Impacts of interest rate changes to off-balance sheet items are not considered;
- v. The necessary actions to be taken by the Bank in response to the interest rate changes are not considered.

Considering the above restrictions, the actual changes in the net interest income of the Bank due to interest rate changes may be different from the results of this sensitivity analysis.

(4) Liquidity risk

Liquidity risk refers to the risk that the Bank is unable to obtain sufficient funds at a reasonable cost or in a timely manner to meet business development needs or repay due debts and other payment obligations. The Bank receives various day-to-day requests for cash withdraw, including payment demands of overnight deposits, demand deposits and term deposits. Based on past experience, a considerable amount of deposits will not be withdrawn immediately on the maturity date, but is still kept in the Bank. However, in response to unexpected capital needs, the Bank regulates the standard of minimum capital reserve, so as to meet various demands of withdraw.

The matching and effective control on mismatching of the structure of maturity date between assets and liabilities is extremely significant to the management of the Bank. It is unusual for banks to completely match the items of assets and liabilities since business transactions are often of uncertain terms and different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The matching of structure of maturity date between assets and liabilities and the ability to replace interest-bearing liabilities at an acceptable cost as they mature are both important factors in assessing the liquidity risk of the Bank.

The following table shows the undiscounted contractual cash flow analysis of the Bank's financial instruments at each balance sheet date. The actual cash flows of these financial instruments may differ significantly from the results of the analysis in the table below:

31 December 2023	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Financial assets								
Cash and deposits with the central bank	259,554,440	286,250	-	-	-	-	804,572,660	1,064,413,350
Deposits with banks	3,107,767,370	-	-	-	-	-	-	3,107,767,370
Placements with banks and other financial institutions	746,351,549	1,436,031,412	457,988,799	-	-	-	-	2,640,371,760
Loans and advances	1,265,364,968	2,301,351,136	4,154,681,785	2,483,344,584	-	109,618,059	-	10,314,360,532
Financial investments:								
- Debt investments	-	-	526,067,543	-	-	-	-	526,067,543
- Other debt investments	-	9,524,500	21,861,000	944,265,350	267,656,500	-	-	1,243,307,350
Other financial assets	162,500	-	-	-	-	-	4,812,246	4,974,746
Subtotal of financial assets	<u>5,379,200,827</u>	<u>3,747,193,298</u>	<u>5,160,599,127</u>	<u>3,427,609,934</u>	<u>267,656,500</u>	<u>109,618,059</u>	<u>809,384,906</u>	<u>18,901,262,651</u>
Financial liabilities								
Customer deposits	10,782,693,542	3,084,545,715	2,361,606,490	59,957,828	-	-	-	16,288,803,575
Other financial liabilities	1,079,692	3,970,027	5,582,153	6,810,568	-	-	-	17,442,440
Subtotal of financial liabilities	<u>10,783,773,234</u>	<u>3,088,515,742</u>	<u>2,367,188,643</u>	<u>66,768,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,306,246,015</u>
Net cashflow	<u>(5,404,572,407)</u>	<u>658,677,556</u>	<u>2,793,410,484</u>	<u>3,360,841,538</u>	<u>267,656,500</u>	<u>109,618,059</u>	<u>809,384,906</u>	<u>2,595,016,636</u>
Derivative financial instruments								
- Inflow	1,889,430,141	65,841,424	602,355,944	141,845,752	-	-	-	2,699,473,261
- Outflow	1,907,182,006	65,479,986	592,914,456	147,895,263	-	-	-	2,713,471,711
Derivative financial instruments, net	<u>(17,751,865)</u>	<u>361,438</u>	<u>9,441,488</u>	<u>(6,049,511)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,998,450)</u>
Financial guarantee and credit commitment	<u>4,249,620</u>	<u>-</u>	<u>149,934,170</u>	<u>336,193,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>490,377,729</u>

