

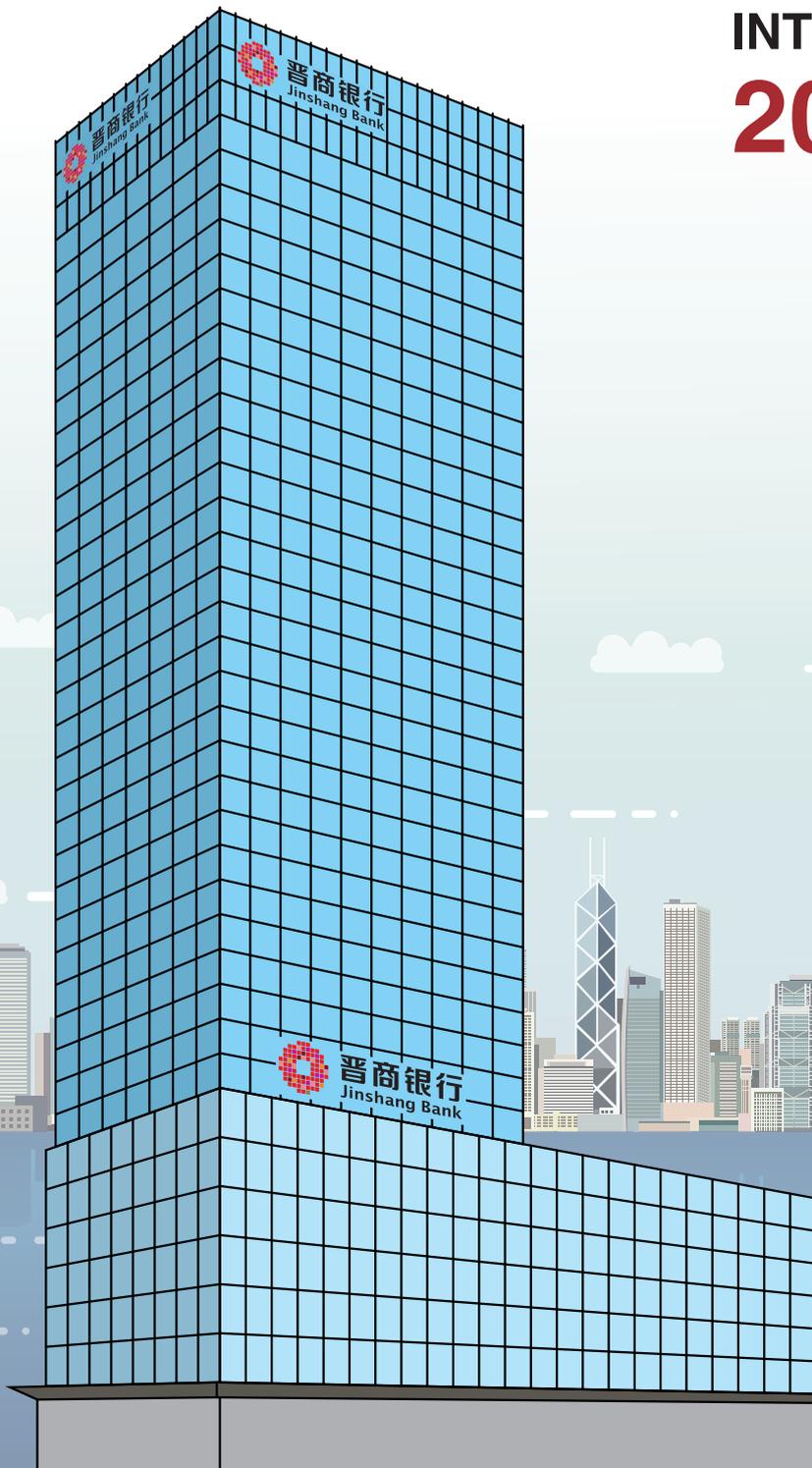


晋商银行
Jinshang Bank

晋商银行股份有限公司
JINSHANG BANK CO., LTD.

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

Stock Code: 2558



INTERIM REPORT
2020

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DEFINITIONS

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

“IFRS 9”	International Financial Reporting Standard 9 – Financial Instruments
“Articles of Association”	the articles of association of the Bank, as amended, supplemented or otherwise modified from time to time
“Bank” or “our Bank”	Jinshang Bank Co., Ltd. (晉商銀行股份有限公司), a joint stock company established on October 16, 1998 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches, excluding its subsidiary
“Board” or “Board of Directors”	the Board of Directors of the Bank
“Board of Supervisors”	the Board of Supervisors of the Bank
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, for the purpose of this Interim Report, unless the context otherwise requires, excluding Hong Kong, Taiwan and Macau Special Administrative Region of the PRC
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
“Group”, “we” or “us”	the Bank together with its subsidiary, and, if the context requires, includes its predecessors, branches and sub-branches
“H Shares”	the ordinary shares issued by the Bank with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange

DEFINITIONS

“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 18, 2019, the listing date on which the H Shares were listed on the Hong Kong Stock Exchange
“PBoC” or “the central bank”	the People’s Bank of China (中國人民銀行)
“Reporting Period”	the six months ended June 30, 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares of the Bank
“Shares”	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
“Supervisor(s)”	the supervisor(s) of the Bank

CORPORATE INFORMATION

Legal Chinese Name	晉商銀行股份有限公司*
Abbreviation in Chinese	晉商銀行
Legal English Name	Jinshang Bank Co., Ltd.
Abbreviation in English	Jinshang Bank
Legal Representative	YAN Junsheng ¹
Authorized Representatives	TANG Yiping, YEUNG Ching Man
Listing Place of H Shares	The Stock Exchange of Hong Kong Limited
Abbreviated Stock Name	JINSHANG BANK
Stock Code	2558
Secretary to the Board of Directors	LI Weiqiang
Joint Company Secretaries	LI Weiqiang ² , YEUNG Ching Man
Registered Address and Address of Head Office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province, the PRC
Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Tel	0351-6819503
Fax	0351-6819503
E-mail	dongban@jshbank.com
Website	www.jshbank.com
Initial Registration Date	October 16, 1998

¹ On January 8, 2020, Mr. YAN Junsheng has tendered his resignation as the chairman of the Board of Directors and legal representative of the Company. Procedures will be followed to make changes to the industrial and commercial registration with the Shanxi Administration for Market Regulation (山西市場監督管理局).

² On September 11, 2020, Mr. LI Weiqiang was appointed as the joint company secretary of the Bank. For details, please refer to the announcement entitled "Announcement on Change of Joint Company Secretary" issued by the Bank on September 14, 2020.

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

CORPORATE INFORMATION

Registration Number of the Enterprise Business License	1400001006774
Unified Social Credit Code	911400007011347302
Financial License Institution Number	B0116H214010001
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Center 183 Queen's Road East Wan Chai, Hong Kong
PRC Legal Advisor	King & Wood Mallesons 17th Floor, One ICC Shanghai ICC 999 Middle Huai Hai Road, Xuhui District Shanghai, the PRC
Hong Kong Legal Advisor	Paul Hastings 21-22/F, Bank of China Tower 1 Garden Road Hong Kong
Domestic Auditor	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower Oriental Plaza No. 1 East Changan Ave. Dongcheng District Beijing, the PRC
International Auditor	Ernst & Young (A registered public interest entity auditor under the Financial Reporting Council Ordinance) 22/F, CITIC Tower 1 Tim Mei Avenue, Central Hong Kong
Board Committees	Development and Strategy Committee WANG Junbiao (Chairperson), JIN Haiteng (Vice Chairperson), TANG Yiping, LI Shishan, DUAN Qingshan

CORPORATE INFORMATION

Audit Committee

WANG Liyan (Chairperson), SAI Zhiyi (Vice Chairperson), LIU Chenhang, SUN Shihu, YE Xiang

Risk Management Committee

SAI Zhiyi (Chairperson), JIN Haiteng (Vice Chairperson), TANG Yiping, WANG Jianjun, DUAN Qingshan

Related Parties Transactions Control Committee

JIN Haiteng (Chairperson), SUN Shihu (Vice Chairperson), WANG Peiming, RONG Changqing, WANG Liyan

Nomination, Remuneration and HR Committee

DUAN Qingshan (Chairperson), JIN Haiteng (Vice Chairperson), WANG Junbiao, XIANG Lijun, SAI Zhiyi

Consumer Rights Protection Committee

SUN Shihu (Chairperson), WANG Liyan (Vice Chairperson), TANG Yiping, LI Yang, SAI Zhiyi

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	For the six months ended June 30,		
	2020	2019	Rate of change (%)
	(Expressed in millions of RMB, unless otherwise stated)		
Results of operations			
Interest income	4,503.6	4,376.6	2.9
Interest expense	(2,856.5)	(2,709.6)	5.4
Net interest income	1,647.1	1,667.0	(1.2)
Fee and commission income	457.2	328.2	39.3
Fee and commission expense	(76.5)	(20.2)	278.7
Net fee and commission income	380.7	308.0	23.6
Net trading gains	48.5	45.2	7.3
Net gains arising from investment securities	512.7	428.3	19.7
Other operating income	11.9	23.4	(49.1)
Operating income	2,600.9	2,471.9	5.2
Operating expenses	(776.6)	(799.2)	(2.8)
Impairment losses on assets	(1,054.1)	(898.5)	17.3
Share of profits of associates	14.3	13.0	10.0
Profit before tax	784.5	787.2	(0.3)
Income tax	(9.6)	(44.9)	(78.6)
Net profit for the period	774.9	742.3	4.4
Net profit attributable to:			
Equity shareholders of the Bank	779.8	745.4	4.6
Non-controlling interests	(4.9)	(3.1)	58.1
Earnings per share attributable to equity shareholders of the Bank (RMB per share)			
— Basic	0.13	0.15	(13.3)
— Diluted	0.13	0.15	(13.3)

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	As of June 30, 2020	As of December 31, 2019	Rate of change (%)
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(Expressed in millions of RMB,
unless otherwise stated)

Key indicators for assets/liabilities

Total assets	267,154.8	247,571.2	7.9
Of which: net loans and advances to customers	130,880.8	111,712.6	17.2
Total liabilities	246,870.7	227,411.9	8.6
Of which: deposits from customers	171,491.7	155,322.2	10.4
Share capital	5,838.7	5,838.7	0
Equity attributable to equity shareholders of the Bank	20,264.8	20,135.2	0.6
Total equity	20,284.1	20,159.3	0.6

For the six months ended June 30,

	2020	2019	Change
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Profitability indicators (%)

Return on average assets ⁽¹⁾	0.60	0.64	(0.04)
Return on average equity ⁽²⁾	7.66	9.21	(1.55)
Net interest spread ⁽³⁾	1.61	1.80	(0.19)
Net interest margin ⁽⁴⁾	1.54	1.70	(0.16)
Net fee and commission income to operating income	14.64	12.46	2.18
Cost-to-income ratio ⁽⁵⁾	28.56	30.99	(2.43)

	As of June 30, 2020	As of December 31, 2019	Change
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Asset quality indicators (%)

NPL ratio ⁽⁶⁾	1.93	1.86	0.07
Allowance coverage ratio ⁽⁷⁾	194.74	199.92	(5.18)
Allowance to gross loan ratio ⁽⁸⁾	3.75	3.71	0.04

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	As of June 30, 2020	As of December 31, 2019	Change
Capital adequacy indicators (%)⁽⁹⁾			
Core tier-one capital adequacy ratio ⁽¹⁰⁾	10.36	11.47	(1.11)
Tier-one capital adequacy ratio ⁽¹¹⁾	10.36	11.47	(1.11)
Capital adequacy ratio ⁽¹²⁾	12.39	13.60	(1.21)
Total equity to total assets	7.59	8.14	(0.55)

	As of June 30, 2020	As of December 31, 2019	Change
Other indicators (%)			
Loan-to-deposit ratio ⁽¹³⁾	80.28	75.49	4.79
Liquidity coverage ratio ⁽¹⁴⁾	215.32	252.85	(37.53)
Liquidity ratio ⁽¹⁵⁾	81.28	90.01	(8.73)

	As of June 30, 2020	As of March 31, 2020	As of December 31, 2019
(Expressed in millions of RMB, unless otherwise stated)			
Net stable funding ratio ⁽¹⁶⁾			
Total available stable funding	164,877.3	152,991.7	147,133.4
Total required stable funding	117,965.4	110,075.6	107,250.6
Net stable funding ratio (%)	139.77	138.99	137.19

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Notes:

- (1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the period, and adjusted on an annualized basis.
- (2) Calculated by dividing net profit for the period by the average balance of total equity at the beginning and the end of the period, and adjusted on an annualized basis.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.
- (6) Calculated by dividing total NPLs by gross loans and advances to customers. Except as otherwise stated, the “gross loans and advances” referred to in this Interim Report exclude interest accrued.
- (7) Calculated by dividing total allowance for impairment losses on loans and advances to customers (including the provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income) by total NPLs.
- (8) Calculated by dividing total allowance for impairment losses on loans and advances to customers (including the provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income) by gross loans and advances to customers.
- (9) Calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》).
- (10) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.
- (11) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.
- (12) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
- (13) Calculated by dividing total loans and advances to customers by total deposits from customers (excluding interest accrued).
- (14) Liquidity coverage ratio is calculated in accordance with the formula promulgated by the CBIRC. Liquidity coverage ratio = high-quality liquid assets/net cash outflows for the next 30 days × 100%.
- (15) Liquidity ratio is calculated in accordance with the formula promulgated by the CBIRC. Liquidity ratio = balance of current assets/balance of current liabilities × 100%.
- (16) Net stable funding ratio is calculated in accordance with the formula promulgated by the CBIRC. Net stable funding ratio = available stable funding/required stable funding × 100%. According to the Measures for Disclosure of Information on the Net Stable Funding Ratio of Commercial Banks (Yin Bao Jian Fa [2019] No. 11) (《商業銀行淨穩定資金比例信息披露辦法》(銀保監發[2019]11號)) issued by the CBIRC in 2019, information relating to the net stable funding ratio as at the end of 2019, end of March 2020 and end of June 2020 should be disclosed here.

MANAGEMENT DISCUSSION AND ANALYSIS

1. REVIEW OF THE ECONOMIC, FINANCIAL AND POLICY ENVIRONMENT

In the first half of 2020, facing the severe challenge brought by Coronavirus Disease 2019 (“COVID-19”) and complicated and changeable domestic and foreign environments, China’s economy went up after dropping, during which the main indicators renewed growth, economic operation recovered steadily, people’s basic livelihood was well guaranteed, expectations for market were strong overall, and social development remained stable as a whole. For the six months ended June 30, 2020, the gross domestic product (GDP) reached RMB45,661.4 billion, representing a decrease of 1.6% year-on-year at constant prices; the added value of above-scale industries in China decreased by 1.3% year-on-year; fixed asset investment (excluding peasant household) recorded a year-on-year decrease of 3.1%; the total retail sales of consumer goods decreased by 11.4% year-on-year; and domestic consumer price rose 3.8% year-on-year.

In the first half of 2020, domestic money supply, social financing scale and RMB loans all maintained rapid growth. As of the end of June 2020, the broad money (M2) balance saw a year-on-year increase of 11.1%, maintaining the same growth rate as that at the end of last month. In the first half of 2020, the increment of social financing amounted to RMB20.83 trillion in aggregate, representing a year-on-year increase of RMB6.22 trillion; RMB loans grew by RMB12.09 trillion, representing a year-on-year increase of RMB2.42 trillion. In the first half of 2020, Shanxi province coordinated regular epidemic prevention and control as well as economic and social development in a scientific manner. The resumption of work, production, business and market was advanced steadily, production demands continued to improve, employment and commodity prices remained stable in general, and major economic indicators witnessed accelerated rebounded growth. Economy in the whole province recovered steadily, adding to the stable and good development momentum. Among other things, the provincial GDP reached approximately RMB782.164 billion, representing a year-on-year decrease of 1.4%, 3.2 percentage points lower than that in the first quarter; the added value of above-scale industries in the province decreased by 0.3%, 1 percentage point lower than the national average, among which the added value of the manufacturing decreased by 1.4%; fixed asset investment (excluding peasant household) increased by 8.3%, 11.4 percentage points higher than the national average; total retail sales of consumer goods decreased by 16.3%, 9.4 percentage points lower than that in the first quarter.

2. BUSINESS OVERVIEW AND DEVELOPMENT STRATEGIES

In the first half of 2020, facing the adverse impact of COVID-19, the Bank maintained the strategic focus of steady advancement and earnestly implemented the general idea and requirement of “Comprehensive Development, Four Modernizations and Four-Efficiency (一全四化四高效)”, thus achieving its new development.

MANAGEMENT DISCUSSION AND ANALYSIS

We adhered to strategic focus and significantly improved our comprehensive strength. As of the end of June 2020, the total assets of the Bank amounted to RMB267.15 billion, representing an increase of RMB19.58 billion or 7.9% as compared to that at the beginning of the year; the balance of various loans amounted to RMB135.33 billion, representing an increase of RMB19.85 billion or 17.2% as compared to that at the beginning of the year; the balance of various deposits amounted to RMB171.49 billion, representing an increase of RMB16.17 billion or 10.4% as compared to that at the beginning of the year. In the first half of this year, we realized a net profit of RMB770 million, representing a year-on-year increase of RMB30 million or 4.4%.

The major regulatory indicators such as the NPL ratio and capital adequacy ratio met the regulatory requirements. We ranked 378th among the Top 1000 World Banks by The Banker, having moved up 43 places from our ranking in the previous year.

We kept to our responsibilities and notably improved our service efficiency. First, regarding epidemic prevention and control and financial services, we made corresponding arrangements, deployments and implemented them simultaneously, worked out a series of thinking for improving online and offline financial services, and implemented a package of effective measures for supporting micro, small and medium-sized enterprises to overcome difficulties, so as to ensure unremitting epidemic prevention and control and continuous financial services. Second, we actively fulfilled the requirements of local governments and financial management departments on supporting enterprises in resumption of work and production, and increased financial support in stabilizing enterprises and ensuring employment through such measures as active visits, active docking, “green lanes”, and special approvals for special issues to contribute to stable operation of local enterprises in Shanxi Province. Third, by studying opinions and measures of serving and supporting local economic development, we formulated implementation plans for supporting the construction of the Comprehensive Reform Demonstration Zone, energy revolution, green finance, major projects, basic industries, private economy and other fields, making active contribution to promoting high quality transformation and development of the local economy. Fourth, focusing on financial poverty alleviation, we kept strengthening support for poverty alleviation through industrial development, and continuously increased investment in targeted poverty alleviation, effectively helping poverty-stricken households get rid of poverty and become better off.

MANAGEMENT DISCUSSION AND ANALYSIS

We kept improving our development efficiency by adherence to the innovation-driven mode.

First, we sought new breakthroughs in corporate businesses. We launched on full scale businesses relating to energy revolution and green finance, established a trade financing product line, and fully demonstrated the efficiency of Jinshang Bank in green product innovation, key customer docking, and major project implementation by establishing concepts, expanding channels, gathering customers, and building platforms. Second, we added new momentum for the retail business. The wealth management business underwent continuously accelerated transformation, the residential mortgage business developed rapidly, “Ka Yi Loan (卡易貸)” was optimized and upgraded to “Ying Cai Loan (英才貸)”, credit card types and equity systems were continuously enriched, and the trend of online and offline channels advancing side by side and integrated development became more and more obvious. Third, we optimized new services for micro and small enterprises. We innovatively optimized products such as “Yi Bao Dui (醫保兌)”, “Government Procurement Loan (政採貸)” and entrepreneurship guaranteed loan under financial services for micro and small enterprises and sorted out and adjusted relevant business processes, which enhanced the quality and efficiency of and promoted healthy development of the financial services for micro and small enterprises. Fourth, financial market business was further expanded. We actively applied for the qualifications for new businesses and became a member of CDB bond underwriting syndicate in 2020. We also adjusted asset structure in a reasonable manner, timely adjusted market financing strategies, paid close attention to changes in counterparties and risks, and continued to deepen market participation.

We adhered to stepping up our internal efforts, with management level improved steadily.

First, adhering to the optimization of industrial and customer structures, we reduced the proportion of industries with overcapacity, actively supported strategic emerging industries and livelihood projects, and took multiple measures to reduce non-performing assets. Second, we promoted the upgrade of core systems, optimized risk-related systems and conducted such works as building of data standardization system and data quality assessment, which provided advanced tools and sound data foundation for comprehensive risk management. Third, we strengthened inspection and management of staff behaviours, promoted construction of compliance culture, and organized such activities as writing contest and speech contest to sharpen the compliance awareness of all the staff. We formulated and revised 127 systems and measures, basically forming a full coverage institutionalized normative system with focal points, clear process and scientific management. Fourth, we further improved the market-based mechanism for talent selection and employment, actively built teams highlighting high-level and high-skilled talents, made more efforts to introduce excellent talents engaging in the same industry with us and cultivate talents in the industry, and established a sound incentive and safeguard mechanism of remuneration adjustment, professional sequence and other aspects to strengthen the cohesiveness of all employees of the Bank and the market competitiveness of talent teams.