31 December 2022	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Financial assets								
Cash and deposits with the central bank	1,421,835,024	-	-	-	-	-	1,211,931,807	2,633,766,831
Deposits with banks	2,852,253,232	-	-	-	-	-	-	2,852,253,232
Placements with banks and other financial institutions	1,274,670,771	693,172,347	288,893,753	195,493,714	-	-	-	2,452,230,585
Loans and advances	1,389,291,588	2,888,324,456	4,838,915,569	3,019,992,266	91,796	150,359,862	-	12,286,975,537
Financial investments:								
- Financial assets held-for-trading	-	-	-	-	-	-	9,004,134	9,004,134
- Debt investments	141,296,233	-	15,791,537	376,740,961	-	-	-	533,828,731
- Other debt investments	-	-	136,729,690	2,647,345,660	645,209,345	-	-	3,429,284,695
Other financial assets	12,055,829	-	6,938,663	-	-	-	7,373,685	26,368,177
Subtotal of financial assets	<u>7,091,402,677</u>	<u>3,581,496,803</u>	<u>5,287,269,212</u>	<u>6,239,572,601</u>	<u>645,301,141</u>	<u>150,359,862</u>	<u>1,228,309,626</u>	<u>24,223,711,922</u>
Financial liabilities								
Customer deposits	15,058,170,656	2,747,016,220	1,694,493,283	1,601,673,811	-	-	-	21,101,353,970
Other financial liabilities	1,072,184	3,883,755	10,000,633	10,369,510	-	-	-	25,326,082
Subtotal of financial liabilities	<u>15,059,242,840</u>	<u>2,750,899,975</u>	<u>1,704,493,916</u>	<u>1,612,043,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,126,680,052</u>
Net cashflow	<u>(7,967,840,163)</u>	<u>830,596,828</u>	<u>3,582,775,296</u>	<u>4,627,529,280</u>	<u>645,301,141</u>	<u>150,359,862</u>	<u>1,228,309,626</u>	<u>3,097,031,870</u>
Derivative financial instruments								
- Inflow	2,225,761,196	1,064,542,807	327,550,432	411,500,123	-	-	-	4,029,354,558
- Outflow	2,191,883,959	985,133,628	306,323,943	368,929,576	-	-	-	3,852,271,106
Derivative financial instruments, net	<u>33,877,237</u>	<u>79,409,179</u>	<u>21,226,489</u>	<u>42,570,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,083,452</u>
Financial guarantee and credit commitment	<u>27,113,532</u>	<u>-</u>	<u>102,018,408</u>	<u>205,312,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,444,160</u>

(5) Fair value of Financial instruments

(a) Assets and liabilities measured at fair value

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Bank's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. As at 31 December 2023, the Bank's assets and liabilities which are measured at fair value on a non-recurring basis were not significant. 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 of inputs 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;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

As at 31 December 2023, the financial instruments measured at fair value on a recurring basis are listed below by the above three levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Other debt investments	- 1,000,610,671		-	1,000,610,671
Loans and advances measured at fair value through profits and losses	-	- 1,848,571,672		1,848,571,672
Derivative financial assets	- 29,983,424		-	29,983,424
Total assets continuously measured at fair value	- 1,030,594,095	1,848,571,672		2,879,165,767
Financial liabilities				
Structured deposits designated at fair value	- 3,566,457,541		-	3,566,457,541
Derivative financial liabilities	- 53,981,767		-	53,981,767
Total liabilities continuously measured at fair value	- 3,620,439,308		-	3,620,439,308

As at 31 December 2022, the financial instruments measured at fair value on a recurring basis are listed below by the above three levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Financial assets held-for-trading	9,004,134	-	-	9,004,134
Other debt investments	-	2,991,234,597	-	2,991,234,597
Loans and advances measured at fair value through profits and losses	-	-	1,584,939,206	1,584,939,206
Derivative financial assets	-	121,336,102	-	121,336,102
Total assets continuously measured at fair value	<u>9,004,134</u>	<u>3,112,570,699</u>	<u>1,584,939,206</u>	<u>4,706,514,039</u>
Financial liabilities				
Structured deposits designated at fair value	-	4,072,692,623	-	4,072,692,623
Derivative financial liabilities	-	2,003,952	-	2,003,952
Total liabilities continuously measured at fair value	<u>-</u>	<u>4,074,696,575</u>	<u>-</u>	<u>4,074,696,575</u>

During 2023, there were no transfers of the Bank's above assets and liabilities which are measured at fair value on a recurring basis.

(b) Level 1 fair value measurement

The Bank's financial instruments measured at level 1 fair value are mainly monetary fund investment in financial assets held-for-trading.

(c) Level 2 fair value measurement

The financial instruments of the Bank belonging to the second level of fair value measurement mainly include debt investments, derivative financial instruments and structured deposits at fair value.

The fair value of discounted bonds is determined based on the quotation of the relevant securities settlement agency or exchange valuation system. The relevant quotation agencies adopted observable input values reflecting market conditions in the process of forming quotations.

Derivative financial instruments and structured deposits at fair value is determined by discounting the expected receivable and payable of future contracts and calculating the net present value of the contracts. The discount rate used is the market rate curve of respective currency. System quotations provided by market are used for exchange rates and commodity prices. These interest rate curves and quotations are observable input values that reflect market conditions.

(d) Level 3 fair value measurement

The Bank's Corporate Banking Department is responsible for the valuation of the loans and advances on recurring level 3 fair value measurement and discusses the valuation process and results with the Head of Finance.

The Bank's loans and advances at fair value are valued using valuation techniques that include unobservable market data and the model adopted is the discounted cash flow model. Unobservable inputs involved in this valuation model include the realisation probability of success fee, credit risk spread, etc.