MANAGEMENT DISCUSSION AND ANALYSIS

3. INCOME STATEMENT ANALYSIS

	Six months ended June 30,		Rate of change (%)
	2020	2019	
	(Expressed in millions of RMB, unless otherwise stated)		
Interest income	4,503.6	4,376.6	2.9
Interest expense	(2,856.5)	(2,709.6)	5.4
Net interest income	1,647.1	1,667.0	(1.2)
Fee and commission income	457.2	328.2	39.3
Fee and commission expenses	(76.5)	(20.2)	278.7
Net fee and commission income	380.7	308.0	23.6
Net trading gains	48.5	45.2	7.3
Net gains arising from investment securities	512.7	428.3	19.7
Other operating income ⁽¹⁾	11.9	23.4	(49.1)
Operating income	2,600.9	2,471.9	5.2
Operating expenses	(776.6)	(799.2)	(2.8)
Impairment losses on assets	(1,054.1)	(898.5)	17.3
Share of profits of associate	14.3	13.0	10.0
Profit before tax	784.5	787.2	(0.3)
Income tax	(9.6)	(44.9)	(78.6)
Net profit	774.9	742.3	4.4

Note:

- (1) Consists primarily of income from asset inventory surplus, rental income from owned properties and penalty income.

For the six months ended June 30, 2020, the profit before tax of the Group decreased by 0.3% to RMB784.5 million from RMB787.2 million for the six months ended June 30, 2019, and net profit for the same period increased to RMB774.9 million from RMB742.3 million for the six months ended June 30, 2019, representing a year-on-year growth of 4.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Net interest income, net interest spread and net interest margin

For the six months ended June 30, 2020, the net interest income of the Group decreased by 1.2% to RMB1,647.1 million from RMB1,667.0 million for the six months ended June 30, 2019, mainly due to the 5.4% increase in interest expense, which was partially offset by the 2.9% increase in interest income.

The net interest spread of the Group decreased from 1.80% for the six months ended June 30, 2019 to 1.61% for the six months ended June 30, 2020, and the net interest margin decreased from 1.70% for the six months ended June 30, 2019 to 1.54% for the six months ended June 30, 2020, mainly due to a decrease of 24 basis points in the average yield on total interest-earning assets from 4.46% for the six months ended June 30, 2019 to 4.22% for the six months ended June 30, 2020, which was partially offset by a decrease of 5 basis points in the average cost on total interest-bearing liabilities from 2.66% for the six months ended June 30, 2019 to 2.61% for the six months ended June 30, 2020.

The following table sets forth the average balances of the Group's interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on assets or related average cost on liabilities for the six months ended June 30, 2019 and 2020, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

	For the six months ended June 30,					
	2020			2019		
	Average balance	Interest income/ expense	Average yield/cost (%) ⁽¹⁾	Average balance	Interest income/ expense	Average yield/cost (%) ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	122,334.0	2,905.6	4.75	108,784.2	2,798.2	5.14
Financial investments ⁽²⁾	61,186.6	1,315.3	4.30	54,775.3	1,231.0	4.49
Placements with banks and other financial institutions	2,754.5	24.6	1.79	2,566.6	30.9	2.41
Financial assets held under resale agreements	9,536.5	121.3	2.54	10,978.9	169.4	3.09
Deposits with the central bank ⁽³⁾	15,806.6	112.9	1.43	18,124.6	131.2	1.45
Deposits with banks and other financial institutions	1,699.0	23.9	2.81	1,216.3	15.9	2.61
Total interest-earning assets	213,317.2	4,503.6	4.22	196,445.9	4,376.6	4.46
Interest-bearing liabilities						
Deposits from customers	155,075.6	1,870.0	2.41	144,665.5	1,616.4	2.23
Deposits from banks and other financial institutions	3,767.6	59.6	3.16	2,971.4	52.5	3.53
Placements from banks and other financial institutions	1,111.4	17.9	3.22	626.2	8.1	2.59
Financial assets sold under repurchase agreements	11,022.9	94.1	1.71	6,332.8	74.9	2.37
Debt securities issued ⁽⁴⁾	47,136.9	801.8	3.40	48,201.8	935.6	3.88
Borrowing from the central bank	962.6	13.1	2.72	722.9	10.5	2.90
Lease liabilities	–	–	–	508.8	11.6	4.56
Total interest-bearing liabilities	219,077.0	2,856.5	2.61	204,029.4	2,709.6	2.66
Net interest income		1,647.1			1,667.0	
Net interest spread ⁽⁵⁾			1.61			1.80
Net interest margin ⁽⁶⁾			1.54			1.70

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Calculated by dividing interest income/expense by average balance and adjusted on an annualized basis.
- (2) Consist of financial investments measured at amortized costs and financial investments measured at fair value through other comprehensive income.
- (3) Consists primarily of statutory deposit reserves and surplus deposit reserves.
- (4) Consists of certificates of interbank deposit, financial bonds and tier-two capital debts.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, and adjusted on an annualized basis.
- (6) Calculated by dividing net interest income by the average balance of total interest-earning assets and adjusted on an annualized basis.

3.2 Interest income

For the six months ended June 30, 2020, interest income increased by 2.90% to RMB4,503.6 million from RMB4,376.6 million for the six months ended June 30, 2019, primarily due to an increase of 8.6% in average balance of total interest-earning assets from RMB196,445.9 million for the six months ended June 30, 2019 to RMB213,317.2 million for the six months ended June 30, 2020, which was partially offset by a decrease of 24 basis points in the average yield on total interest-earning assets from 4.46% for the six months ended June 30, 2019 to 4.22% for the six months ended June 30, 2020.

Interest income from loans and advances to customers

For the six months ended June 30, 2020, interest income from loans and advances to customers increased by 3.8% from RMB2,798.2 million for the six months ended June 30, 2019 to RMB2,905.6 million. Among the above, the average balance of loans and advances to customers increased by 12.5% from RMB108,784.2 million for the six months ended June 30, 2019 to RMB122,334.0 million for the six months ended June 30, 2020, which was partially offset by a decrease in the average yield on loans and advances to customers. The increase in the average balance of loans and advances to customers was primarily due to the continued expansion of the Bank's credit businesses. The decrease in the yield on loans and advances to customers was because since this year, in positive response to the effect of COVID-19 and supported the micro, small and medium-sized enterprises in epidemic control, ensuring operation and overcoming difficulties, the Bank has taken such measures as returning interest and reducing interest rate to make profit transfer to micro, small and medium-sized enterprises; meanwhile, the discount rate for bills business decreased due to the impact of market condition.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income from financial investments

For the six months ended June 30, 2020, interest income from financial investments increased by 6.8% to RMB1,315.3 million from RMB1,231.0 million for the six months ended June 30, 2019, primarily due to an increase of 11.7% in the average balance of financial investments from RMB54,775.3 million for the six months ended June 30, 2019 to RMB61,186.6 million for the six months ended June 30, 2020, which was partially offset by a decrease in the average yield on financial investments. The increase in the average balance of financial investments was primarily due to the increase in the Bank's investment in bond assets; the decrease in the yield on financial investments was primarily due to a decrease in the yield on newly allocated debt securities.

Interest income from placements with banks and other financial institutions

For the six months ended June 30, 2020, interest income from placements with banks and other financial institutions decreased by 20.4% to RMB24.6 million from RMB30.9 million for the six months ended June 30, 2019, primary due to a decrease in the average yield on placements with banks and other financial institutions from 2.41% for the six months ended June 30, 2019 to 1.79% for the six months ended June 30, 2020, which was partially offset by an increase of 7.3% in the average balance from RMB2,566.6 million for the six months ended June 30, 2019 to RMB2,754.5 million for the six months ended June 30, 2020. The decrease in the yield was primarily due to the abundant market liquidity and the decline in market interest rates in the first half of 2020 as compared to the same period of 2019. The increase in average balance was primarily due to the increase in short-term placements with non-deposit-taking financial institutions.

Interest income from financial assets held under resale agreements

For the six months ended June 30, 2020, interest income from financial assets held under resale agreements decreased by 28.4% to RMB121.3 million from RMB169.4 million for the six months ended June 30, 2019, primarily due to a 13.1% decrease in the average balance of financial assets held under resale agreements from RMB10,978.9 million for the six months ended June 30, 2019 to RMB9,536.5 million, and the yield decreased from 3.09% to 2.54%. The decrease in average balance of financial assets held under resale agreements was primarily due to an increase in the funds used as loan assets. The decrease in the yield was primarily due to the easing market liquidity and the decline in market interest rates affected by monetary policies.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest income from deposits with the central bank

For the six months ended June 30, 2020, interest income from deposits with the central bank decreased by 13.9% from RMB131.2 million for the six months ended June 30, 2019 to RMB112.9 million, primarily attributable to a decrease of 12.8% in the average balance of reserve deposits with the central bank from RMB18,124.6 million for the six months ended June 30, 2019 to RMB15,806.6 million for the six months ended June 30, 2020 as a result of a decrease in the statutory deposit reserve ratio.

Interest income from deposits with banks and other financial institutions

For the six months ended June 30, 2020, interest income from deposits with banks and other financial institutions increased by 50.3% from RMB15.9 million for the six months ended June 30, 2019 to RMB23.9 million, which was primarily due to an increase of 39.7% in the average balance of deposits with banks and other financial institutions from RMB1,216.3 million for the six months ended June 30, 2019 to RMB1,699.0 million for the six months ended June 30, 2020, and an increase in the average yield from 2.61% for the six months ended June 30, 2019 to 2.81% for the six months ended June 30, 2020. The increases in the average balance and the yield were primarily due to the increased size of interbank assets with a longer duration.

3.3 Interest expense

The Group's interest expense increased by 5.4% from RMB2,709.6 million for the six months ended June 30, 2019 to RMB2,856.5 million for the six months ended June 30, 2020, primarily due to an increase of 7.4% in the average balance of total interest-bearing liabilities from RMB204,029.4 million for the six months ended June 30, 2019 to RMB219,077.0 million for the six months ended June 30, 2020, which was partially offset by a decrease of 5 basis points in its cost from 2.66% to 2.61%.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest expense on deposits from customers

Interest expense on deposits from customers increased by 15.7% from RMB1,616.4 million for the six months ended June 30, 2019 to RMB1,870.0 million for the six months ended June 30, 2020, primarily due to the Bank's commitment to developing its deposit business, which resulted in a corresponding 7.2% increase in the average balance of deposits from customers from RMB144,665.5 million for the six months ended June 30, 2019 to RMB155,075.6 million for the six months ended June 30, 2020. Meanwhile, the average cost on deposits from customers increased from 2.23% to 2.41%, mainly due to the increased proportion of time deposits, which carry higher cost, in the average balance of deposits.

Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions increased by 13.5% from RMB52.5 million for the six months ended June 30, 2019 to RMB59.6 million for the six months ended June 30, 2020, primarily due to an increase of 26.8% in the average balance of deposits from banks and other financial institutions from RMB2,971.4 million for the six months ended June 30, 2019 to RMB3,767.6 million for the six months ended June 30, 2020. The increase in the average balance was primarily due to the optimization of liability structure and taking of interbank deposits carrying a lower cost by the Bank given the downward market interest rates, and the cost decreased from 3.53% for the six months ended June 30, 2019 to 3.16% for the six months ended June 30, 2020.

Interest expense on placements from banks and other financial institutions

Interest expense on placements from banks and other financial institutions increased by 121.0% from RMB8.1 million for the six months ended June 30, 2019 to RMB17.9 million for the six months ended June 30, 2020, primarily due to an increase of 77.5% in average balance of placements from banks and other financial institutions from RMB626.2 million for the six months ended June 30, 2019 to RMB1,111.4 million for the six months ended June 30, 2020. The cost increased from 2.59% to 3.22%, primarily due to the Bank's taking some interbank liabilities with a long duration from banks and other financial institutions in the second half of 2019, resulting in an increase in both average balance and cost in the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements increased by 25.6% from RMB74.9 million for the six months ended June 30, 2019 to RMB94.1 million for the six months ended June 30, 2020, primarily because the average balance of financial assets sold under repurchase agreements increased by 74.1% from RMB6,332.8 million for the six months ended June 30, 2019 to RMB11,022.9 million for the six months ended June 30, 2020, which was partially offset by a decrease of 66 basis points in its average cost from 2.37% to 1.71%. The increase in the average balance and the decrease in cost were primarily due to an increase in the number of repurchase transaction contracts the Bank entered into in order to reduce financing costs and lower interest rates of market funds resulting from the impact of monetary policies and easing market liquidity.

Interest expense on debt securities issued

Interest expense on debt securities issued decreased by 14.3% from RMB935.6 million for the six months ended June 30, 2019 to RMB801.8 million for the six months ended June 30, 2020, primarily due to a 2.2% decrease in the average balance of debt securities issued from RMB48,201.8 million for the six months ended June 30, 2019 to RMB47,136.9 million for the six months ended June 30, 2020, and a decrease in the average interest rate of debt securities issued from 3.88% to 3.40%. The decline in the average interest rate of debt securities issued was primarily due to a decline in the issuance rate resulting from the impact of monetary policies and the abundance of market funds.

Interest expense on borrowing from the central bank

Interest expense on borrowing from the central bank significantly increased by 24.8% from RMB10.5 million for the six months ended June 30, 2019 to RMB13.1 million for the six months ended June 30, 2020, primarily due to a 33.2% increase in the average balance of borrowing from the central bank from RMB722.9 million for the six months ended June 30, 2019 to RMB962.6 million for the six months ended June 30, 2020, which was partially offset by a decrease in the average cost of borrowing from the central bank from 2.90% to 2.72%. The increase in the average balance and the decrease in the average cost was primarily because the Bank obtained through the central bank a higher allotment of relending loans (the proceeds from which are designated for supporting the development of micro and small enterprises), which bear a cost lower than the cost of the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3.4 Net fee and commission income

The following table sets forth, for the six months ended June 30, 2019 and 2020, the principal components of net fee and commission income of the Group.

	For the six months ended June 30,			
	2020	2019	Amount change	Rate of Change (%)
	(in millions of RMB, except percentages)			
Fee and commission income				
Agency service fees and others	186.5	111.6	74.9	67.1
Wealth management service fees	74.3	82.0	(7.7)	(9.4)
Acceptance and guarantee business fees	91.6	73.4	18.2	24.8
Settlement and clearing fees	31.7	32.6	(0.9)	(2.8)
Bank card service fees	73.1	28.6	44.5	155.6
Subtotal	457.2	328.2	129.0	39.3
Fees and commission expenses				
Settlement and clearing fees	(52.2)	(9.9)	(42.3)	427.3
Bank card services fees expenses	(15.2)	(0.6)	(14.6)	2,433.3
Agency services fees	(7.0)	(6.3)	(0.7)	11.1
Others	(2.1)	(3.4)	1.3	(38.2)
Subtotal	(76.5)	(20.2)	(56.3)	278.7
Net fee and commission income	380.7	308.0	72.7	23.6

The net fee and commission income increased by 23.6% from RMB308.0 million for the six months ended June 30, 2019 to RMB380.7 million for the six months ended June 30, 2020, primarily because of the Bank's active and effective development of agency business, acceptance and guarantee, bank card services and other intermediary services, resulting in a significant increase in the fee and commission income. Meanwhile, fee and commission expenses increased by 278.7% from RMB20.2 million for the six months ended June 30, 2019 to RMB76.5 million for the six months ended June 30, 2020, mainly due to the substantial increase in credit card and internet finance business, resulting in an increase in the corresponding fee expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

3.5 Net trading gains

The net trading gains of the Group increased by 7.3% from RMB45.2 million for the six months ended June 30, 2019 to RMB48.5 million for the six months ended June 30, 2020, mainly due to an increase in the net realized gains of the funds and investment management products held by the Bank.

3.6 Net gains arising from investment securities

Net gains arising from investment securities of the Group increased by 19.7% from RMB428.3 million for the six months ended June 30, 2019 to RMB512.7 million for the six months ended June 30, 2020, mainly due to an increase in the dividends the Bank received from the funds it invested in compared with the same period in 2019.

3.7 Operating expenses

The following table sets forth, for the six months ended June 30, 2019 and 2020, the principal components of operating expenses of the Group.

	For the six months ended June 30,			
	2020	2019	Amount change	Rate of Change (%)
	(in millions of RMB, except percentages)			
Staff costs	480.8	498.7	(17.9)	(3.6)
Rental and property management expenses	20.1	47.6	(27.5)	(57.8)
Depreciation and amortization	131.7	128.3	3.4	2.7
Taxes and surcharges	33.8	33.2	0.6	1.8
Other general and administrative expenses ⁽¹⁾	110.2	91.4	18.8	20.6
Total operating expenses	776.6	799.2	(22.6)	(2.8)
Cost-to-income ratio⁽²⁾	28.56	30.99		

Notes:

- (1) Consist primarily of deposit insurance premium, banknote shipping fee, security expenses, electronic equipment operating costs, and interest expense on lease liabilities.
- (2) Calculated by dividing total operating expenses by total operating income (net of taxes and surcharges).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating expenses decreased by 2.8% from RMB799.2 million for the six months ended June 30, 2019 to RMB776.6 million for the six months ended June 30, 2020, mainly because the Bank enjoyed partial reduction and exemption of social insurance premiums according to the Notice on the Temporary Reduction and Exemption of Social Insurance Premiums Payable by Enterprises issued by relevant national departments; the Bank newly purchased some office buildings, which reduced the leasing expense of office buildings.

The Group's cost-to-income ratio for the six months ended June 30, 2019 and 2020 (excluding taxes and surcharges) were 30.99% and 28.56%, respectively. The decrease in cost-to-income ratio was primarily due to the increase in operating income and the decrease in operating expenses compared to the same period.

Staff Costs

Staff costs were the largest component of the Group's operating expenses. Staff costs decreased by 3.6% from RMB498.7 million for the six months ended June 30, 2019 to RMB480.8 million for the six months ended June 30, 2020, mainly due to our periodic reduction and exemption of basic pension, unemployment insurance and other social security premiums by social security institutions in accordance with relevant policies. The following table sets forth the main components of staff costs for the period indicated.

	For the six months ended June 30,			
	2020	2019	Amount change	Rate of Change (%)
	(in millions of RMB, except percentages)			
Salaries, bonuses and allowances	335.3	318.3	17.0	5.3
Social insurance and annuity	87.7	110.5	(22.8)	(20.6)
Housing allowances	32.1	33.6	(1.5)	(4.5)
Staff welfare	9.7	9.5	0.2	2.1
Employee education expenses and labor union expenses	13.8	17.4	(3.6)	(20.7)
Supplementary retirement benefits	1.5	3.6	(2.1)	(58.3)
Others	0.7	5.8	(5.1)	(87.9)
Total staff costs	480.8	498.7	(17.9)	(3.6)

MANAGEMENT DISCUSSION AND ANALYSIS

Rental and Property Management Expenses

Rental and property management expenses decreased by 57.8% from RMB47.6 million for the six months ended June 30, 2019 to RMB20.1 million for the six months ended June 30, 2020, mainly because the Bank purchased some office buildings, thus reducing the leasing of office buildings accordingly.

Depreciation and Amortization

Depreciation and amortization expenses increased by 2.7% from RMB128.3 million for the six months ended June 30, 2019 to RMB131.7 million for the six months ended June 30, 2020, mainly because the Bank purchased some office buildings, resulting in an increase in depreciation charge, which was partly offset by the decrease in amortization of long-term deferred expenses and depreciation charge of right-of-use assets.

Taxes and Surcharges

Taxes and surcharges increased by 1.8% from RMB33.2 million for the six months ended June 30, 2019 to RMB33.8 million for the six months ended June 30, 2020, mainly due to the Bank's business development and expansion.

Other General and Administrative Expenses

Other general and administrative expenses primarily consist of deposit insurance premiums, banknote shipping fee, security expenses, electronic equipment operating costs, and interest expense on lease liabilities. The Group's other general and administrative expenses increased by 20.6% from RMB91.4 million for the six months ended June 30, 2019 to RMB110.2 million for the six months ended June 30, 2020, mainly because the Bank adjusted and presented the interest expense on lease liabilities in other general and administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

3.8 Impairment losses on assets

The following table sets forth the principal components of the Group's impairment losses on assets for the period indicated.

	For the six months ended June 30,			
	2020	2019	Amount change	Rate of Change (%)
	(in millions of RMB, except percentages)			
Impairment losses/(reversals) on assets				
Financial investments	47.7	713.5	(665.8)	(93.3)
Loans and advances to customers	824.9	97.7	727.2	744.3
Credit commitments	167.8	85.5	82.3	96.3
Deposits with banks and other financial institutions	–	0.1	(0.1)	(100)
Others	13.7	1.7	12.0	705.9
Total	1,054.1	898.5	155.6	17.3

The Group's impairment losses on assets was RMB1,054.1 million for the six months ended June 30, 2020, representing an increase of 17.3% from RMB898.5 million for the six months ended June 30, 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

3.9 Income tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to the Group's profit before tax and the Group's actual income tax for the period indicated.

	For the six months ended June 30,			
	2020	2019	Amount change	Rate of Change (%)
	(in millions of RMB, except percentages)			
Profit before tax	784.5	787.2	(2.7)	(0.3)
Income tax calculated at applicable statutory tax rate of 25%	196.1	196.8	(0.7)	(0.4)
Non-deductible expenses	15.0	4.9	10.1	206.1
Non-taxable income ⁽¹⁾	(201.5)	(156.8)	(44.7)	28.5
Income tax	9.6	44.9	(35.3)	(78.6)

Note:

- (1) Non-taxable income mainly represents the interest income arising from the PRC government bonds and dividends from domestic enterprises.

Income tax decreased by 78.6% from RMB44.9 million for the six months ended June 30, 2019 to RMB9.6 million for the six months ended June 30, 2020, mainly attributable to an increase in the non-taxable income for the six months ended June 30, 2020, mainly due to the Bank's increased investment in debt securities issued by PRC government and in funds, the interest income arising from the PRC government bonds and dividends from fund investment are tax free according to relevant PRC laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS

4 FINANCIAL STATEMENT ANALYSIS

4.1 Assets

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

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Cash and deposits with the central bank	18,828.0	7.1	19,108.3	7.7
Deposits with banks and other financial institutions	1,945.7	0.7	1,303.7	0.5
Placements with banks and other financial institutions	500.0	0.2	1,300.4	0.5
Financial assets held under resale agreements	17,247.4	6.5	16,630.0	6.7
Net loans and advances to customers	130,880.8	49.0	111,712.6	45.1
Net financial investments	93,279.7	34.9	92,912.6	37.5
Interest in associate	286.9	0.1	272.6	0.1
Property and equipment	1,406.8	0.5	1,464.7	0.7
Deferred tax assets	1,678.8	0.6	1,441.1	0.6
Other assets ⁽¹⁾	1,100.7	0.4	1,425.2	0.6
Total assets	267,154.8	100.0	247,571.2	100.0

Note:

- (1) Consist primarily of right-to-use assets, interests receivables and accounts receivable and prepayments.

The Group's total assets increased by 7.9% from RMB247,571.2 million as of December 31, 2019 to RMB267,154.8 million as of June 30, 2020, mainly due to an increase of net loans and advances to customers by 17.2% from RMB111,712.6 million as of December 31, 2019 to RMB130,880.8 million as of June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and Advances to Customers

The following table sets forth the distribution of the Group's loans by business line as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate loans	85,685.3	63.3	72,937.8	63.2
Personal loans	19,093.3	14.1	17,835.4	15.4
Discounted bills	30,548.9	22.6	24,709.3	21.4
Gross loans and advances to customers	135,327.5	100.0	115,482.5	100.0
Interests accrued	617.6		491.0	
Less: Provision for loans and advances to customers measured at amortised cost	(5,064.3)		(4,260.9)	
Net loans and advances to customers	130,880.8		111,712.6	

Corporate Loans

As of June 30, 2020, the Group's corporate loans amounted to RMB85,685.3 million, representing an increase of 17.5% from RMB72,937.8 million as of December 31, 2019, mainly because the granted amount of corporate loans has increased under the background of the gradual economic recovery in Shanxi Province, the increase of credit extension to comprehensive reform and transformation projects in Shanxi Province and the demand of deepening reformation of energy economy in Shanxi Province.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the distribution of the Group's corporate loans by contract maturity as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Short-term loans and advances (one year or below)	29,282.2	34.2	25,571.1	35.1
Medium- and long-term loans (one year above)	56,403.1	65.8	47,366.7	64.9
Total corporate loans	85,685.3	100.0	72,937.8	100.0

Short-term loans and advances as a percentage of total corporate loans decreased from 35.1% as of December 31, 2019 to 34.2% as of June 30, 2020, while medium- and long-term loans as a percentage of total corporate loans increased from 64.9% as of December 31, 2019 to 65.8% as of June 30, 2020. The percentage change of the above-mentioned corporate loan portfolio was mainly due to the fact that the Bank actively carried out credit structure adjustment work in accordance with the national macro credit policy and the requirements of Shanxi's energy economic transformation reform, and issued additional medium- and long-term loans to quality enterprises whose cash liquidity can meet their routine production and operation needs, to support their long-term development.

The following table sets forth the distribution of the Group's corporate loans by product type as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Working capital loans	57,748.0	67.4	49,474.2	67.8
Fixed asset loans	26,133.3	30.5	21,854.4	30.0
Others ⁽¹⁾	1,804.0	2.1	1,609.2	2.2
Total corporate loans	85,685.3	100.0	72,937.8	100.0

Note:

(1) Consist primarily of syndicated loans.

MANAGEMENT DISCUSSION AND ANALYSIS

The percentage of working capital loans to total corporate loans decreased from 67.8% as of December 31, 2019 to 67.4% as of June 30, 2020, and the percentage of fixed asset loans to total corporate loans increased from 30.0% as of December 31, 2019 to 30.5% as of June 30, 2020. During the Reporting Period, the corporate loan structure of the Group remained relatively stable.

Personal Loans

As of June 30, 2020, the personal loans of the Group amounted to RMB19,093.3 million, representing an increase of 7.1% from RMB17,835.4 million as of December 31, 2019. Specifically, the Bank is committed to the transformation of retail asset business, and achieve the sustained growth of residential mortgage business and credit card business through optimizing mechanisms and systems, clearing objectives and strategies and enriching product systems.

The table below sets forth the distribution of the Group's personal loans by product type as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Residential mortgage loans	11,809.1	61.9	10,787.9	60.5
Personal consumption loans	1,416.6	7.4	1,628.3	9.1
Personal business loans	2,536.7	13.3	2,569.1	14.4
Credit card balances	3,330.9	17.4	2,850.1	16.0
Total personal loans	19,093.3	100.0	17,835.4	100.0

As of June 30, 2020, residential mortgage loans were RMB11,809.1 million, representing an increase of 9.5% from RMB10,787.9 million as of December 31, 2019. The increase was mainly attributable to the increase of scale of residential mortgage loans as a result of the Bank optimized personal loan portfolio and continuously promoted the residential mortgage loans business.

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As of June 30, 2020, personal consumption loans amounted to RMB1,416.6 million, representing a decrease of 13.0% from RMB1,628.3 million as of December 31, 2019. The decrease was primarily due to in the first half of the year, total retail sales of consumption saw a decrease impacted by the epidemic, which also, to some extent, affected the market size of personal consumption loans.

As of June 30, 2020, personal business loans amounted to RMB2,536.7 million, representing a decrease of 1.3% from RMB2,569.1 million as of December 31, 2019. The decrease was mainly attributable to the Bank invested a larger amount of small-sum poverty alleviation loans in recent years as a result of the Bank's active fulfilment of social responsibility, however, the Bank has a larger amount of small-sum poverty alleviation loans that should be repaid at maturity for the year, which resulted in a slight decrease in the scale of personal business loans of the Bank, with the progress of building a moderately prosperous society in all respects.

As of June 30, 2020, credit card balances amounted to RMB3,330.9 million, representing an increase of 16.9% from RMB2,850.1 million as of December 31, 2019. The increase was mainly attributable to the Bank's efforts to develop its credit card business, innovative services and promotion methods, and significant growth in the number of credit cards issued and business scale through the launch of well-received products such as "JD Co-branded Card (京東聯名卡)" and Suning Co-branded Card (蘇寧易購聯名卡)".

Discounted Bills

The discounted bills are principal components of the Bank's loan and advances portfolio, the balance of which increased significantly by 23.6% from RMB24,709.3 million as of December 31, 2019 to RMB30,548.9 million as of June 30, 2020, mainly due to the Bank's expansion of its discounted bills business in light of the market demand and the Bank's business strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Investments

As of June 30, 2020, the Group's net financial investments (consisting primarily of debt securities investment and SPV investment) amounted to RMB93,279.7 million, representing an increase of 0.4% from RMB92,912.6 million as of December 31, 2019. The increase was mainly due to the Bank's increased investments in debt securities, which was in line with its risk management policies and investment strategies.

The following table sets forth the classification of the Group's financial investments under IFRS 9, based on its business model and cash flow characteristics, as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Financial investments measured at amortized cost	54,782.7	58.4	51,842.4	55.5
Financial investments measured at fair value through other comprehensive income	7,407.4	7.9	11,581.7	12.4
Financial investments measured at fair value through profit or loss	31,613.3	33.7	29,976.5	32.1
Total financial investments	93,803.4	100.0	93,400.6	100.0
Interests accrued	978.4		972.9	
Less: allowance for impairment losses	(1,502.1)		(1,460.9)	
Net financial investments	93,279.7		92,912.6	

MANAGEMENT DISCUSSION AND ANALYSIS

Debt Securities Investment

The following table sets forth the components of the Group's debt securities investments by issuer as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Debt securities issued by PRC government	29,886.6	78.5	27,408.1	80.9
Debt securities issued by policy banks	6,014.1	15.8	5,164.6	15.3
Debt securities issued by commercial banks and other financial institutions	870.4	2.3	333.4	1.0
Debt securities issued by corporate issuers	1,279.5	3.4	941.6	2.8
Total debt securities investment	38,050.6	100.0	33,847.7	100.0

The Group's investment in debt securities issued by PRC government increased by 9.0% from RMB27,408.1 million as of December 31, 2019 to RMB29,886.6 million as of June 30, 2020, primarily because the Bank appropriately increased the investment in debt securities issued by PRC government according to the market situation and investment strategies, taking into account the liquidity and profitability.

The Group's investment in debt securities issued by policy banks increased by 16.4% from RMB5,164.6 million as of December 31, 2019 to RMB6,014.1 million as of June 30, 2020, primarily because the Bank actively increased its investment in policy financial bonds, in line with its risk management policies and investment strategies, to better perform its underwriting business, taking into account the liquidity and profitability, after becoming a qualified member of the underwriting syndicate for debt securities issued by policy banks for the year 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's investment in debt securities issued by commercial banks and other financial institutions increased by 161.1% from RMB333.4 million as of December 31, 2019 to RMB870.4 million as of June 30, 2020, primarily because the Bank increased its investment in bonds issued by commercial banks and other financial institutions with high credit ratings, comprehensively considering the credit risks and profitability of assets, in line with its risk management policies and investment strategies.

The Group's investment in the debt securities issued by corporate issuers increased by 35.9% from RMB941.6 million as of December 31, 2019 to RMB1,279.5 million as of June 30, 2020, primarily because the Bank held corporate credit bonds with low credit risk and high rating in a short term in the process of carrying out the underwriting and distribution business of corporate credit bonds after obtaining B-class underwriter qualification of non-financial enterprises (非金融企業B類承銷商資格).

SPV Investment

The following table sets forth the distribution of the Group's SPV investment by product type as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Trust plans	7,982.2	17.5	8,171.7	16.2
Asset management plans	11,320.3	24.8	15,716.0	31.2
Wealth management products	50.2	0.1	51.0	0.1
Funds	26,249.0	57.6	26,387.6	52.5
Total SPV investment	45,601.7	100.0	50,326.3	100.0

As of June 30, 2020, the total SPV investment decreased by 9.4% from RMB50,326.3 million as of December 31, 2019 to RMB45,601.7 million, primarily due to normal payment at maturity under some asset management plans during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Components of the Group's Assets

The following table sets forth the composition of the Group's other components of assets as of December 31, 2019 and June 30, 2020:

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Cash and deposits with the central bank	18,828.0	43.8	19,108.3	44.5
Deposits with banks and other financial institutions	1,945.7	4.5	1,303.7	3.0
Placements with banks and other financial institutions	500.0	1.2	1,300.4	3.0
Financial assets held under resale agreements	17,247.4	40.1	16,630.0	38.7
Interest in associates	286.9	0.7	272.6	0.6
Property and equipment	1,406.8	3.3	1,464.7	3.4
Deferred tax assets	1,678.8	3.9	1,441.1	3.4
Other assets ⁽¹⁾	1,100.7	2.5	1,425.2	3.4
Total other components of assets	42,994.3	100.0	42,946.0	100.0

Note:

- (1) Consists primarily of right-of-use assets, interests receivable and accounts receivable and prepayments.

As of June 30, 2020, total other components of assets increased by 0.1% to RMB42,994.3 million from RMB42,946.0 million as of December 31, 2019, basically flat with that at the end of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

4.2 Liabilities

The following table sets forth the components of the Group's total liabilities as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	171,491.7	69.5	155,322.2	68.3
Debt securities issued ⁽¹⁾	47,649.2	19.3	50,345.1	22.1
Financial assets sold under repurchase agreements	14,940.1	6.1	12,201.2	5.4
Deposits from banks and other financial institutions	6,738.3	2.7	4,211.3	1.9
Borrowing from the central bank	1,118.0	0.4	870.7	0.4
Placements from banks and other financial institutions	1,401.2	0.6	1,911.5	0.8
Income tax payable	239.8	0.1	195.6	0.1
Other liabilities ⁽²⁾	3,292.4	1.3	2,354.3	1.0
Total liabilities	246,870.7	100.0	227,411.9	100.0

Notes:

- (1) Consists of certificates of interbank deposit, financial bonds and tier-two capital debts.
- (2) Consists primarily of accrued staff cost, lease liabilities, estimated liabilities and dividend payable.

As of June 30, 2020, the Group's total liabilities amounted to RMB246,870.7 million, representing an increase of 8.6% from RMB227,411.9 million as of December 31, 2019, mainly reflecting that the increase in deposits from customers and financial assets sold under repurchase agreements, partially offset by a decrease in the balance of debt securities issued.

MANAGEMENT DISCUSSION AND ANALYSIS

Deposits from Customers

As of June 30, 2020, the Group's deposits from customers amounted to RMB171,491.7 million, representing an increase of 10.4% from RMB155,322.2 million as of December 31, 2019. The increase in deposits from customers was mainly due to growth of the Bank's corporate deposits and personal time deposits.

The following table sets forth the distribution of the Group's deposits from customers by product type and term structure of deposits as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	45,183.4	26.8	42,147.0	27.5
Time	31,468.8	18.7	26,598.7	17.4
Subtotal	76,652.2	45.5	68,745.7	44.9
Personal deposits				
Demand	9,814.1	5.8	9,831.7	6.4
Time	67,139.6	39.8	58,660.7	38.4
Subtotal	76,953.7	45.6	68,492.4	44.8
Others⁽¹⁾	14,955.3	8.9	15,740.0	10.3
Total	168,561.2	100.0	152,978.1	100.0
Interests accrued	2,930.5		2,344.1	
Deposits from customers	171,491.7		155,322.2	

Note:

(1) Consists primarily of pledged deposits, fiscal deposits, inward and outward remittances.

MANAGEMENT DISCUSSION AND ANALYSIS

The amount of corporate deposits increased by 11.5% from RMB68,745.7 million as of December 31, 2019 to RMB76,652.2 million as of June 30, 2020, mainly due to the fact that the Bank has been constantly expanding government and institutional customers, and marketing to enterprise customers, to achieve growth in corporate deposits.

The amount of personal deposits increased by 12.4% from RMB68,492.4 million as of December 31, 2019 to RMB76,953.7 million as of June 30, 2020, mainly due to the fact that the Bank has been constantly increasing service quality, and enriching deposit products, to improve loyalty of individual customers.

Debt Securities Issued

As of June 30, 2020, debt securities issued amounted to RMB47,649.2 million, representing a decrease of 5.4% from RMB50,345.1 million as of December 31, 2019. The decrease in debt securities issued was mainly due to the Bank's adjustment of liability structure according to market conditions, which led to increasing efforts in drawing deposits from customers and a lower issue volume of certificates of interbank deposit with relatively high cost.

Financial Assets Sold under Repurchase Agreements

As of June 30, 2020, financial assets sold under repurchase agreements amounted to RMB14,940.1 million, representing an increase of 22.4% from RMB12,201.2 million as of December 31, 2019, because the Bank increased the number of repurchase transaction contracts entered into in order to reduce financing costs.

MANAGEMENT DISCUSSION AND ANALYSIS

4.3 Equity

The following table sets forth the components of the Group' equity as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Share capital	5,838.7	28.8	5,838.7	29.0
Capital reserve	6,627.6	32.6	6,627.6	32.9
Surplus reserve	3,467.0	17.1	3,467.0	17.2
General reserve	2,788.4	13.7	2,788.4	13.8
Fair value reserve	(29.7)	(0.1)	(23.2)	(0.1)
Impairment reserve	17.8	0.1	18.3	0.1
(Deficit)/surplus on remeasurement of net defined benefit liability	(2.2)	0.0	(1.2)	0.0
Retained earnings	1,557.2	7.7	1,419.6	7.0
Equity attributable to equity holders of the Bank	20,264.8	99.9	20,135.2	99.9
Non-controlling interests	19.3	0.1	24.1	0.1
Total equity	20,284.1	100.0	20,159.3	100.0

As of June 30, 2020, the total equity of the Group amounted to RMB20,284.1 million, an increase of 0.6% from RMB20,159.3 million as of December 31, 2019. As of the same date, the equity attributable to equity holders of the Bank amounted to RMB20,264.8 million, an increase of 0.6% from RMB20,135.2 million as of December 31, 2019. The increase in equity was mainly attributable to the realization of net profit, which led to an increase in retained earnings, partially offset by dividends paid during the period. For the six months ended June 30, 2020, the Group realized a net profit of RMB774.9 million; according to the 2019 profit appropriation plan approved at the Bank's general meeting, cash dividend of RMB642.3 million was distributed to all shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

5 OFF-BALANCE SHEET ITEMS ANALYSIS

The following table sets forth the contractual amounts of the Group's off-balance sheet commitments as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020	As of December 31, 2019
	(in millions of RMB)	
Loan commitment	7,065.1	3,681.3
Credit card commitment	6,439.0	6,542.7
Bank acceptance bills	34,382.8	27,215.0
Letter of credit	3,999.4	3,344.6
Letter of guarantee	697.7	479.5
Capital commitment	128.0	100.3
Total off-balance sheet commitments	52,712.0	41,363.4

As of June 30, 2020, the Group's total off-balance sheet commitments amounted to RMB52,712.0 million, an increase of 27.4% from RMB41,363.4 million as of December 31, 2019, mainly because loan commitment, bank acceptance bills, letter of credit, letters of guarantees and others all increased compared with the balance at the end of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

6 ASSET QUALITY ANALYSIS

Distribution of Loans by Five-Category Loan Classification

The following table sets forth the distribution of the Group's loans by the five-category loan classification as of December 31, 2019 and June 30, 2020. According to the current guidelines of risk-based classification of loans, non-performing loans ("NPL") are classified as substandard, doubtful and loss.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Normal	129,704.5	95.9	110,371.5	95.5
Special Mention	3,014.8	2.2	2,968.6	2.6
Subtotal	132,719.3	98.1	113,340.1	98.1
Substandard	1,803.0	1.3	1,382.1	1.2
Doubtful	601.0	0.4	579.2	0.5
Loss	204.2	0.2	181.1	0.2
Subtotal	2,608.2	1.9	2,142.4	1.9
Total loans and advances to customers	135,327.5	100.0	115,482.5	100.0
NPL ratio⁽¹⁾		1.93		1.86

Note:

(1) Calculated by dividing the total NPLs by the total loans and advances to customers.

As of June 30, 2020, according to the five-category loan classification, the Group's normal loans amounted to RMB129,704.5 million, an increase of RMB19,333.0 million from December 31, 2019, accounting for 95.9% of the total loans and advances to customers. Special mention loans amounted to RMB3,014.8 million, an increase of RMB46.2 million from December 31, 2019, accounting for 2.2% of total loans and advances to customers. NPLs amounted to RMB2,608.2 million, an increase of RMB465.8 million from December 31, 2019. The NPL ratio was 1.93%, an increase of 0.07 percentage point from December 31, 2019. The "double increase" in both the total amount and proportion of NPLs was mainly due to the fact that some borrowers could not resume work and production on schedule due to the COVID-19 outbreak, leading to loan defaults and increasing pressure of NPLs.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Loans by Collateral

The following table sets forth the distribution of the Group's loans and advances to customers by type of collateral as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Pledged loans ⁽¹⁾	35,566.6	26.3	29,074.1	25.2
Collateralized loans ⁽¹⁾	19,146.8	14.1	15,528.9	13.4
Guaranteed loans ⁽¹⁾	69,272.2	51.2	62,031.5	53.7
Unsecured loans	11,341.9	8.4	8,848.0	7.7
Total loans and advances to customers	135,327.5	100.0	115,482.5	100.0

Note:

- (1) Represent the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Corporate Loans by Industry

The following table sets forth the distribution of the Group's corporate loans by industry as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Manufacturing	26,400.6	30.8	22,784.9	31.2
Mining	18,495.0	21.6	16,645.9	22.8
Real estate	12,840.6	15.0	11,386.9	15.6
Wholesale and retail	7,427.8	8.7	5,964.9	8.2
Leasing and business services	5,541.9	6.5	4,900.7	6.7
Public administration, social security and social organization	5,362.8	6.3	4,328.3	5.9
Construction	5,098.2	5.9	3,950.0	5.4
Transportation, warehousing and postal services	1,337.6	1.6	1,136.4	1.6
Electricity, gas and water production and supply	1,192.4	1.4	1,006.7	1.4
Agriculture, forestry, animal husbandry and fishery	378.1	0.4	114.4	0.2
Education	36.7	0.0	38.4	0.1
Others ⁽¹⁾	1,573.6	1.8	680.3	0.9
Total corporate loans	85,685.3	100.0	72,937.8	100.0

Note:

- (1) Consist primarily of the following industries: (i) information transmission, software and information technology services, (ii) health, social security and social welfare, (iii) resident services, maintenance and other services, (iv) culture, sports and entertainment, and (v) scientific research and technical services.