The above assumptions and methods provide a consistent basis for the Bank's fair value measurement. However, as other institutions may use different methods and assumptions, the fair values disclosed may not be fully comparable among financial institutions.

Reconciliation between carrying amount at the beginning of the year 2022 and 2023, and that at the end of the year for items measured at recurring Level 3 fair value measurements:

		<u>Total gains or losses of this year</u>		<u>Purchase and settlement</u>			<i>Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year</i>
	<i>Balance at the beginning of the year 2023</i>	<i>Included in profit or loss</i>	<i>Included in other comprehensive income</i>	<i>Purchase</i>	<i>Settlement</i>	<i>Balance at the end of the year 2023</i>	
Loans and advances at fair value through profit or loss	<u>1,584,939,206</u>	<u>82,566,608</u>	<u>-</u>	<u>1,750,775,045</u>	<u>(1,569,709,187)</u>	<u>1,848,571,672</u>	<u>6,055,763</u>

		<u>Total gains or losses of this year</u>		<u>Purchase and settlement</u>			<i>Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year</i>
	<i>Balance at the beginning of the year 2022</i>	<i>Included in profit or loss</i>	<i>Included in other comprehensive income</i>	<i>Purchase</i>	<i>Settlement</i>	<i>Balance at the end of the year 2022</i>	
Loans and advances at fair value through profit or loss	<u>1,611,883,928</u>	<u>47,675,968</u>	<u>-</u>	<u>1,445,462,755</u>	<u>(1,520,083,445)</u>	<u>1,584,939,206</u>	<u>(51,563,747)</u>

The specific items of the above gains or losses recognized in 2023 included in profit or loss or other comprehensive income are as follows:

	2023	2022
Realized gains or losses included in profit or loss for the year		
- Net investment income	76,510,845	99,239,715
Unrealized gains or losses included in profit or loss this year		
- Net gains /(losses) from changes in fair value	6,055,763	(51,563,747)
Total	<u>82,566,608</u>	<u>47,675,968</u>

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

- (i) Cash and balances with the central bank, deposits with other banks, placements with banks and other financial institutions, deposits from banks and other financial institutions, customers deposits at amortised cost, other receivables and other payables

Since the maturity dates of the above financial assets and financial liabilities are within one year or are at floating interest rates so that the carrying amounts are close to the fair values.

- (ii) Loans and advances measured at amortized cost

The loans and advances measured at amortised cost are stated at amortised cost less the provision for impairment losses. The fair value of loans and advances is close to the carrying amount as the interest rates on the loans and advances are adjusted primarily in line with LPR or movements in market interest rates, and impaired loans are net of provisions for impairment to reflect the recoverable amounts.

- (iii) Debt investments

Debt investments are determined by reference to quotations from the relevant securities settlement institutions or the valuation system of the stock exchange. As at the balance sheet date, the difference between the fair value and the carrying amount of the debt investments was not material.

(6) Capital management

The Bank's capital management focuses on the capital adequacy ratio ("CAR"), aiming to comply with the regulatory requirements and support the business expansion of the Bank.

The Bank adheres to an active capital management policy to achieve the following goals:

- (i) To ensure the Bank is in compliance with the regulatory requirements on CAR and has sufficient capital to support the capital demand of internal assessment;
- (ii) To ensure the Bank has adequate capital to support the implementation of business strategy and business development;
- (iii) To optimize the return to shareholders while maintaining a prudent level of capital depending on the underlying business risks.

The Bank calculates capital adequacy ratio in accordance with Capital Management Rules for Commercial Banks (Provisional) and other regulatory requirements issued by the CBRC. China's commercial banks should meet the capital adequacy ratio requirements stipulated in Capital Management Rules for Commercial Banks (Provisional) by the end of 2018. For non-systemically important banks, the core tier 1 capital adequacy ratio shall not be lower than 7.50%, the tier 1 capital adequacy ratio shall not be lower than 8.50%, and the capital adequacy ratio shall not be lower than 10.50%.

The capital adequacy ratios calculated according to the Capital Management Rules for Commercial Banks (Provisional) and other regulatory requirements issued by the CBRC are as follows (expressed in RMB million):

	31 December 2023	31 December 2022
Core tier 1 capital - net	1,997,913,242	1,907,102,699
Tier 1 capital - net	1,997,913,242	1,907,102,699
Capital - net	2,072,246,867	2,006,230,538
Core Tier 1 capital adequacy ratio	15.09%	13.48%
Tier 1 capital adequacy ratio	15.09%	13.48%
Capital adequacy ratio	15.65%	14.19%

9 Compare data

Certain comparative data has been reclassified for consistency with the presentation of the current financial statements.