For the six months ended June 30, 2020, the Bank further optimized its credit structure and actively supported the development of the real economy. As of June 30, 2020, the Group's five major components of corporate loans were offered to customers in the following industries: manufacturing, mining, real estate, wholesale and retail, and leasing and business services. As of June 30, 2020 and December 31, 2019, the balance of loans to corporate customers in the top five industries amounted to RMB70,705.9 million and RMB61,683.3 million, respectively, accounting for 82.5% and 84.6% of the total loans and advances to customers issued by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth the distribution of the Group's NPLs to corporate customers by industry as of the dates indicated.

	As of June 30, 2020			As of December 31, 2019		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
(in millions of RMB, except percentages)						
Manufacturing	1,148.2	49.1	4.35	790.7	41.4	3.47
Wholesale and retail	454.6	19.4	6.12	395.0	20.7	6.62
Mining	562.9	24.1	3.04	562.9	29.4	3.38
Leasing and business services	64.1	2.7	1.16	64.2	3.3	1.31
Public administration, social security and social organization	25.3	1.1	0.47	25.4	1.3	0.59
Construction	33.6	1.4	0.66	22.7	1.2	0.57
Agriculture, forestry, animal husbandry and fishery	18.7	0.8	4.95	18.7	1.0	16.35
Real estate	12.4	0.5	0.10	16.4	0.9	0.14
Transportation, warehousing and postal services	10.5	0.4	0.78	6.3	0.3	0.55
Education	5.6	0.3	15.26	5.6	0.3	14.58
Electricity, gas and water production and supply	1.4	0.1	0.12	1.4	0.1	0.14
Others ⁽²⁾	1.9	0.1	0.12	1.9	0.1	0.28
Total non-performing corporate loans	2,339.2	100.0	2.73	1,911.2	100.0	2.62

Notes:

- (1) Calculated by dividing NPLs to corporate customers in each industry by gross loans to corporate customers in that industry.
- (2) Mainly comprised of: (i) resident services, maintenance and other services, (ii) culture, sports and entertainment.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2020, the Group's non-performing corporate loans were mainly from manufacturing, wholesale and retail industry and mining industry. As of December 31, 2019 and June 30, 2020, the NPL ratio for corporate loans in the manufacturing was 3.47% and 4.35%, respectively. Non-performing corporate loans to borrowers in the manufacturing accounted for 41.4% and 49.1% of the total non-performing corporate loans, respectively. The NPL ratio for corporate loans to borrowers in the manufacturing increased mainly due to the fact that some manufacturing borrowers suffered from decreased market demand and reduced orders as affected by the COVID-19 outbreak.

As of December 31, 2019 and June 30, 2020, the NPL ratio for corporate loans in the wholesale and retail industry was 6.62% and 6.12%, respectively. Non-performing corporate loans to borrowers in the wholesale and retail industry accounted for 20.7% and 19.4% of the total non-performing corporate loans, respectively. The decrease in NPL ratio for corporate loans to borrowers in the wholesale and retail industry was primarily because the Group enlarged the scale of loans in the wholesale and retail industry that were in compliance with the industrial policies.

As of December 31, 2019 and June 30, 2020, the NPL ratio for corporate loans in the mining industry was 3.38% and 3.04%, respectively. Non-performing corporate loans to borrowers in the mining industry accounted for 29.4% and 24.1% of the total non-performing corporate loans, respectively. The NPL ratio for the corporate loans to the borrowers in mining industry decreased, primarily because the Group enlarged the scale of loans to the borrowers in mining industry that were in compliance with the energy transformation of Shanxi in accordance with the economic structure adjustment and industrial policies of Shanxi.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of NPLs by Product Type

The table below sets forth the distribution of NPLs by product type as of the dates indicated.

	As of June 30, 2020			As of December 31, 2019		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
(in millions of RMB, except percentages)						
Corporate loans						
Working capital loans	2,212.3	84.8	3.83	1,794.3	83.7	3.63
Fixed asset loans	102.6	3.9	0.39	102.6	4.8	0.47
Other loans ⁽²⁾	24.3	0.9	1.35	14.3	0.7	0.89
Subtotal	2,339.2	89.6	2.73	1,911.2	89.2	2.62
Personal loans						
Residential mortgage loans	14.5	0.6	0.12	13.7	0.6	0.13
Personal consumption loans	111.3	4.3	7.86	100.7	4.8	6.18
Personal business loans	81.2	3.1	3.20	86.4	4.0	3.36
Credit cards	59.6	2.3	1.79	28.0	1.3	0.98
Subtotal	266.6	10.3	1.40	228.8	10.7	1.28
Discounted bills						
Bank acceptance bills	2.4	0.1	0.01	2.4	0.1	0.01
Commercial acceptance bills	–	–	–	–	–	–
Subtotal	2.4	0.1	0.01	2.4	0.1	0.01
Total NPLs	2,608.2	100.0	1.93	2,142.4	100.0	1.86

Notes:

- (1) Calculated by dividing NPLs in each product type by gross loans and advances to customers in that product type.
- (2) Mainly comprised of advances for bank acceptance bills.

MANAGEMENT DISCUSSION AND ANALYSIS

The NPL ratio for corporate loans increased from 2.62% as of December 31, 2019 to 2.73% as of June 30, 2020, while the balance of non-performing corporate loans increased by 22.4% from RMB1,911.2 million as of December 31, 2019 to RMB2,339.2 million as of June 30, 2020. The increase in non-performing corporate loans was mainly due to operational difficulties and weakened repayment abilities of certain customers under the influence of COVID-19.

The NPL ratio for personal loans increased from 1.28% as of December 31, 2019 to 1.40% as of June 30, 2020, while the balance of non-performing personal loans increased by 16.5% from RMB228.8 million as of December 31, 2019 to RMB266.6 million as of June 30, 2020. The increase in the balance of NPLs and the NPL ratio for personal loans was mainly due to reduced income and weakened repayment abilities of certain customers under the influence of COVID-19. Among them, the NPL ratio for personal consumption loans increased from 6.18% as of December 31, 2019 to 7.86% as of June 30, 2020, mainly due to reduced income and weakened repayment abilities of certain customers under the influence of COVID-19; the NPL ratio for personal business loans decreased from 3.36% as of December 31, 2019 to 3.20% as of June 30, 2020, mainly due to the progress to an extent on the collection of the existing NPLs.

Distribution of NPLs by Geographical Region

The following table sets forth the distribution of the Group's NPLs by geographical region as of December 31, 2019 and June 30, 2020.

	As of June 30, 2020			As of December 31, 2019		
	Amount	% of total	NPL ratio ⁽¹⁾ (%)	Amount	% of total	NPL ratio ⁽¹⁾ (%)
	(in millions of RMB, except percentages)					
Taiyuan	2,090.9	80.2	2.90	1,705.6	79.6	1.97
Outside Taiyuan	517.3	19.8	0.82	436.8	20.4	1.52
Total NPLs	2,608.2	100.0	1.93	2,142.4	100.0	1.86

Note:

(1) Calculated by dividing NPLs in each region by gross loans and advances to customers in that region.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowers Concentration

In accordance with applicable PRC banking guidelines, the Group is subject to a lending limit of 10% of its net capital base to any single borrower. As of June 30, 2020, the Group's loans to the largest single borrower accounted for 8.4% of its net capital base, which was in compliance with regulatory requirements.

The following table sets forth the Group's loan exposure to the ten largest single borrowers as of the date indicated, which were all classified as normal on that date.

	Industry	As of June 30, 2020			Classification
		Amount	% of total loans	% of net capital base ⁽¹⁾	
		(in millions of RMB, except percentages)			
Borrower A	Finance	2,029.5	1.5	8.4	Normal
Borrower B	Mining	1,735.5	1.3	7.2	Normal
Borrower C	Manufacturing	1,420.0	1.0	5.9	Normal
Borrower D	Leasing and business services	1,350.0	1.0	5.6	Normal
Borrower E	Manufacturing	1,320.9	1.0	5.5	Normal
Borrower F	Manufacturing	1,259.0	0.9	5.2	Normal
Borrower G	Scientific research and technical services	1,250.0	0.9	5.2	Normal
Borrower H	Real estate	1,238.0	0.9	5.1	Normal
Borrower I	Leasing and business services	1,100.0	0.8	4.6	Normal
Borrower J	Manufacturing	1,091.7	0.8	4.5	Normal
Total		13,794.6	10.1	57.2	

Note:

- (1) Represents loan balances as a percentage of the Group's net capital base. The net capital base is calculated in accordance with the requirements of the Capital Administration Measures and based on the Group's financial statements prepared in accordance with PRC GAAP.

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2020, the balance of the Group's loan to the largest single borrower amounted to RMB2,029.5 million, accounting for 1.5% of the total loans and advances to customers; the total loans to the ten largest single borrowers amounted to RMB13,794.6 million, accounting for 10.1% of the total loans and advances to customers.

Loan Aging Schedule

The following table sets forth the Group's loan aging schedule as of the dates indicated.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loan	131,831.6	97.4	110,827.1	96.0
Loans past due for				
Up to 3 months ⁽¹⁾	901.9	0.7	2,548.0	2.2
Over 3 months up to 6 months ⁽¹⁾	85.3	0.1	812.6	0.7
Over 6 months up to 1 year ⁽¹⁾	1,244.3	0.9	239.2	0.2
Over 1 year up to 3 years ⁽¹⁾	725.0	0.5	596.8	0.5
Over 3 years ⁽¹⁾	539.4	0.4	458.8	0.4
Subtotal	3,495.9	2.6	4,655.4	4.0
Total loans and advances to customers	135,327.5	100.0	115,482.5	100.0

Note:

(1) Represents the principal amount of the loans on which principal or interest overdue as of the dates indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

Changes to Allowance for Impairment Losses

Allowance for impairment losses on loans and advances to customers increased by 18.6% from RMB4,283.0 million as of January 1, 2020 to RMB5,079.3 million as of June 30, 2020, mainly due to the increase in the scale of loans and the balance of NPLs.

	As of June 30, 2020 Amount	As of December 31, 2019 Amount
	(in millions of RMB)	
Beginning of the period (January 1)	4,283.0⁽¹⁾	4,038.8 ⁽³⁾
Charge for the period	832.0	1,008.9
Released for the period	(7.1)	0.0
Transfer out	0	(545.7)
Recoveries	2.2	0.9
Write-off	0	(170.9)
Other changes	(30.8)	(49.0)
End of the period	5,079.3⁽²⁾	4,283.0 ⁽⁴⁾

Notes:

- (1) Comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,260.9 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB22.1 million.
- (2) Comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB5,064.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB15.0 million.
- (3) Comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,017.3 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB21.5 million.
- (4) Comprised of (i) allowance for impairment losses on the loans and advances to customers measured at amortized cost which amounted to RMB4,260.9 million; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB22.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

7 GEOGRAPHICAL SEGMENTS REPORT

In presenting information on the basis of geographic segments, operating income is gathered according to the locations of the branches or subsidiary that generated the income. For the purpose of presentation, the Group categorizes such information by geographic regions. The table below sets forth the total operating income of each geographical region for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Taiyuan	2,234.8	85.9	2,059.9	83.3
Outside Taiyuan	366.1	14.1	412.0	16.7
Total operating income	2,600.9	100.0	2,471.9	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

8 CAPITAL ADEQUACY RATIO ANALYSIS

The Group is subject to capital adequacy requirements as promulgated by CBRC. The following table sets forth, as of the dates indicated, relevant information relating to the Group's capital adequacy ratio, calculated in accordance with the Capital Administrative Measures and PRC GAAP.

	As of June 30, 2020	As of December 31, 2019
	(in millions of RMB, except percentages)	
Core tier-one capital		
– Share capital	5,838.7	5,838.7
– Qualifying portion of capital reserve	6,627.6	6,627.6
– Surplus reserve	3,467.0	3,467.0
– General reserve	2,788.4	2,788.4
– Other comprehensive income	(14.1)	(6.1)
– Retained earnings	1,557.2	1,419.6
– Qualifying portions of non-controlling interests	23.7	14.0
Total core tier-one capital	20,288.5	20,149.2
Core tier-one capital deductions	(161.2)	(168.0)
Net core tier-one capital	20,127.3	19,981.2
Other tier-one capital	3.2	1.9
Net tier-one capital	20,130.5	19,983.1
Tier-two capital	3,944.1	3,703.3
Net capital base	24,074.6	23,686.4
Total risk-weighted assets	194,328.7	174,157.4
Core tier-one capital adequacy ratio (%)	10.36	11.47
Tier-one capital adequacy ratio (%)	10.36	11.47
Capital adequacy ratio (%)	12.39	13.60

MANAGEMENT DISCUSSION AND ANALYSIS

As of June 30, 2020, the Group's capital adequacy ratio was 12.39%, down by 1.21 percentage points from December 31, 2019; both the tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 10.36%, down by 1.11 percentage points from December 31, 2019. The decrease in capital adequacy ratio was mainly due to the increase in the balance of risk-weighted assets as a result of the increase in loans to customers and other assets.

As of June 30, 2020, the Group's leverage ratio was 6.56%, a decrease of 0.6 percentage point from 7.16% as of December 31, 2019. Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Revision) issued by the former CBRC, which has been effective since April 2015, a minimum leverage ratio of 4% is required.

9 RISK MANAGEMENT

The primary risks related to the Bank's operations include: credit risk, market risk, liquidity risk, operational risk, information technology risk, reputation risk and strategic risk. In the first half of 2020, the Bank continued to strengthen its comprehensive risk management system and adhered to a prudent risk appetite to constantly promote a vertical and independent risk management system. Through this system, the Bank was able to satisfy the relevant regulatory requirements and to ensure the sustainable development of its business. In particular, the Bank was committed to maintaining a risk management system for a balance between risk and return, to promote flexibility while strictly controlling the risks faced by the Bank, and to achieve business innovation while controlling asset quality.

Credit Risk

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. The Bank is exposed to credit risks primarily associated with corporate loan business, personal loan business and financial market business.

The Bank has built and continually improve its bank-wide credit risk management system to identify, measure, monitor, mitigate, and control risks that arise from its credit extension business. The Bank has established an effective credit management system, which covers the entire credit extension process, from application and pre-loan investigation to disbursement of funds and post-loan monitoring. The Bank implemented a unified credit system covering credit business and financial market business. All types of credit granting method and credit granting categories are included in the unified credit management, and the approver who has obtained the corresponding authorization exercises the credit approval authority.

In addition, the Bank closely monitors the quality of loans and may reclassify its corporate loans based on the results of routine and ad hoc inspections. The Bank also attaches great importance to the management of non-performing assets and invests in the continual improvement of non-performing assets disposal mechanism through a broad range of measures such as establishing and updating policy according to the prevailing regulatory environment, innovation of collection scheme, introduction of professional staff, and enhancing its review of collection by its branches and sub-branches.

MANAGEMENT DISCUSSION AND ANALYSIS

The Bank is committed to using advanced information technology systems to improve the performance of credit risk management. The Bank's credit management system enables account managers to efficiently collect and analyze customer data, such as historical transaction records and financial conditions, and provides close monitoring and timely alert on loans reaching maturity. The information technology system automatically matches credit applications to the corresponding approval procedures based on the amount of credit requested, which reduces the risk of unauthorized approval. In addition, account managers and management departments at all levels can access real-time information of overdue loans through the Bank's information technology system to control risks stemming from overdue loans.

The Bank is dedicated to striking a balance between achieving steady loan growths and maintaining a prudent culture of risk management. The Bank prepared detailed guidance on credit risk management based on the provincial, national and international economic conditions, as well as government policies and regulatory requirements. In formulating the credit policies, the Bank studies the macroeconomic environment in Shanxi Province and the PRC and analyzes the risks and uncertainties relevant to the Bank's operations. The Bank also closely follows the updates in local and national economic development plans, financial regulations and monetary policies, and adjusts the Bank's credit guidelines accordingly.

Market Risk

Market risk refers to the risk of changes in market prices caused by interest rates, exchange rates and other market factors. The Bank is exposed to market risks primarily through the assets and liabilities on the balance sheet and the commitments and guarantees off the balance sheet. The Bank's market risk management involves the identification, measuring, monitoring and control of market risks. The Bank primarily employs risk sensitivity and stress tests in measuring and monitoring market risks. The Bank adopts different quantitative measures to manage various types of market risks in the Bank's banking and trading books.

Specifically, the Bank implemented market risk management throughout the business operation, and it has established a complete market risk control system. Focusing on preventing the risk of market interest rate fluctuations, the Bank improved market risk sensitivity, monitored account duration and fair value changes on a mark-to-market basis, and conducted regular interest rate risk analysis on all position assets. Based on reasonable proportions of various assets, the Bank kept the proportion, duration and stop-loss limits of various assets within a reasonable range. The Bank makes timely adjustments to the size and structure of assets in response to changes in the market environment to ensure that its various market risk indicators meet regulatory requirements and operational needs.

As of June 30, 2020, the Bank operated a small foreign exchange business and held an insignificant amount of U.S. dollars. The Bank has put together various policies and operational procedures for its foreign exchange businesses, such as foreign currency settlement, sales and payment, and foreign currency trading, to control the relevant exchange rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity Risk

Liquidity risk is the risk of failure to obtain sufficient funds in a timely manner or at a reasonable cost to fulfill payment obligations when due. Factors affecting the Bank's liquidity include changes in the maturity profiles of the Bank's assets and liabilities and the monetary policies of the PBoC, such as changes in the statutory deposit reserve ratio. The Bank is exposed to liquidity risks primarily in lending, trading and investment activities and in managing its liquidity position.

The Bank has established a liquidity risk management system and an organizational structure where its Board of Directors bears the ultimate responsibilities for the Bank's liquidity risk management and the senior management is responsible for formulating liquidity risk management strategies and policies. The Bank manages liquidity risk through monitoring the maturities of assets and liabilities to ensure it has sufficient funds readily available or at a reasonable cost to fulfill the payment obligations as they become due. The Assets and Liabilities Management Department monitors the Bank's capital position on a daily basis, and provides risk alerts and reminders in a timely manner. The Bank strictly observes the relevant regulatory requirements, closely monitors liquidity regulatory indicators, formulates liquidity risk contingency plans, enhances daily management of liquidity risk and regularly conducts liquidity stress tests.

Operational Risk

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information systems, or external events, mainly covering internal and external frauds, misconduct of employees, security failure, business interruptions, information system breakdown, and so on.

The Bank has established an operational risk management structure consisting of the Board of Directors, the Board of Supervisors, senior management, the Legal and Compliance Department, the Audit Department, various lines (departments), and branches and sub-branches. The Bank continued to improve its operational risk management system, continuously strengthened the application of operational risk management tools, actively implemented business process management, investigation of loss events and system monitoring, actively identified, analyzed and evaluated operational risks, improved internal process construction, and enhanced operational risk management capabilities.

Based on enhanced internal control and implementation of compliance management, the Bank continuously strengthened operational risk management and control through measures such as system improvement, compliance inspection and supervision, investigation of employee behaviors, and compliance education. At the same time, it continued to improve business continuity and emergency management mechanism, organized business continuity drills to improve emergency response capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

Information Technology Risk

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural factors, human errors, technical loopholes and management failure arising from the Bank's use of information technology. The Bank has set up an Information Technology Management Committee and the Legal and Compliance Department and Information Technology Department at the head office are responsible for managing information technology risks. The Bank strives to continuously improve the information technology infrastructure and the Bank's information technology management system in line with the national standards and regulatory requirements.

To ensure the security of information technology, the Bank has hired professionals to supervise the information security system and established a series of information security management measures to prevent any unauthorized network intrusions, attacks, data leakage or third-party tampering with the Bank's information system. As part of the Bank's business continuity management measures, the Bank has established a disaster backup and recovery system comprising two local active application-level centers and one off-site data-level disaster recovery center. The Bank has also established detailed contingency plans regarding the potential breakdown of the information system to ensure the continuity of operations. The Bank conducts periodic disaster drills for business continuity for important businesses.

Reputational Risk

Reputational risk refers to the risk of negative publicity and comments on the Bank due to the Bank's operations, management, and other activities or external events. The Bank takes its reputation seriously and has established an effective reputational risk management mechanism to monitor, identify, report, control, and assess the reputational risk, and at the same time manages the reputational risk emergency handling, and minimize any loss and negative impact on the Bank due to such incidents.

The Office of the Board of Directors of the Bank is responsible for undertaking management of overall reputational risks, including establishing a bank-wide reputational risk management system, and formulating basic internal policies. The Bank has also set up reputational risk incidents emergency response teams at the branches and sub-branches, so that the head office can be promptly informed upon the occurrence of material and urgent incidents and take appropriate actions accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Risk

Strategic risk is caused by inappropriate business strategies or changes in the external operating environment during the establishing and implementing of the strategy, which may have a negative impact on the current, or future, profit, capital, reputation or market position of the Bank.

The Bank actively evaluates and adjusts its business development strategy to enhance the Bank's adaptability in the face of unexpected market changes. The Office of Strategic Development under the Board of Directors is responsible for managing the Bank's strategic risks. The Bank identifies and formulates risk factors through cooperation between the Office of Strategic Development and the Risk Management Department; conducts regular review and studies on prevailing market conditions and the Bank's business operation status to timely identify potential risks, makes prompt adjustment to the strategies and relevant implementation measures accordingly, and closely monitors the implementation of the strategies.

10 BUSINESS REVIEW

During the Reporting Period, the Group's principal business lines comprised corporate banking, retail banking and financial markets. The following table sets forth the operating income of each business segment of the Group for the periods indicated.

	For the six months ended June 30,			
	2020		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Corporate banking	1,830.8	70.4	1,619.8	65.5
Retail banking	270.3	10.4	557.6	22.6
Financial markets	484.9	18.6	272.1	11.0
Others ⁽¹⁾	14.9	0.6	22.4	0.9
Total operating income	2,600.9	100.0	2,471.9	100.0

Note:

(1) Consists primarily of income that is not directly attributable to any specific segment.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate banking

The Bank positions itself as a “financial steward” and a “partner of the real economy” for local governments in Shanxi Province, whereby it proactively participates in projects with key importance for local economic development in Shanxi Province, and provides corporate banking customers with a wide range of products and services, including corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services, and guarantee services.

The Group’s operating income from corporate banking increased from RMB1,619.8 million for the six months ended June 30, 2019 to RMB1,830.8 million for the six months ended June 30, 2020, which accounts for 70.4% of total operating income for the same period. The increase in operating income from corporate banking was primarily due to the growth of the size of corporate banking assets, which was partially offset by the Bank’s returning interest and reducing interest rate to make profit transfer to micro, small and medium-sized enterprises as well as a decrease in the yield on discounted bills affected by the market during the COVID-19 outbreak period.

For the six months ended June 30, 2020, the Bank continued to improve its ability of catering to corporate banking customers’ needs for differentiated financial products, and also focused on the development of fee and commission-based corporate banking business and services, continuously optimized the business structure, and enriched its product portfolio.

Retail banking

Capitalizing on its deep knowledge of the local market and the preferences of retail banking customers, the Bank focused on developing and launching various well-received retail banking products and services and established strong competitiveness strength in terms of distribution channels, customer base, product mix, and innovative capacities. The Bank provided a range of products and services to retail banking customers, including personal loans, deposit taking services, personal wealth management services and remittance services.

The Group’s operating income from retail banking decreased from RMB557.6 million for the six months ended June 30, 2019 to RMB270.3 million for the six months ended June 30, 2020, which accounts for 10.4% of total operating income for the same period. The decrease in operating income from retail banking was primarily due to the increase in cost of retail deposit and the decrease in return on assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Relying on quality services, the number of retail banking customers of the Group further increased during the Reporting Period, from 2,589.85 thousand as of December 31, 2019 to 2,683.59 thousand as of June 30, 2020. After years of persistent efforts, the Bank has established an extensive business network in regions within Shanxi Province showing strong economic growth. As of June 30, 2020, the Bank had one head office, ten branches, 151 sub-branches (including four sub-branches directly administered by the head office, 126 city-level sub-branches, and 21 county-level sub-branches) and one 51.0% owned subsidiary, Qingxu Village and Township Bank. In total, the Bank had 162 outlets, which covered all 11 prefecture-level cities in Shanxi Province.

During the Reporting Period, based on the comprehensive coverage of the business network, the Bank is committed to making use of advanced technologies to provide customers with convenient online and mobile financial products and services. The Bank also continuously enriched its online banking services and attracted customers with a good tailor-made user experience through technological upgrade. In addition, by integrating high-quality resources, the Bank provided professional and comprehensive financial services to high net worth individuals in the province.

Financial markets

The financial markets business of the Group mainly includes inter-bank money market transactions, repurchases transactions, inter-bank investments, bond investment and trading, and issuance of debts.

During the Reporting Period, the Bank closely monitored the changes in the macroeconomic situation, adhered to the direction of financial market policies, strengthened the monitoring and analysis of market conditions, seized business development opportunities, and rationally formulated investment strategies and actively carried out innovative business under the premise of risk control, while continuously optimizing the investment portfolio, increasing the investment in standardized bonds, and gradually adjusting the asset structure.

The financial market business continued to focus on liquidity management and to improve profitability, constantly promote new businesses, maintain risk prevention and compliance management, and continuously enhance the Bank's market activity and influence.

The Group's operating income from financial markets business increased from RMB272.1 million for the six months ended June 30, 2019 to RMB484.9 million for the six months ended June 30, 2020, which accounts for 18.6% of total operating income. The increase in operating income from financial markets business was due to significant decrease in interest expenses of financial markets business caused by the decrease in interbank deposit financing costs, and the increase in the dividend distributed by the funds invested by the Bank as compared with the same period of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Interbank Market Transactions

The Group's interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreement and sale under repurchase agreement, which mainly involves bonds and bills.

As of June 30, 2020, deposits with banks and other financial institutions were RMB1,945.7 million, accounting for 0.7% of the Group's total assets as of June 30, 2020. As of the same date, deposits from banks and other financial institutions amounted to RMB6,738.3 million, accounting for 2.7% of the Group's total liabilities as of June 30, 2020.

As of June 30, 2020, placements with banks and other financial institutions were RMB500.0 million, accounting for 0.2% of the Group's total assets as of June 30, 2020. As of the same date, placements from banks and other financial institutions were RMB1,401.2 million, accounting for 0.6% of the Group's total liabilities as of June 30, 2020.

As of June 30, 2020, financial assets held under resale agreements were RMB17,247.4 million, accounting for 6.5% of the Group's total assets as of June 30, 2020. As of the same date, financial assets sold under repurchase agreements were RMB14,940.1 million, accounting for 6.1% of the Group's total liabilities as of June 30, 2020.

Investment Management

The Group's investment management business mainly consists of debt securities investment and SPV investment. Specifically, debt securities include debt securities issued by PRC government, policy banks, commercial banks and other financial institutions, and enterprises. SPV investment refers to investments in trust plans, asset management plans, wealth management products, and investment funds. When making debt securities investment and SPV investment, the Bank takes into account a broad range of factors, including but not limited to risk appetite, capital consumption level and expected yields of relevant products, as well as overall economic conditions and relevant regulatory development, to achieve a better balance between risk and return.

As of June 30, 2020, the balance of bond investment was RMB38,050.6 million, representing an increase of 12.4% from as of December 31, 2019, mainly due to the Bank actively increased its investment in debt securities issued by PRC government, policy financial bonds and debt securities issued by commercial banks, according to the market conditions, its business needs and annual investment strategies.

As of June 30, 2020, the total SPV investment decreased by 9.4% from RMB50,326.3 million as of December 31, 2019 to RMB45,601.7 million, primarily due to normal payment at maturity under some asset management plans during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Wealth Management

During the Reporting Period, the Bank actively expanded its wealth management products and services to attract a wider range of customers with different financial needs and risk tolerance, and effectively respond to the challenges of traditional banking services amid interest rate marketization. For the six months ended June 30, 2020, the amount of wealth management products issued by the Group was RMB40,991.0 million, representing an increase of 52.4% from the six months ended June 30, 2019, mainly due to increased sales of wealth management products during the Reporting Period as a result of active trading in cash management products. As of June 30, 2020, the Group had more than 260,000 wealth management customers, a further increase from the end of 2019.

As of June 30, 2020, the outstanding balance of wealth management products issued by the Group was RMB31,771.9 million, representing an increase of 0.48% as of December 31, 2019, mainly because the Bank actively implemented the New Asset Management Regulations to continuously increase the efforts on transformation toward net worth wealth management products, especially the issuance and promotion of net worth products. However, affected by the epidemic, the growth of existing wealth management products slowed down at the end of the Reporting Period. For the six months ended June 30, 2020, the fee and commission income from the wealth management products issued by the Group was RMB74.3 million, representing a decrease of 9.4% from the six months ended June 30, 2019, mainly due to slowed sales of closed-end wealth management products under the impact of the epidemic, which led to a decrease in income.

Debt Securities Distribution

The Bank's investment banking team provides customers with comprehensive financial services through the debt securities distribution business, to further leverage the Bank's strong capacity in managing capital market transactions, and to broaden its customer base.

The Bank obtained the preliminary and Class-B qualification for underwriting debt financing instruments issued by non-financial enterprises in October 2016 and February 2019, respectively, the latter of which allows the Bank to act as a lead underwriter in the regional market. For the six months ended June 30, 2020, the aggregate principal amount of debt securities the Bank distributed amounted to RMB38,754.0 million, representing an increase of 120.7% from the six months ended June 30, 2019, mainly reflecting that in 2020, monetary policy easing with abundant funds, and under influence of the epidemic, the institutions allocated more safe-haven assets, as well as the government rolled out policies in support of bonds market in order to mitigate influence of the epidemic, which resulted in the booming of bonds business. At the same time, the Bank strengthened the building of sales channels, leading to a significant increase in distribution business volume.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Share Capital

There was no change in the Bank's share capital during the Reporting Period.

On July 18, 2019, the Bank was listed on the Main Board of the Hong Kong Stock Exchange, with an initial public offering of 860,000,000 H Shares with a par value of RMB1. In addition, 110,650,000 H Shares were issued pursuant to the partial exercise of the over-allotment option as set out in the Bank's prospectus and were listed on the Main Board of the Hong Kong Stock Exchange on August 14, 2019.

As of June 30, 2020, the Bank issued a total of 5,838,650,000 Shares, including 4,868,000,000 Domestic Shares and 970,650,000 H Shares.

	December 31, 2019		June 30, 2020		Changes during the Reporting Period
	Number of Shares	Percentage of total share capital	Number of Shares	Percentage of total share capital	
Domestic state-owned shares	466,142,486	7.98%	466,142,486	7.98%	-
Domestic state-owned legal person shares	2,732,041,542	46.79%	2,732,041,542	46.79%	-
Domestic social legal person shares	1,590,785,918	27.25%	1,590,785,918	27.25%	-
Domestic natural person shares	79,030,054	1.35%	79,030,054	1.35%	-
H Shares	970,650,000	16.62%	970,650,000	16.62%	-
Total shares	5,838,650,000	100.00%	5,838,650,000	100.00%	-

Note: The inconsistency between the figures and the total sum stated in this table is caused by rounding.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

II. INFORMATION OF SHAREHOLDERS

1. Total Number of Domestic Shareholders

As at June 30, 2020, the total number of Domestic Shareholders of the Bank was 7,308.

2. Top 10 Holders of Domestic Shares of the Bank

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held at the beginning of the Reporting Period (shares)	Total number of Shares held at the end of the Reporting Period (shares)	Percentage of total share capital at the end of the Reporting Period (%)	Share pledged or frozen Share status	Quantity
1	Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司)	State-owned legal person shares	715,109,200	715,109,200	12.25%	Normal	-
2	Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	State-owned legal person shares	600,000,000	600,000,000	10.28%	Normal	-
3	Taiyuan Municipal Finance Bureau (太原市財政局)	State-owned shares	466,142,486	466,142,486	7.98%	Normal	-
4	Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司) ("Changzhi Nanye")	Social legal person shares	450,657,435	450,657,435	7.72%	Normal	-
5	Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	State-owned legal person shares	359,091,687	359,091,687	6.15%	Normal	-
6	Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	State-owned legal person shares	300,000,000	300,000,000	5.14%	Normal	-
7	Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	State-owned legal person shares	291,339,054	291,339,054	4.99%	Normal	-
8	Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司) ("Changzhi Huashengyuan")	Social legal person shares	234,569,820	234,569,820	4.02%	Normal	-
9	Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司)	State-owned legal person shares	200,000,000	200,000,000	3.43%	Normal	-
10	Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司)	State-owned legal person shares	200,000,000	200,000,000	3.43%	Normal	-
	Total	-	3,816,909,682	3,816,909,682	65.39%	-	-

Note: The inconsistency between the figures and the total sum stated in this table is caused by rounding.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

3. Interests and Short Positions under the SFO in Hong Kong

As of the date of this Interim Report, according to the register maintained by the Bank pursuant to section 336 of the SFO, and to the best knowledge of the Bank, the following persons (other than the Directors, Supervisors and chief executives of the Bank) will have or be deemed or taken to have interests and/or short positions in the Shares or underlying shares of the Bank which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital of the Bank carrying rights to vote in all circumstances at the general meetings of any other member of our Bank:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Shanxi State-owned Capital Operation Co., Ltd ⁽¹⁾ (山西省國有資本運營有限公司) (“SSCO”)	Interest in controlled corporations	Domestic Shares	1,406,430,741		24.09%	28.89%
Shanxi Financial Investment Holding Group Co., Ltd. (山西金融投資控股集團有限公司)	Beneficial owner	Domestic Shares	715,109,200		12.25%	14.69%
China Huaneng Group Co., Ltd. (中國華能集團有限公司) ⁽²⁾	Interest in controlled corporations	Domestic Shares	600,000,000		10.28%	12.33%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	Beneficial owner	Domestic Shares	600,000,000		10.28%	12.33%
Taiyuan Municipal Finance Bureau (太原市財政局)	Beneficial owner	Domestic Shares	466,142,486		7.98%	9.58%
	Interest in controlled corporations	H Shares	102,400,000		1.75%	10.54%
Taiyuan State-owned Investment Group Limited (太原國有投資集團有限公司)	Beneficial owner	H Shares	102,400,000		1.75%	10.54%
Mr. Li Yang ⁽³⁾	Interest in controlled corporations	Domestic Shares	685,227,255		11.74%	14.08%
Changzhi Nanye ⁽³⁾	Beneficial owner	Domestic Shares	450,657,435		7.72%	9.26%
	Interest in controlled corporations	Domestic Shares	234,569,820		4.02%	4.82%

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Ms. WANG Yanli ⁽³⁾	Interest in controlled corporations	Domestic Shares	685,227,255		11.74%	14.08%
Changzhi Huashengyuan ⁽³⁾	Beneficial owner	Domestic Shares	234,569,820		4.02%	4.82%
	Interest in controlled corporations	Domestic Shares	450,657,435		7.72%	9.26%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	Beneficial owner	Domestic Shares	359,091,687		6.15%	7.38%
Jinneng Group Co., Ltd. (晉能集團有限公司) ⁽⁴⁾	Interest in controlled corporations	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	Beneficial owner	Domestic Shares	300,000,000		5.14%	6.16%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	Beneficial owner	Domestic Shares	291,339,054		4.99%	5.98%
Shanxi Qinxin Energy Group Co., Ltd. (山西沁新能源集團股份有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Taiyuan Industrial Park Investment Holdings Co., Ltd. (太原工業園區投資控股有限公司)	Beneficial owner	H Shares	102,297,000		1.75%	10.54%
Guotai Junan International Holdings Limited (國泰君安國際控股有限公司) ⁽⁵⁾	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%
Guotai Junan (Hong Kong) Limited (國泰君安(香港)有限公司) ⁽⁵⁾	Interest in controlled corporations	H Shares	61,300,000		1.05%	6.32%
	Interest in controlled corporations	H Shares		61,300,000	1.05%	6.32%

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held (long position)	Number of Shares directly or indirectly held (short position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Guotai Junan Financial Products Limited (國泰君安金融產品有限公司) ⁽⁵⁾	Beneficial owner	H Shares	61,300,000		1.05%	6.32%
	Beneficial owner	H Shares		61,300,000	1.05%	6.32%
China Credit Trust Co., Ltd. (中誠信託有限責任公司) ⁽⁶⁾	Interest in controlled corporations	H Shares	102,297,000		1.75%	10.54%
Harvest Fund Management Co., Ltd. (嘉實基金管理有限責任公司) ⁽⁶⁾	Investment manager	H Shares	102,297,000		1.75%	10.54%
Orient Fund Management Co., Ltd. (東方基金管理有限責任公司)	Trustee	H Shares	102,430,000		1.75%	10.55%
China Foreign Economy and Trade Trust Co., Ltd. (中國對外經濟貿易信託有限公司)	Trustee	H Shares	102,297,000		1.75%	10.54%
Guotai Asset Management Co., Ltd. (國泰基金管理有限責任公司)	Investment manager	H Shares	62,044,000		1.06%	6.39%
GF Asset Management – Xumao Single Investment Asset Management Plan (廣發資管一旭茂投資單一資產管理計劃)	Trustee	H Shares	57,873,000		0.99%	5.95%

Notes:

- (1) During the Reporting Period, Shanxi State-owned Capital Investment and Operation Co., Ltd. was renamed Shanxi State-owned Capital Operation Co., Ltd.

SSCO indirectly held 1,406,430,741 Domestic Shares, representing 24.09% equity interest in our Bank. SSCO's shareholding in our Bank was held through several subsidiaries, including (i) Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司) with 6.15% equity interest in our Bank; (ii) Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司) with 4.99% equity interest in our Bank; (iii) Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司) with 5.14% equity interest in our Bank; (iv) Taiyuan Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司) with 3.43% equity interest in our Bank; (v) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司) with 3.43% equity interest in our Bank; and (vi) Shanxi Investment Group Co., Ltd. (山西省投資集團有限公司) with 0.98% equity interest in our Bank.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

- (2) China Huaneng Group Co., Ltd. indirectly held 600,000,000 Domestic Shares, representing 10.28% equity interest in our Bank through Huaneng Capital Services Co., Ltd., in which China Huaneng Group Co., Ltd. held 61.22% equity interest. By virtue of SFO, China Huaneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Huaneng Capital Services Co., Ltd.
- (3) Mr. LI Yang held 90% equity interest in Changzhi Nanye, and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan.

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing approximately 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

- (4) Jinneng Group Co., Ltd., a subsidiary of SSCO with 64% equity interest, indirectly held 300,000,000 Domestic Shares, representing 5.14% equity interest in our Bank through its wholly-owned subsidiary, Shanxi International Electricity Group Limited Company. By virtue of SFO, Jinneng Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Shanxi International Electricity Group Limited Company.
- (5) Guotai Junan International Holdings Limited was interested in the long position of 61,300,000 H Shares, representing 1.05% equity interest in our Bank, and 61,300,000 short positions in H Shares, representing 1.05% equity interest in our Bank through its wholly-owned subsidiaries, Guotai Junan (Hong Kong) Limited and Guotai Junan Financial Products Limited. By virtue of SFO, Guotai Junan International Holdings Limited and Guotai Junan (Hong Kong) Limited are deemed to be interested in the H Shares held by Guotai Junan Financial Products Limited.
- (6) China Credit Trust Co., Ltd. was interested in the long position of 102,297,000 H Shares, representing 1.75% equity interest in our Bank through its wholly-owned subsidiary Harvest Fund Management Co., Ltd. By virtue of SFO, China Credit Trust Co., Ltd. is deemed to be interested in the H Shares held by Harvest Fund Management Co., Ltd.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

III. MAJOR SHAREHOLDERS DURING THE REPORTING PERIOD

According to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, major shareholders of a commercial bank refer to shareholders holding or controlling 5% or more of shares or voting right of the commercial bank, or holding less than 5% of total capital or total shares of the commercial bank but having significant impact on the operational management of the commercial bank. The “significant impact” mentioned above includes but is not limited to dispatching directors, supervisors or senior management to a commercial bank, influencing the financial and operational management decisions of commercial banks through agreements or other means and other circumstances identified by the CBRC or its local offices.

1. Shareholders Holding 5% or More of the Bank’s Share Capital

Shanxi Financial Investment Holding Group Co., Ltd. is wholly-owned by the Shanxi Provincial Department of Finance; the actual controller is the Shanxi Provincial Department of Finance, and the ultimate beneficiary is Shanxi Financial Investment Holding Group Co., Ltd., without person acting-in-concert.

The controlling shareholder of Huaneng Capital Services Co., Ltd. is China Huaneng Group Co., Ltd.; the actual controller is the State-owned Assets Supervision and Administration Commission of the State Council, and the ultimate beneficiary is Huaneng Capital Services Co., Ltd., without person acting-in-concert.

Taiyuan Municipal Finance Bureau is a government authority legal person, and the ultimate beneficiary is the Taiyuan Municipal Finance Bureau, without person acting-in-concert.

The controlling shareholder of Changzhi Nanye Industry Group Co., Ltd. is LI Yang; the actual controller is LI Yang, and the ultimate beneficiary is Changzhi Nanye, being persons acting-in-concert with Changzhi Huashengyuan.

Shanxi Lu’an Mining (Group) Co., Ltd. is wholly-owned by SSCO; the actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi Lu’an Mining (Group) Co., Ltd., without person acting-in-concert.

Shanxi International Electricity Group Limited Company is wholly-owned by Jinneng Group Co., Ltd.; the actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi International Electricity Group Limited Company, without person acting-in-concert.

For details of the Shareholders holding 5% or more of the Bank’s share capital, please also see II. Information of Shareholders above.

CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

2. Other Major Shareholders

In addition to the Shanxi Financial Investment Holding Group Co., Ltd., Huaneng Capital Services Co., Ltd., Taiyuan Municipal Finance Bureau, Changzhi Nanye, Shanxi Lu'an Mining (Group) Co., Ltd. and Shanxi International Electricity Group Limited Company disclosed above, Shanxi Coking Coal Group Co., Ltd. and Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. hold less than 5% of the Bank's Shares but dispatch directors or supervisors to the Bank.

Shanxi Coking Coal Group Co., Ltd. is wholly-owned by SSCO. The actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province and the ultimate beneficiary is Shanxi Coking Coal Group Co., Ltd., without person acting-in-concert.

The controlling shareholder of Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. is SSCO. The actual controller is the State-owned Assets Supervision and Administration Commission of Shanxi Province, and the ultimate beneficiary is Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd., without person acting-in-concert.

IV. SHAREHOLDERS' NOMINATION OF DIRECTORS AND SUPERVISORS

- (1) Shanxi Financial Holding Group Co., Ltd. nominated LI Shishan as a Director of the Bank;
- (2) Huaneng Capital Services Co., Ltd. nominated XIANG Lijun as a Director of the Bank;
- (3) Taiyuan Municipal Finance Bureau nominated LIU Chenhang as a Director of the Bank;
- (4) Changzhi Nanye nominated LI Yang as a Director of the Bank;
- (5) Shanxi Lu'an Mining (Group) Co., Ltd. nominated WANG Jianjun as a Director of the Bank;
- (6) Shanxi Jincheng Anthracite Coal Mining Group Co., Ltd. nominated BI Guoyu as a Supervisor of the Bank;
- (7) Shanxi Coking Coal Group Co., Ltd. nominated XU Jin as a Supervisor of the Bank;
- (8) Shanxi International Electricity Group Limited Company nominated XIA Guisuo as a Supervisor of the Bank.

V. PURCHASE, SALE AND REDEMPTION OF ANY OF THE BANK'S LISTED SECURITIES

During the Reporting Period and up to the date of this Interim Report, the Bank or any of its subsidiaries did not purchase, sell or redeem any of the Bank's listed securities.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Our Board of Directors consists of fifteen Directors, including four executive Directors, five non-executive Directors and six independent non-executive Directors. Our Directors are elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position(s)	Date of appointment ⁽¹⁾
Mr. WANG Junbiao (王俊彪)	49	Executive Director; Chairman of the Board	March 10, 2020 ⁽²⁾
Mr. YAN Junsheng (閻俊生)	59	Executive Director; Chairman of the Board	February 25, 2009 (as executive Director) December 8, 2014 ⁽⁴⁾ (as Chairman of the Board)
Mr. TANG Yiping (唐一平)	53	Executive Director; vice chairman of the Board and president	February 16, 2017
Mr. WANG Peiming (王培明)	60	Executive Director	February 16, 2013
Mr. RONG Changqing (容常青)	50	Executive Director and vice president	September 29, 2018
Mr. LI Shishan (李世山)	55	Non-executive Director	June 21, 2017
Mr. XIANG Lijun (相立軍)	43	Non-executive Director	August 8, 2018
Mr. LIU Chenhang (劉晨行)	55	Non-executive Director	December 30, 2019
Mr. LI Yang (李楊)	33	Non-executive Director	May 4, 2018 ⁽³⁾
Mr. WANG Jianjun (王建軍)	44	Non-executive Director	August 8, 2018
Mr. JIN Haiteng (金海騰)	68	Independent non-executive Director	June 5, 2017
Mr. SUN Shihu (孫試虎)	75	Independent non-executive Director	February 24, 2017
Mr. WANG Liyan (王立彥)	63	Independent non-executive Director	September 14, 2018
Mr. DUAN Qingshan (段青山)	62	Independent non-executive Director	May 4, 2018 ⁽³⁾
Mr. SAI Zhiyi (賽志毅)	51	Independent non-executive Director	August 7, 2018
Mr. YE Xiang (葉翔)	56	Independent non-executive Director	August 8, 2019

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Notes:

- (1) The date of appointment as a Director stated here represents the date on which the relevant Director obtained the qualification approval from CBIRC Shanxi Office.
- (2) Mr. WANG Junbiao was approved by the shareholders' general meeting as an executive Director on March 10, 2020, his qualification of directorship shall be subject to the approval from the regulatory authorities for the banking industry and other relevant regulatory authorities (the "**Relevant Regulatory Authorities**"), and his term shall be effective for three years from the date of approval by the Relevant Regulatory Authorities to the date of expiration of the term of office of the fifth session of the Board of the Bank.
- (3) The date of appointment as a Director for Mr. LI Yang and Mr. DUAN Qingshan stated here represents the date on which each of them was elected as a Director at the relevant shareholders' general meeting of our Bank. Their qualifications of directorship are subject to the approval by the CBIRC Shanxi Office.
- (4) As stated herein, due to work re-arrangement, Mr. YAN Junsheng resigned as an executive Director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank on January 8, 2020. Mr. Yan's resignation took effect on January 8, 2020. For details, please refer to the announcement entitled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

2. Supervisors

The PRC Company Law requires a joint stock company to establish a Board of Supervisors that is responsible for supervising performance of the Board of Directors and senior management, its financial operations, internal control and risk management. Our Board of Supervisors consists of nine Supervisors, including three employees' representative Supervisors, three Shareholders' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Name	Age	Position(s)	Date of appointment
Mr. XIE Liying (解立鷹)	53	Employees' representative Supervisor; chairman of the Board of Supervisors	July 24, 2009 (as a Supervisor) December 8, 2016 (as the chairman of the Board of Supervisors)
Mr. BI Guoyu (畢國鈺)	56	Shareholders' representative Supervisor	February 5, 2009
Ms. XU Jin (徐瑾)	43	Shareholders' representative Supervisor	December 18, 2015
Mr. XIA Guisuo (夏貴所)	57	Shareholders' representative Supervisor	May 4, 2018
Mr. WEN Qingquan (溫清泉)	47	Employees' representative Supervisor	May 13, 2019
Mr. GUO Zhenrong (郭振榮)	55	Employees' representative Supervisor	May 13, 2019
Mr. LIU Shoubao (劉守豹)	53	External Supervisor	December 18, 2015
Mr. WU Jun (吳軍)	67	External Supervisor	May 4, 2018
Mr. LIU Min (劉旻)	57	External Supervisor	May 4, 2018

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

3. Senior Management

Name	Age	Position(s)	Date of appointment ⁽¹⁾
Mr. TANG Yiping (唐一平)	53	Executive Director, vice chairman of the Board of Directors and president	February 16, 2017
Ms. HAO Qiang (郝強)	47	Vice president	November 20, 2017
Mr. GAO Jiliang (高計亮)	55	Vice president	May 15, 2018
Mr. RONG Changqing (容常青)	50	Executive Director and vice president	December 21, 2018
Mr. ZHANG Yunfei (張雲飛)	49	Chief risk officer	May 26, 2011
Ms. HOU Xiuping (侯秀萍)	52	Chief financial officer	October 8, 2015
Mr. WEN Gensheng (溫根生)	55	Chief human resources officer	December 8, 2016 ⁽²⁾
Mr. ZHAO Jiquan (趙基全)	46	Chief audit officer (chief compliance officer) and assistant to the president	April 3, 2019 ⁽³⁾ November 22, 2019
Mr. LI Weiqiang (李為強)	55	Secretary to the Board of Directors	December 9, 2019
Mr. ZHAO Fu (趙富)	52	Chief marketing officer	January 2, 2020
Mr. NIU Jun (牛俊)	52	Chief operation officer	January 2, 2020
Mr. SHANGGUAN Yujiang (上官玉將)	47	Assistant to the president	December 9, 2019

Notes:

- (1) Unless otherwise stated, the date of appointment stated here represents the date on which the relevant senior management members obtained the qualification approval from the CBIRC Shanxi Office.
- (2) Mr. WEN Gensheng is our chief human resources officer whose qualification does not need to obtain the qualification approval from CBIRC Shanxi Office. The date stated here represents the date of appointment by the Board of Directors.
- (3) The date stated here represents the date of appointment of Mr. ZHAO Jiquan by the Board of Directors, which is subject to the qualification approval by the CBIRC Shanxi Office.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the Reporting Period and up to the date of this Interim Report, the following changes have been made to the Directors, Supervisors and senior management of the Bank.

Changes in Directors

On January 8, 2020, due to work re-arrangement, Mr. YAN Junsheng resigned as an executive Director, the chairman of the Board, the chairperson and a member of the Development and Strategy Committee, a member of the Nomination, Remuneration and HR Committee and an authorized representative of the Bank. Mr. Yan's resignation took effect on January 8, 2020. For details, please refer to the announcement entitled "Resignation of Executive Director and Chairman" issued by the Bank on January 8, 2020.

On March 10, 2020, Mr. WANG Junbiao was appointed as an executive Director and chairman of the fifth session of the Board of Directors of the Bank. The qualification of Mr. WANG Junbiao as the chairman of the Board is subject to approval by CBIRC Shanxi Office in this regard to come into effect and his term of services will take effect from the date of approval. For details, please refer to the announcement entitled "Proposed Appointment of Executive Director" issued by the Bank on January 17, 2020 and the announcement entitled "(I) Poll Results of the 2020 First Extraordinary General Meeting to Be Held on March 10, 2020 (Tuesday) (II) Appointment of Director (III) Election of Chairman; and (IV) Change of Board Committee Members" issued by the Bank on March 10, 2020.

Changes in Senior Management

On January 2, 2020, Mr. ZHAO Fu was approved by the CBIRC Shanxi Office as a chief marketing officer.

On January 2, 2020, Mr. NIU Jun was approved by the CBIRC Shanxi Office as a chief operation officer.

Save as disclosed above, there is no other relevant information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules during the Reporting Period.

III. JOINT COMPANY SECRETARIES

Ms. YEUNG Ching Man has served as joint company secretary of the Bank since January 25, 2019. Mr. LI Weiqiang has served as joint company secretary of the Bank since September 11, 2020.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

IV. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

During the Reporting Period and up to the date of this Interim Report, the Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Hong Kong Listing Rules as its code of conduct for regulating securities transactions by Directors, Supervisors and relevant employees of the Bank. Having made enquiry with all Directors and Supervisors, the Bank confirmed that they have been in compliance with the Model Code above throughout the Reporting Period. The Bank is not aware of any violations of the Model Code by the employees concerned.

V. INTERESTS AND SHORT POSITIONS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

As of the date of this Interim Report, the interests and short positions of the Directors, Supervisors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which were required to be recorded in the register maintained under section 352 of the SFO or to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors

Name of Director	Capacity	Class of Shares	Number of Shares held directly or indirectly (long position)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
Mr. LI Yang (李楊) ⁽¹⁾	Interest in controlled corporations	Domestic Shares	685,227,255	11.74%	14.08%
Mr. YAN Junsheng (閻俊生) ⁽²⁾	Interest of spouse	Domestic Shares	81,191	0.0014%	0.0016%

Notes:

- (1) Mr. LI Yang held 90% equity interest in Changzhi Nanye, and Ms. WANG Yanli held 70% equity interest in Changzhi Huashengyuan.

Changzhi Nanye and Changzhi Huashengyuan are parties acting-in-concert according to their respective confirmation. Therefore, Mr. LI Yang, Ms. WANG Yanli, Changzhi Nanye and Changzhi Huashengyuan will be deemed to be interested in 685,227,255 Domestic Shares, representing approximately 11.74% equity interest in our Bank. By virtue of SFO, Mr. LI Yang and Ms. WANG Yanli are deemed to be interested in the Domestic Shares held by both Changzhi Nanye and Changzhi Huashengyuan, while Changzhi Nanye and Changzhi Huashengyuan are deemed to be interested in the Domestic Shares held by each other.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

- (2) Ms. HAO Ronghua is Mr. YAN Junsheng's spouse, holding 81,191 Domestic Shares of our Bank. Mr. YAN Junsheng is deemed to be interested in the Domestic Shares held by Ms. HAO Ronghua under the SFO. On January 8, 2020, Mr. YAN Junsheng tendered his resignation as an executive Director of the Bank due to work re-arrangement.

Save as disclosed above, none of the Directors, chief executives or Supervisors of the Bank or their associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as of the date of this Interim Report.

VI. NUMBER OF EMPLOYEES, REMUNERATION POLICIES, EQUITY INCENTIVE PLAN AND TRAINING PROGRAMS

As of June 30, 2020, the total number of employees of the Group reached 4,249, of which 38.03% were employees aged 30 and below, and 84.37% were employees with bachelor's degree or above. Excellent age distribution and professional talent team can help cultivate a positive and innovative corporate culture and strengthen the ability to respond to market changes and seize market opportunities. As of June 30, 2020, the Bank had 339 employees qualified for AFP certification; 31 had CFP certificates.

Believing that its sustainable growth relies on the capability and dedication of its employees, the Bank has invested significant resources in talent development. The Bank offers a variety of training programs tailored for its employees at different levels. The Bank actively collaborates with prestigious universities and industry associations in the PRC and overseas, so as to offer cutting-edge courses on global and domestic economy, as well as leadership and management skills, to its senior and mid-level management team. For the executive personnel at its branches and sub-branches, the Bank provides annual week-long centralized training sessions themed in management upgrade, practical skills enhancement, and team building.

In compliance with the PRC laws and regulations, the Bank contributes to its employees' social security and other benefits program including pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing allowances and corporate annuity. The Bank has a labor union established in accordance with PRC laws and regulations, which represents the interests of the employees and works closely with the management of the Bank on labor-related issues.

VII. SHARE INCENTIVE SCHEME

During the Reporting Period, the Bank did not adopt or implement any share incentive scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

I. CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank continued to improve the transparency and accountability of its corporate governance and ensured high-level corporate governance practices to protect the Shareholders' interests and enhance the corporate value and commitment.

Our Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The composition of the Board of Directors and the special committees under the Board of Directors are in compliance with the requirements of the Hong Kong Listing Rules.

The Bank has adopted the Corporate Governance Code (the “Code”) in Appendix 14 to the Listing Rules and has also met the requirements of the administrative measures and corporate governance for domestic commercial banks and established a good corporate governance system. During the Reporting Period, the Bank has observed all applicable code provisions of the Code set forth in Appendix 14 to the Listing Rules.

The Bank is committed to maintaining a high standard of corporate governance. The Bank will continue to review and enhance its corporate governance to ensure compliance with the Code and meet the expectations of Shareholders and potential investors of the Bank.

Shareholders' General Meeting

During the reporting period, the Bank held two shareholders' general meetings in total, namely, (1) the 2020 first extraordinary general meeting held on Tuesday, March 10, 2020, in which the appointment of Mr. WANG Junbiao as an executive Director of the fifth session of the Board of Directors of the Bank was considered and approved; and (2) the 2019 Annual General Meeting, the 2020 First Domestic Shareholders' Class Meeting and the 2020 First H Shareholders' Class Meeting held on Tuesday, June 9, 2020, in which the following resolutions were considered and approved: (i) the Work Report of the Board of Directors for 2019; (ii) the Work Report of the Board of Supervisors for 2019; (iii) the Profit Distribution Plan for 2019; (iv) the Report of Final Financial Accounts for 2019; (v) the Financial Budget for 2020; (vi) the Report of the Board of Supervisors on Supervision and Assessment on the Performance of Duties by Directors during 2019; (vii) the Report of the Board of Supervisors on Assessment on the Performance of Duties by Supervisors during 2019; (viii) the Report of the Board of Supervisors on Supervision and Assessment on the Performance of Duties by Senior Management during 2019; (ix) the Determination of the Write-off Amount for Non-Performing Loans and Bad Debts for 2020; (x) the Revision of the Existing Annual Caps and the Terms of Continuing Connected Transactions; (xi) the Proposed Extension of the Term of Authorization for the Issuance of Financial Bonds; (xii) the Proposed Issuance of Green Financial Bonds; (xiii) the Proposed Issuance of Tier-2 Capital Bonds; (xiv) the Appointment of Auditors to Audit Financial Statements for 2020; (xv) the Proposed Amendments to the Articles of Association; and (xvi) the Proposed Amendments to the Rules of Procedures for the Shareholders' General Meeting and listened to (xvii) report on related party transactions for 2019.

The notification, convening and voting procedures of the above shareholders' general meetings are all in compliance with the relevant provisions of the PRC Company Law and the Articles of Association.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Meetings of the Board of Directors and Its Special Committees

During the Reporting Period, the Board of Directors held 7 meetings, at which 32 resolutions were considered and approved. The special committees under the Board of Directors held 7 meetings, including 1 meeting of the Development and Strategy Committee, 2 meetings of the Audit Committee, 1 meeting of the Related Party Transactions Control Committee, 1 meeting of the Risk Management Committee, 2 meetings of the Nomination, Remuneration and HR Committee.

Meetings of the Board of Supervisors and Its Special Committees

During the Reporting Period, the Board of Supervisors held 5 meetings, at which 39 resolutions were considered and approved. The special committees under the Board of Supervisors held 3 meetings, including 2 meetings of the Supervision Committee and 1 meeting of the Nomination Committee, at which 35 resolutions were considered and approved, including 31 resolutions considered and approved by the Supervision Committee and 4 resolutions considered and approved by the Nomination Committee.

Internal Control and Internal Audit

The Bank has established and continuously improved the effective corporate governance structure, with the Shareholders' general meeting as the highest authority, the Board of Directors as the decision-making body, the Board of Supervisors as the supervisory body and the senior management as the executive body, clearly defined the rules of procedure and decision-making procedures of each governance subject of the "Shareholders' general meetings, the Board of Directors, the Board of Supervisors and the senior management" ("三會一層"), and established a scientific and reasonable corporate governance mechanism with clear responsibility, separation of powers and balances and standardized operation.

The Board of Directors has established special committees, including the Development and Strategy Committee, Nomination, Remuneration and HR Committee, Audit Committee, Risk Management Committee, Consumer Rights Protection Committee and Related Parties Transactions Control Committee; the Board of Supervisors has established Nomination Committee and Supervision Committee. Risk Management Committee, Investment Management Committee, Assets and Liabilities Management Committee, Credit Review Committee, Financial Review Committee, Information technology Management Committee, Accountability Management Committee, Business Continuity Management Committee, Performance Appraisal Management Committee, corporate business management committee, retail business management committee and other special committees are under the senior management. The Board of Directors, the Board of Supervisors and their respective special committees have all formulated corresponding rules of procedure, and the offices of the Board of Directors and the Board of Supervisors are responsible for the daily affairs of "the Shareholders' general meeting, the Board of Directors and the Board of Supervisors" to ensure the normal and orderly running of the operations management and various businesses of the Bank.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Bank has also established an independent and vertical internal audit system that mainly comprises the Board of Directors, the Audit Committee and the Audit Department. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit Committee guides, evaluates and assesses our internal audit work, while our Audit Department of the head office carries out internal auditing at both the head office and the branch level. Our Audit Department formulates internal policies and annual audit plans based on regulatory requirements as well as our operation, management and business profile, and carries out audit work strictly in accordance with the annual audit plans after such plans are approved by the Board of Directors. Audit Department conducts both on-site inspections and off-site monitoring during routine audits on various departments and their operational and management activities. The Bank also conducts specific audits on our exposures to various risks such as credit risk, market risk, operational risk and information technology risk. For the issues or deficiencies identified in audits, the Audit Department gives timely notification to the relevant departments and advises on the implementation of effective rectification measures.

II. USE OF PROCEEDS

The proceeds from issuance of H Shares of the Bank have been used according to the intended use as disclosed in the prospectus of the Bank. All of the net proceeds from the Global Offering of the Bank (after deduction of the underwriting commissions and estimated expenses payable by the Bank in connection with the Global Offering) of approximately RMB3,171 million (including net proceeds from over-allotment) have been used to expand the capital of the Bank to support the ongoing business growth.

As approved by the preparatory team of CBIRC Shanxi Office, the Bank issued financial bonds in the national inter-bank bond market on December 13, 2018 and the payment was completed on December 17. This tranche of bonds totalled RMB5.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 4.00%. All funds raised from this tranche of bonds have been used to optimize the matching structure of medium-to-long-term assets and liabilities, increase the source of stable medium-to-long-term liabilities and support the development of new medium-to-long-term asset business in accordance with applicable laws and approvals from regulatory authorities.

As approved by the CBIRC Shanxi Office, the Bank issued financial bonds in the national inter-bank bond market on April 15, 2020 and the payment was completed on April 17, 2020. This tranche of bonds totalled RMB4.00 billion with a maturity of three years at a fixed interest rate and a coupon interest rate of 3.00%. All funds raised from this tranche of bonds have been used to optimize the matching structure of medium-to-long-term assets and liabilities, increase the source of stable medium-to-long-term liabilities and support the development of new medium-to-long-term asset business in accordance with applicable laws and approvals from regulatory authorities.

CORPORATE GOVERNANCE AND OTHER INFORMATION

III. PROFITS AND DIVIDENDS

The Group's revenue for the six months ended June 30, 2020 and financial position as of the same date are set out in the interim financial statements in this Interim Report.

The Shareholders of the Bank have reviewed and approved the 2019 profit appropriation plan at the 2019 annual shareholders' general meeting of the Bank held on June 9, 2020. The final dividend is RMB11.0 per 100 Shares (tax inclusive) for the year of 2019, and the total dividend amounted to approximately RMB642.3 million (tax inclusive), which was distributed to holders of H shares and Domestic Shares on July 29, 2020.

The Bank does not recommend distributing interim dividends for the six months ended June 30, 2020 or transferring any capital reserve to increase its share capital.

IV. MATERIAL LITIGATIONS AND ARBITRATIONS

As of the date of this Interim Report, the Bank expected that any current and pending proceedings or arbitration procedures will not have a material adverse effect on the Bank's business, financial condition and operating results (whether individually or collectively) after accrual of impairment provisions.

During the Reporting Period, the Bank was the defendant in one litigation with a claim amount of principal exceeding RMB10.0 million (RMB927.6 million). None of our Directors or senior management were involved in the case. Details of this legal proceeding of the Bank is set forth below.

Litigation against the Bank Brought by Bank X

In August 2017, Bank X brought a lawsuit against the Bank in relation to a bill-related dispute before the High People's Court in the province where Bank X is located. Bank X claimed that it purchased 98 bank acceptance bills ("**2015 Case Bills**") from Bank Y on August 18, 2015 by entering into a bill repurchase agreement with Bank Y, under which Bank Y agreed to repurchase 2015 Case Bills from Bank X on October 19, 2015. Bank X then claimed that it subsequently passed 2015 Case Bills to the Bank on October 19, 2015 with the expectation that the Bank would make payment to Bank Y after the Bank received the bills, so that Bank Y would have sufficient funds to repurchase 2015 Case Bills from Bank X. Bank X further alleged that the Bank failed to make payment to Bank Y after receiving 2015 Case Bills, nor did the Bank return 2015 Case Bills to Bank X. Based on these allegations, Bank X asserted that the Bank had no legitimate reason to hold or collect on 2015 Case Bills and that our doing so had violated its rights in relation to the same bills. Bank X demanded from the Bank damages equal to the principal of 2015 Case Bills which amounted to RMB927.6 million, together with interest incurred since October 19, 2015, the maturity date of the relevant bills, as well as attorney fees and court costs.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Bank is of the view that Bank X's allegations have no merits. Different from Bank X's allegations, the Bank purchased 2015 Case Bills after entering into a valid and binding bank acceptance bill transfer discount contract with Bank Z ("**Contract with Bank Z**") on October 19, 2015. This purchase was reviewed and approved by our Head of Financial Market Department (金融市場部) at the time, who was then the authorized approver for interbank transactions. Subsequently, on October 19, 2015 and in the following chronological order, (i) the Bank received 2015 Case Bills at a hotel from an employee of Bank X, verified the bills' authenticity pursuant to requirements under the relevant PRC laws and regulations governing such transactions, and confirmed that these bills were the very bills listed in Contract with Bank Z; (ii) the Bank paid full price to Bank Z under Contract with Bank Z, as evidenced by a transfer certificate showing Bank Z as the sole recipient of our payment; and (iii) the employee of Bank X, after confirming that the Bank had made full payment to Bank Z, allowed our employee to leave the hotel taking 2015 Case Bills with him. The Bank received 2015 Case Bills from an employee of Bank X, instead of one from Bank Z, because the relevant bills were physically held by Bank X's employee at the time of the transaction.

The Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills. Furthermore, neither Bank X nor Bank Y was the endorser on 2015 Case Bills. As advised by the legal advisor the Bank engaged in this case with respect to the relevant PRC laws and regulations, the Bank is of the view that there is no obligation for the Bank, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X.

The Bank made a self-inspection submission ("**January 2017 Submission**") in January 2017 pursuant to a regulatory investigation jointly initiated by the PBoC and the CBRC in relation to transactions involving 2015 Case Bills. Subsequent to our filing of January 2017 Submission and as of the date of this Interim Report, the Bank had not received further inquiry or penalty from PRC regulatory authorities in relation to transactions involving 2015 Case Bills, except that in May 2017, the Bank received one administrative penalty issued by CBRC Shanxi Office for our employee's failure to strictly follow relevant handling procedures when we accepted 2015 Case Bills from the employee of Bank X, such as demanding and verifying identity documents of the counterparty or conducting the transaction at a proper business venue. The Bank has made timely payment for this penalty.

As advised by the legal advisor the Bank engaged in this case and based on the evidence currently available, our Bank believes it is highly unlikely for the Bank to receive unfavorable ruling in this case, primarily because, for the reasons listed below, the Bank has not infringed Bank X's rights: (i) as stated in our Bank's January 2017 Submission, the Bank purchased 2015 Case Bills based on Contract with Bank Z and the Bank has not entered into any agreement or arrangement with Bank X or Bank Y in relation to 2015 Case Bills; (ii) the Bank purchased 2015 Case Bills based on Contract with Bank Z, after paying the full price to Bank Z as stipulated under Contract with Bank Z, and undertook bill collection in accordance with relevant PRC laws and regulations. In addition, according to the relevant PRC laws and regulations, the Bank is not under any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X; and (iii) the fact that the Bank received 2015 Case Bills from an employee of Bank X does not subject the Bank to any obligations, legal or contractual, to make payment to Bank Y or return 2015 Case Bills to Bank X, according to relevant PRC laws and regulations.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Our Directors are of the view that this dispute in relation to 2015 Case Bills is an isolated event. As of the date of this Interim Report, the Bank had not been involved in any other litigation triggered by interbank bill-related disputes where the Bank was alleged of infringing upon a counterparty's rights. Nevertheless, to prevent occurrence of similar incidents, the Bank has enhanced our internal control procedures and risk management measures in relation to bill financing transactions, including improving our training, inspections and accountability measures that are applicable to the business. The Bank also reinforced our centralized management system for document verification. Furthermore, in line with PRC laws and regulations issued in 2016 encouraging industry-wide digitalization of bill transactions, the Bank has ceased the dealing of physical bills with face value over RMB3.0 million since January 1, 2017. Subsequently, since January 1, 2018, the Bank has ceased the dealing of physical bills with face value over RMB1.0 million. For the six months ended June 30, 2020, the transaction volume of electronic bills accounted for over 99.9% of the accumulated amount of promised payment specified in our bank acceptance bills. Unlike physical bills, our acceptance and handling of electronic bills are undertaken through a digital platform, which is subject to real-time supervision and instant tracking, therefore leaving a full and transparent record for every step of the transaction. Our Directors are of the view that the enhanced internal control measures above will assist the Bank to mitigate the risk of recurrence of similar disputes for reasons attributable to the Bank.

Based on the above, our Directors are of the view that this litigation will not have any material adverse effect on our business, financial condition, results of operations or prospects.

During the Reporting Period, Bank X has withdrawn the litigation voluntarily.

V. PENALTIES IMPOSED ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Bank, its Directors, Supervisors or senior management were not investigated, administratively penalised or publicly criticized by the CSRC, publicly condemned by any stock exchange or punished by any other regulatory authorities, which would have a material adverse impact on the Bank's business of operations.

VI. PERFORMANCE OF COMMITMENTS BY THE BANK AND SHAREHOLDERS HOLDING 5% OR MORE OF SHARES

For details of the Shareholders holding 5% or more of the issued share capital of the Bank, please see the section headed "Changes in Share Capital and Information on Shareholders – II. Information of Shareholders" in this Interim Report.

The commitments made by the Shareholders holding 5% or more of the issued share capital of the Bank as set out in this Interim Report are all in performance, and no commitment has been completely performed during the Reporting Period or has not been completely performed on schedule as of the end of the Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

VII. ACQUISITION AND DISPOSAL OF ASSETS AND MERGER

During the Reporting Period, the Bank had no material acquisition and disposal of assets or merger.

VIII. SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR SIGNIFICANT INVESTMENTS

During the Reporting Period, the Bank had no significant investments, or specific plans for significant investments or acquisitions of material assets or other businesses.

IX. SUFFICIENT PUBLIC FLOAT

Based on information obtained by the Bank and to the knowledge of the Directors, the Bank has maintained sufficient public float during the Reporting Period and up to the date of this Interim Report.

X. SUBSEQUENT EVENTS

On August 21, 2020, the Bank exercised its redemption right to redeem all the tier-two capital bonds in an amount of RMB2.0 billion with a term of 10 years issued between August 19, 2015 and August 21, 2015 at their nominal value according to the stipulation in the original prospectus. For details, please refer to the Announcement on the Redemption of Tier-Two Capital Bonds published by the Bank on August 24, 2020.

Save as disclosed above, no other significant events affecting the Bank have occurred subsequent to the Reporting Period.

XI. APPOINTMENT AND REMOVAL OF AUDITORS

The Shareholders had considered and approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young (collectively “**Ernst & Young**”) as the new auditors of the Group at the 2019 Annual General Meeting held on June 9, 2020, until the end of the next annual Shareholders’ general meeting of the Bank.

CORPORATE GOVERNANCE AND OTHER INFORMATION

XII. AUDIT COMMITTEE

Our Board of Directors has established the Audit Committee with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and Code Provision C.3 of the Code. The Audit Committee is primarily responsible for (i) inspecting the compliance, as well as financial soundness and compliance with the relevant accounting standards and financial reporting procedures; (ii) monitoring internal control system, particularly with respect to core business segments, to ensure that risk management measures are rigorously followed; (iii) evaluating the effectiveness of key operational activities and their respective compliance; (iv) reviewing our annual financial reports, verifying their authenticity and accuracy, and providing relevant comments to the Board of Directors; (v) reviewing financial information and its disclosure, and overseeing the formulation and implementation of major financial policies; (vi) conducting annual audits and evaluating the effectiveness of our internal audit system; (vii) advising on the hiring or changing of external auditors and supervising their performance, while coordinating the communication between our internal and external auditors.

The Audit Committee consists of five members, being Mr. WANG Liyan, Mr. SAI Zhiyi, Mr. LIU Chenhang, Mr. SUN Shihu and Mr. YE Xiang. The chairperson of the Audit Committee is Mr. WANG Liyan with appropriate professional qualifications.

XIII. REVIEW OF THE INTERIM REPORT

The interim financial statements disclosed in this Interim Report have not been audited. Ernst & Young has, in accordance with the International Standards on Review Engagements, reviewed the interim financial statements for the six months ended June 30, 2020 prepared by the Bank in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. Nothing has come to Ernst & Young's attention that causes it to believe that the interim financial information as at June 30, 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The Interim Report of the Bank has been reviewed and approved by the Board of Directors and its Audit Committee.

XIV. PUBLICATION OF THE INTERIM REPORT

This Interim Report was prepared in both English and Chinese versions. In the event of any discrepancies between the English version and Chinese version, the Chinese version shall prevail.

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

To the Board of Directors of Jinshang Bank Co., Ltd.

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

INTRODUCTION

We have reviewed the accompanying interim financial report set out on pages 87 to 203, which comprises the condensed consolidated statement of financial position of Jinshang Bank Co., Ltd. (the “**Bank**”) and its subsidiary (the “**Group**”) as at 30 June 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. *The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* require the preparation of interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board.

The directors of the Bank are responsible for the preparation and presentation of this interim financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial report based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

27 August 2020

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	For the six months period ended 30 June	
		2020	2019
Interest income		4,503,539	4,376,553
Interest expense		(2,856,459)	(2,709,644)
Net interest income	4	1,647,080	1,666,909
Fee and commission income		457,184	328,234
Fee and commission expense		(76,466)	(20,205)
Net fee and commission income	5	380,718	308,029
Net trading gains	6	48,491	45,199
Net gains arising from investment securities	7	512,653	428,285
Other operating income	8	11,920	23,443
Operating income		2,600,862	2,471,865
Operating expenses	9	(776,613)	(799,234)
Impairment losses on assets	10	(1,054,122)	(898,512)
Share of profits of an associate		14,356	13,076
Profit before income tax		784,483	787,195
Income tax	11	(9,551)	(44,942)
Net profit for the period		774,932	742,253
Net profit attributable to:			
Equity holders of the Bank		779,795	745,401
Non-controlling interests		(4,863)	(3,148)

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	For the six months period ended 30 June	
		2020	2019
Profit for the period		774,932	742,253
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve, net of tax	31(d)	(6,493)	5,070
– net movement in the impairment reserve, net of tax	31(e)	(466)	525
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability, net of tax	31(f)	(997)	(1,358)
Other comprehensive income for the period, net of tax		(7,956)	4,237
Total comprehensive income		766,976	746,490
Total comprehensive income attributable to:			
Equity holders of the Bank		771,839	749,638
Non-controlling interests		(4,863)	(3,148)
Total comprehensive income		766,976	746,490
Basic and diluted earnings per share (in RMB)	12	0.13	0.15

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	As at 30 June 2020	As at 31 December 2019
ASSETS			
Cash and deposits with the central bank	13	18,827,971	19,108,325
Deposits with banks and other financial institutions	14	1,945,687	1,303,659
Placements with banks and other financial institutions	15	500,026	1,300,375
Financial assets held under resale agreements	16	17,247,363	16,630,018
Loans and advances to customers	17	130,880,760	111,712,557
Financial investments:	18		
– Financial investments at fair value through profit or loss		31,613,334	29,976,480
– Financial investments at fair value through other comprehensive income		7,525,371	11,709,118
– Financial investments at amortised cost		54,140,978	51,227,041
Interest in an associate	19	286,932	272,576
Property and equipment	21	1,406,797	1,464,655
Deferred tax assets	22	1,678,815	1,441,111
Other assets	23	1,100,734	1,425,298
Total assets		267,154,768	247,571,213
LIABILITIES			
Borrowings from the central bank		1,118,017	870,731
Deposits from banks and other financial institutions	24	6,738,255	4,211,308
Placements from banks and other financial institutions	25	1,401,214	1,911,455
Financial assets sold under repurchase agreements	26	14,940,083	12,201,162
Deposits from customers	27	171,491,730	155,322,230
Income tax payable		239,807	195,608
Debt securities issued	28	47,649,199	50,345,104
Other liabilities	29	3,292,390	2,354,266
Total liabilities		246,870,695	227,411,864

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2020 – UNAUDITED

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Note	As at 30 June 2020	As at 31 December 2019
EQUITY			
Share capital	30	5,838,650	5,838,650
Capital reserve	31(a)	6,627,602	6,627,602
Surplus reserve	31(b)	3,467,020	3,467,020
General reserve	31(c)	2,788,427	2,788,427
Fair value reserve	31(d)	(29,697)	(23,204)
Impairment reserve	31(e)	17,854	18,320
Deficit on remeasurement of net defined benefit liability	31(f)	(2,220)	(1,223)
Retained earnings	32	1,557,120	1,419,577
Total equity attributable to equity holders of the Bank		20,264,756	20,135,169
Non-controlling interests		19,317	24,180
Total equity		20,284,073	20,159,349
Total liabilities and equity		267,154,768	247,571,213

Approved and authorised for issue by the Board of Directors on 27 August 2020.

Tang Yiping
Authorised Representative

Tang Yiping
President

Hou Xiuping
Chief Financial Officer

(Company chop)

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Attributable to equity holders of the Bank							Total		
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Deficit on remeasurement of net defined benefit liability		Retained earnings	Non-controlling interests
As at 1 January 2020	5,838,650	6,627,602	3,467,020	2,788,427	(23,204)	18,320	(1,223)	1,419,577	24,180	20,159,349
Changes in equity for the period:										
Net profit for the period	-	-	-	-	-	-	-	779,795	(4,863)	774,932
Other comprehensive income	-	-	-	-	(6,493)	(466)	(997)	-	-	(7,956)
Total comprehensive income for the period	-	-	-	-	(6,493)	(466)	(997)	779,795	(4,863)	766,976
Capital contribution by equity holders	-	-	-	-	-	-	-	-	-	-
Appropriation of profit	-	-	-	-	-	-	-	-	-	-
- Appropriation to surplus reserve	-	-	-	-	-	-	-	-	-	-
- Appropriation to general reserve	-	-	-	-	-	-	-	-	-	-
- Dividends paid to shareholders	-	-	-	-	-	-	-	(642,252)	-	(642,252)
As at 30 June 2020	5,838,650	6,627,602	3,467,020	2,788,427	(29,697)	17,854	(2,220)	1,557,120	19,317	20,284,073

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Attributable to equity holders of the Bank											
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Surplus/ (deficit) on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total
As at 1 January 2019		4,868,000	4,423,893	3,186,830	2,788,427	(17,935)	17,215	525	702,937	15,969,892	26,097	15,995,989
Changes in equity for the period:												
Net profit for the period		-	-	-	-	-	-	-	745,401	745,401	(3,148)	742,253
Other comprehensive income		-	-	-	-	5,070	525	(1,358)	-	4,237	-	4,237
Total comprehensive income for the period		-	-	-	-	5,070	525	(1,358)	745,401	749,638	(3,148)	746,490
Capital contribution by equity holders	31(a)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of profit												
- Appropriation to surplus reserve	31(b)	-	-	131,627	-	-	-	-	(131,627)	-	-	-
- Appropriation to general reserve	31(c)	-	-	-	-	-	-	-	-	-	-	-
- Dividends paid to shareholders	32	-	-	-	-	-	-	-	(486,800)	(486,800)	-	(486,800)
As at 30 June 2019		4,868,000	4,423,893	3,318,457	2,788,427	(12,865)	17,740	(833)	829,911	16,232,730	22,949	16,255,679

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	Attributable to equity holders of the Bank							Total			
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Deficit on remeasurement of net defined benefit liability		Retained earnings	Total	Non-controlling interests
As at 30 June 2019	4,868,000	4,423,893	3,318,457	2,788,427	(12,865)	17,740	(833)	829,911	16,232,730	22,949	16,255,679
Changes in equity for the period:											
Net profit for the period	-	-	-	-	-	-	-	738,229	738,229	1,966	740,195
Other comprehensive income	-	-	-	-	(10,339)	580	(390)	-	(10,149)	-	(10,149)
Total comprehensive income for the period	-	-	-	-	(10,339)	580	(390)	738,229	728,080	1,966	730,046
Issue of H shares	970,650	2,203,709	-	-	-	-	-	-	3,174,359	-	3,174,359
Appropriation of profit											
- Appropriation to surplus reserve	-	-	148,563	-	-	-	-	(148,563)	-	-	-
- Appropriation to general reserve	-	-	-	-	-	-	-	-	-	-	-
- Dividends paid to shareholders	-	-	-	-	-	-	-	-	-	-	-
- Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(735)	(735)
As at 31 December 2019	5,838,650	6,627,602	3,467,020	2,788,427	(23,204)	18,320	(1,223)	1,419,577	20,135,169	24,180	20,159,349

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	For the six months period ended 30 June	
	2020	2019
Cash flows from operating activities		
Profit before income tax	784,483	787,195
<i>Adjustments for:</i>		
Impairment losses on assets	1,054,122	898,512
Depreciation and amortization	131,733	128,292
Accreted interest on credit-impaired	(30,786)	(22,732)
Unrealized foreign exchange gains	(2,977)	(7)
Net gains on disposal of property and equipment	(3)	(11)
Net trading gains	(45,514)	(45,192)
Net gains on disposal of investment securities	(512,653)	(428,285)
Share of profits of associate	(14,356)	(13,076)
Interest expense on debts securities issued	801,831	935,570
Interest expense on lease liabilities	9,301	–
	2,175,181	2,240,266
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank	442,004	1,988,156
Net increase in deposits with banks and other financial institutions	(550,012)	(100,000)
Net increase in loans and advances to customers	(19,873,831)	(9,461,523)
Net (increase)/decrease in financial assets held under resale agreements	(621,026)	8,597,016
Net decrease in other operating assets	183,758	39,823
	(20,419,107)	1,063,472

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

	For the six months period ended 30 June	
	2020	2019
<i>Changes in operating liabilities</i>		
Net increase in borrowings from the central bank	247,200	280,000
Net increase in deposits from banks and other financial institutions	2,501,548	143,592
Net decrease in placements from banks and other financial institutions	(510,000)	–
Net increase in financial assets sold under repurchase agreements	2,739,474	542,372
Net increase in deposits from customers	15,583,147	16,417,196
Income tax paid	(200,404)	(126,146)
Net increase/(decrease) in other operating liabilities	697,287	(346,967)
	21,058,252	16,910,047
Net cash flows generated from operating activities	2,814,326	20,213,785
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	72,593,097	59,020,911
Gains received from investment activities	564,513	422,777
Proceeds from disposal of property and equipment and other assets	2,981	518
Payments on acquisition of investments	(72,971,885)	(67,601,020)
Payments on acquisition of property and equipment, intangible assets and other assets	(21,141)	(746,804)
Net cash flows from/(used in) investing activities	167,565	(8,903,618)

The accompanying notes form an integral part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020 – UNAUDITED
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

		For the six months period ended 30 June	
		2020	2019
Cash flows from financing activities			
		29,242,576	19,441,191
		(32,120,000)	(26,100,000)
		(620,312)	(778,869)
		(4)	(376,745)
		(31,654)	(33,326)
		(9,301)	(11,570)
Net cash flows used in financing activities		(3,538,695)	(7,859,319)
Effect of exchange rate changes on cash and cash equivalents			
		3,129	63
Net (decrease)/increase in cash and cash equivalents	33(a)	(553,675)	3,450,911
Cash and cash equivalents at beginning of the period		7,894,947	7,202,528
Cash and cash equivalents at end of the period	33(b)	7,341,272	10,653,439
Interest received		4,443,808	4,282,195
Interest paid (excluding interest expense on debt securities issued)		(1,357,906)	(1,299,261)

The accompanying notes form an integral part of this interim financial report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

1 BACKGROUND INFORMATION

Jinshang Bank Co., Ltd. (the “**Bank**”) (formerly Taiyuan City Commercial Bank Co., Ltd.) commenced business as a city commercial bank on 16 October 1998, according to the *Approval on Commencement of Taiyuan City Commercial Bank Co., Ltd.* 《關於太原市商業銀行開業的批覆》 (YinFu [1998] No. 323) issued by the People’s Bank of China (the “**PBoC**”). According to the *Approval on Change of Name for Taiyuan City Commercial Bank Co., Ltd.* 《關於太原市商業銀行更名的批覆》 (YinJianFu [2008] No. 569) issued by the former China Banking Regulatory Commission (the former “**CBRC**”), Taiyuan City Commercial Bank Co., Ltd. was renamed as Jinshang Bank Co., Ltd. on 30 December 2008.

The Bank has been approved by the former CBRC (Shanxi Branch) to hold the financial business permit (No. B0116H214010001) and approved by the Shanxi Provincial Administration for Industry and Commerce to hold the business license (credibility code: 911400007011347302). As at 30 June 2020, the registered capital of the Bank was RMB5,838,650,000, with its registered office located at No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province. The Bank is regulated by the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) which was authorized by the State Council.

In July 2019, the Bank’s H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 2558).

The principal activities of the Bank and its subsidiary (collectively the “**Group**”) are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBIRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of *the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*, including compliance with International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial report. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited but has been reviewed by Ernst & Young in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual financial statements for that financial year but is derived from those financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

3 CHANGES IN ACCOUNTING POLICES

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2020.

The Group adopted the following amendments from 1 January 2020.

IFRS 3 Amendments	<i>Definition of a Business</i>
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>
IFRS 16 Amendment	<i>Covid-19-Related Rent Concessions</i>

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

IFRS 16 Amendment provides for rent relief because of COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19.

The adoption of the above amendments will not have a significant impact on the Group's operating results, financial status and comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

4 NET INTEREST INCOME

	For the six months period ended 30 June	
	2020	2019
Interest income arising from		
Deposits with the central bank	112,941	131,200
Deposits with banks and other financial institutions	23,831	15,919
Placements with banks and other financial institutions	24,579	30,876
Loans and advances to customers		
– Corporate loans and advances	2,016,625	2,031,937
– Personal loans	425,601	354,794
– Discounted bills	463,288	411,455
Financial assets held under resale agreements	121,334	169,369
Financial investments	1,315,340	1,231,003
Subtotal	4,503,539	4,376,553
Interest expense arising from		
Borrowings from the central bank	(13,092)	(10,468)
Deposits from banks and other financial institutions	(59,587)	(52,544)
Placements from banks and other financial institutions	(17,879)	(8,117)
Deposits from customers	(1,870,008)	(1,616,434)
Financial assets sold under repurchase agreements	(94,062)	(74,941)
Debt securities issued	(801,831)	(935,570)
Lease liabilities	–	(11,570)
Subtotal	(2,856,459)	(2,709,644)
Net interest income	1,647,080	1,666,909

Interest income arising from loans and advances to customers included RMB31 million for the six months ended 30 June 2020 with respect to the accreted interest on credit-impaired loans (six months ended 30 June 2019: RMB23 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

5 NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	For the six months period ended 30 June	
	2020	2019
Fee and commission income		
Agency service fees and others	186,526	111,612
Acceptance and guarantee service fees	91,580	73,381
Wealth management business fees	74,291	81,986
Bank card service fees	73,076	28,581
Settlement and clearing fees	31,711	32,674
Subtotal	457,184	328,234
Fee and commission expense		
Settlement and clearing fees	(52,233)	(9,863)
Bank card service fees	(15,208)	(610)
Agency commissions	(6,934)	(6,293)
Others	(2,091)	(3,439)
Subtotal	(76,466)	(20,205)
Net fee and commission income	380,718	308,029

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

5 NET FEE AND COMMISSION INCOME (continued)

(b) Disaggregation of income:

	For the six months period ended 30 June			
	2020		2019	
	At a point in time	Over time	At a point in time	Over time
Agency service fees and others	143,590	42,936	111,612	–
Acceptance and guarantee service fees	–	91,580	–	73,381
Wealth management business fees	–	74,291	–	81,986
Bank card service fees	52,125	20,951	28,581	–
Settlement and clearing fees	31,711	–	32,674	–
Total	227,426	229,758	172,867	155,367

6 NET TRADING GAINS

	For the six months period ended 30 June	
	2020	2019
Net gains from funds	46,551	43,547
Net gains from investment management products	16,215	7,008
Exchange gain	2,977	7
Net (losses)/gains from equity investments	(853)	3,373
Net losses from debt securities	(16,399)	(8,736)
Total	48,491	45,199

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

7 NET GAINS ARISING FROM INVESTMENT SECURITIES

	For the six months period ended 30 June	
	2020	2019
Net gains on financial investments at fair value through profit or loss	474,860	425,621
Net gains on financial investments at fair value through other comprehensive income	37,793	2,664
Total	512,653	428,285

8 OTHER OPERATING INCOME

	For the six months period ended 30 June	
	2020	2019
Penalty income	807	584
Rental income	594	700
Income from long-term unwithdrawn items	387	37
Net gains on disposal of property and equipment	3	11
Government grants	–	300
Others	10,129	21,811
Total	11,920	23,443

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

9 OPERATING EXPENSES

	For the six months period ended 30 June	
	2020	2019
Staff costs		
– Salaries, bonuses and allowances	335,304	318,323
– Social insurance and annuity	87,667	110,507
– Housing allowances	32,128	33,583
– Employee education expenses and labour union expenses	13,779	17,397
– Staff welfares	9,707	9,542
– Supplementary retirement benefits	1,530	3,640
– Others	693	5,727
Subtotal	480,808	498,719
Depreciation and amortization	131,733	128,292
Taxes and surcharges	33,809	33,218
Rental and property management expenses	20,101	47,561
Other general and administrative expenses	110,162	91,444
Total	776,613	799,234

The Group's interest expense related to lease liabilities amounted to RMB9 million for the six months period ended 30 June 2020.

10 IMPAIRMENT LOSSES ON ASSETS

	For the six months period ended 30 June	
	2020	2019
Loans and advances to customers	824,868	97,737
Credit commitments	167,845	85,499
Financial investments	47,704	713,517
Deposits with banks and other financial institutions	55	104
Placements with banks and other financial institutions	(8)	16
Others	13,658	1,639
Total	1,054,122	898,512

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

11 INCOME TAX EXPENSE

(a) Income tax:

	For the six months period ended 30 June	
	2020	2019
Current tax	244,603	221,926
Deferred tax	(235,052)	(176,984)
Total	9,551	44,942

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

	For the six months period ended 30 June	
	2020	2019
Profit before tax	784,483	787,195
Statutory tax rate	25%	25%
Income tax calculated at the statutory tax rate	196,121	196,799
Non-deductible expenses	14,889	4,891
Non-taxable income (i)	(201,459)	(156,748)
Income tax	9,551	44,942

(i) The non-taxable income mainly represents the interest income arising from the People's Republic of China (the "PRC") government bonds, and dividends from domestic enterprises.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

12 BASIC AND DILUTED EARNINGS PER SHARE

	For the six months period ended 30 June	
	2020	2019
Net profit attributable to equity holders of the Bank	779,795	745,401
Weighted average number of ordinary shares (in thousands) (a)	5,838,650	4,868,000
Basic and diluted earnings per share attributable to equity holders of the Bank (in RMB)	0.13	0.15

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

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

	For the six months period ended 30 June	
	2020	2019
Number of ordinary shares at the beginning of the period	5,838,650	4,868,000
Weighted average number of ordinary shares issued during the period	–	–
Weighted average number of ordinary shares	5,838,650	4,868,000

On 18 July 2019, the Bank issued 860 million H shares with a par value of RMB1 at an offering price of HKD3.82 per share. On 14 August 2019, the Bank exercised the over-allotment option and issued 111 million H shares with a par value of RMB1 at HKD3.82 per share.

Basic earnings per share has been computed by taking into account the aforesaid shares subscribed by the investors during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

13 CASH AND DEPOSITS WITH THE CENTRAL BANK

	Note	30 June 2020	31 December 2019
Cash on hand		355,386	244,124
Deposits with the central bank			
– Statutory deposit reserves	(a)	12,824,179	13,048,479
– Surplus deposit reserves	(b)	5,605,450	5,554,358
– Fiscal deposits		37,242	254,946
Subtotal		18,466,871	18,857,783
Interest accrued		5,714	6,418
Total		18,827,971	19,108,325

- (a) The Group places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of each of the reporting periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2020	31 December 2019
Reserve ratio for RMB deposits	8.0%	8.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business. The subsidiary of the Bank is required to place statutory RMB deposit reserve at rates determined by the PBoC.

- (b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

14 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in Mainland China		
– Banks	747,116	612,733
– Other financial institutions	1,050,010	536,059
Subtotal	1,797,126	1,148,792
Deposits outside Mainland China		
– Banks	133,321	147,672
Subtotal	133,321	147,672
Interest accrued	15,461	7,361
Less: Provision for impairment losses	(221)	(166)
Total	1,945,687	1,303,659

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

15 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in Mainland China		
– Banks	500,000	1,300,000
Subtotal	500,000	1,300,000
Interest accrued	26	383
Less: Provision for impairment losses	–	(8)
Total	500,026	1,300,375

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In Mainland China		
– Banks	12,761,830	13,675,474
– Other financial institutions	4,484,192	2,949,522
Subtotal	17,246,022	16,624,996
Interest accrued	1,342	5,023
Less: Provision for impairment losses	(1)	(1)
Total	17,247,363	16,630,018

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

16 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (continued)

(b) Analysed by type of collateral held

	30 June 2020	31 December 2019
Securities		
– Government	3,141,942	1,095,000
– Policy Banks	4,297,050	1,779,923
– Commercial banks and other financial institutions	206,800	2,244,448
Subtotal	7,645,792	5,119,371
Bank acceptances	9,600,230	11,505,625
Subtotal	17,246,022	16,624,996
Interest accrued	1,342	5,023
Less: Provision for impairment losses	(1)	(1)
Total	17,247,363	16,630,018

As at 30 June 2020 and 31 December 2019, certain financial assets held under buyout resale agreements were pledged for repurchase agreements (Note 40(f)).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2020	31 December 2019
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	85,494,158	72,750,413
Personal loans		
– Residential mortgage loans	11,809,099	10,787,868
– Personal consumption loans	1,416,578	1,628,255
– Personal business loans	2,536,750	2,569,126
– Credit cards	3,330,904	2,850,087
Subtotal	19,093,331	17,835,336
Interest accrued	617,526	490,986
Less: Provision for loans and advances to customers measured at amortised cost	(5,064,299)	(4,260,918)
Subtotal	100,140,716	86,815,817
Loans and advances to customers measured at fair value through other comprehensive income:		
Corporate loans and advances	191,121	187,447
Discounted bills	30,548,923	24,709,293
Subtotal	30,740,044	24,896,740
Net loans and advances to customers	130,880,760	111,712,557

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers (excluding interest accrued) analysed by industry sector

	30 June 2020		Loans and advances secured by collateral
	Amount	Percentage	
Manufacturing	26,400,497	19.51%	4,643,058
Mining	18,494,972	13.67%	1,994,303
Real estate	12,840,601	9.49%	4,544,852
Wholesale and retail trade	7,427,820	5.49%	2,683,216
Leasing and commercial services	5,541,896	4.10%	1,107,631
Public administration, public security and social organisations	5,362,813	3.96%	571,190
Construction	5,098,240	3.77%	740,935
Transportation, storage and postal services	1,337,560	0.99%	393,880
Production and supply of electric power, gas and water	1,192,420	0.88%	147,300
Agriculture, forestry, animal husbandry and fishery	378,135	0.28%	61,800
Education	36,687	0.03%	28,187
Others	1,573,638	1.15%	1,436,028
Subtotal of corporate loans and advances	85,685,279	63.32%	18,352,380
Personal loans	19,093,331	14.11%	5,812,037
Discounted bills	30,548,923	22.57%	30,548,923
Gross loans and advances to customers	135,327,533	100.00%	54,713,340

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Loans and advances to customers (excluding interest accrued) analysed by industry sector (continued)

	31 December 2019		Loans and advances secured by collateral
	Amount	Percentage	
Manufacturing	22,784,905	19.73%	4,131,709
Mining	16,645,944	14.41%	1,741,882
Real estate	11,386,899	9.86%	3,346,282
Wholesale and retail trade	5,964,871	5.17%	2,195,908
Leasing and commercial services	4,900,715	4.24%	1,076,901
Public administration, public security and social organisations	4,328,290	3.75%	585,726
Construction	3,949,962	3.42%	841,076
Transportation, storage and postal services	1,136,420	0.98%	405,100
Production and supply of electric power, gas and water	1,006,733	0.87%	249,273
Agriculture, forestry, animal husbandry and fishery	114,370	0.10%	33,870
Education	38,397	0.03%	29,897
Others	680,354	0.60%	549,325
Subtotal of corporate loans and advances	72,937,860	63.16%	15,186,949
Personal loans	17,835,336	15.44%	4,706,774
Discounted bills	24,709,293	21.40%	24,709,293
Gross loans and advances to customers	115,482,489	100.00%	44,603,016

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Analysed by type of collateral

	30 June 2020	31 December 2019
Unsecured loans	11,341,944	8,848,004
Guaranteed loans	69,272,249	62,031,469
Collateralised loans	19,146,758	15,528,913
Pledged loans	35,566,582	29,074,103
Subtotal	135,327,533	115,482,489
Interest accrued	617,526	490,986
Gross loans and advances to customers	135,945,059	115,973,475
Less: Provision for loans and advances to customers measured at amortised cost	(5,064,299)	(4,260,918)
Net loans and advances to customers	130,880,760	111,712,557

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	30 June 2020				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	47,867	46,026	21,778	197	115,868
Guaranteed loans	769,970	1,164,799	485,231	515,842	2,935,842
Collateralised loans	82,105	109,257	208,196	19,947	419,505
Pledged loans	1,990	9,500	9,804	3,371	24,665
Total	901,932	1,329,582	725,009	539,357	3,495,880
As a percentage of gross loans and advances to customers	0.66%	0.98%	0.54%	0.40%	2.58%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Overdue loans (exclusive interests accrued) analysed by overdue period (continued)

	31 December 2019				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	25,754	19,338	11,450	30	56,572
Guaranteed loans	2,236,039	878,945	498,382	444,310	4,057,676
Collateralised loans	199,449	153,486	76,977	13,474	443,386
Pledged loans	86,723	–	10,000	971	97,694
Total	2,547,965	1,051,769	596,809	458,785	4,655,328
As a percentage of gross loans and advances to customers	2.21%	0.91%	0.52%	0.40%	4.04%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances and provision for impairment losses

	30 June 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (i)	
Total loans and advances to customers measured at amortised cost	98,485,490	4,108,530	2,610,995	105,205,015
Less: Provision for impairment losses	(2,813,592)	(886,561)	(1,364,146)	(5,064,299)
Carrying amount of loans and advances to customers measured at amortised cost	95,671,898	3,221,969	1,246,849	100,140,716
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	30,737,644	–	2,400	30,740,044
Net loans and advances to customers	126,409,542	3,221,969	1,249,249	130,880,760

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances and provision for impairment losses (continued)

	31 December 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses (i)	
Total loans and advances to customers measured at amortised cost	84,559,772	4,376,354	2,140,609	91,076,735
Less: Provision for impairment losses	(2,223,034)	(906,674)	(1,131,210)	(4,260,918)
Carrying amount of loans and advances to customers measured at amortised cost	82,336,738	3,469,680	1,009,399	86,815,817
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	24,894,340	–	2,400	24,896,740
Net loans and advances to customers	107,231,078	3,469,680	1,011,799	111,712,557

- (i) The loans and advances are “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower’s financial difficulty, the Group having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Movements in provision for impairment losses

(i) *Movements in provision for impairment losses on loans and advances to customers measured at amortised cost:*

	For the six months period ended 30 June 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at 1 January	2,223,034	906,674	1,131,210	4,260,918
Transferred:				
– to expected credit losses over the next 12 months	3,914	(2,693)	(1,221)	–
– to lifetime expected credit losses: not credit-impaired loans	(23,423)	26,384	(2,961)	–
– to lifetime expected credit losses: credit-impaired loans	(2,774)	(110,617)	113,391	–
Charge for the period	612,841	66,813	152,314	831,968
Recoveries	–	–	2,199	2,199
Other changes	–	–	(30,786)	(30,786)
As at 30 June	2,813,592	886,561	1,364,146	5,064,299

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Movements in provision for impairment losses (continued)

(i) *Movements in provision for impairment losses on loans and advances to customers measured at amortised cost: (continued)*

	Year ended 31 December 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at 1 January	2,158,195	776,736	1,082,335	4,017,266
Transferred:				
– to expected credit losses over the next 12 months	968	(968)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(50,757)	50,773	(16)	–
– to lifetime expected credit losses: credit-impaired loans	(8,696)	(148,717)	157,413	–
Charge for the year	123,324	228,850	656,094	1,008,268
Transfer out	–	–	(545,733)	(545,733)
Recoveries	–	–	928	928
Write-offs	–	–	(170,859)	(170,859)
Other changes	–	–	(48,952)	(48,952)
As at 31 December	2,223,034	906,674	1,131,210	4,260,918

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Movements in provision for impairment losses (continued)

(ii) *Movements in provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:*

	For the six months period ended 30 June 2020			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at 1 January	12,506	–	9,600	22,106
Reversal for the period	(7,100)	–	–	(7,100)
As at 30 June	5,406	–	9,600	15,006

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

17 LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Movements in provision for impairment losses (continued)

(ii) *Movements in provision for impairment of loans and advances to customers measured at fair value through other comprehensive income: (continued)*

	Year ended 31 December 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit losses	Credit-impaired loans and advances that are assessed for lifetime expected credit losses	
As at 1 January	13,104	–	8,400	21,504
Reversal for the year	(598)	–	1,200	602
As at 31 December	12,506	–	9,600	22,106

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statement of financial position, and impairment loss or gain is recognized in profit or loss.

(g) Disposal of loans and advances to customers

During the six months ended 30 June 2020, the Group did not transfer any loans and advances or a portfolio of customer loans.

During the year ended 31 December 2019, the Group transferred loans and advances with a gross amount of RMB644 million to independent third parties, and the transfer price was RMB98 million.

During the year ended 31 December 2019, the Group did not transfer any portfolio of customer loans and advances through the asset securitisation business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS

	Note	30 June 2020	31 December 2019
Financial investments measured at fair value through profit or loss	(a)	31,613,334	29,976,480
Financial investments measured at fair value through other comprehensive income	(b)	7,525,371	11,709,118
Financial investments measured at amortised cost	(c)	54,140,978	51,227,041
Total		93,279,683	92,912,639

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

	30 June 2020	31 December 2019
Debt securities issued by the following institutions in Mainland China		
– Government	724,767	696,031
– Policy banks	1,032,315	205,461
– Banks and other financial institutions	478,985	98,182
– Corporates	448,068	199,343
Subtotal	2,684,135	1,199,017
Fund investments	26,249,024	26,387,551
Investment management products	2,621,931	2,330,815
Other investments	58,244	59,097
Total	31,613,334	29,976,480

As at the end of each of the reporting periods, there were no investments subject to material restrictions in the realization.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(b) Financial investments measured at fair value through other comprehensive income

	30 June 2020	31 December 2019
Debt securities issued by the following institutions in Mainland China		
– Government	4,083,428	4,265,396
– Policy banks	1,549,443	1,406,987
– Banks and other financial institutions	391,367	235,199
– Corporates	100,436	101,367
Interest accrued	101,337	98,145
Subtotal	6,226,011	6,107,094
Interbank deposits	328,003	4,678,317
Investment management products	803,559	743,270
Interests accrued	16,608	29,247
Subtotal	820,167	772,517
Equity investments	151,190	151,190
Total	7,525,371	11,709,118

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

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

- (i) As at the end of each of the reporting period, there were no investments subject to material restrictions in the realisation.
- (ii) Movements in provision for impairment of financial investments measured at fair value through other comprehensive income during the period:

	For the six months period ended 30 June 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit – impaired	Lifetime expected credit losses credit – impaired	
Balance at 1 January	2,321	–	–	2,321
Charge for the period	6,478	–	–	6,478
Balance at 30 June	8,799	–	–	8,799

	Year ended 31 December 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit – impaired	Lifetime expected credit losses credit – impaired	
Balance at 1 January	1,449	–	–	1,449
Charge for the year	872	–	–	872
Balance at 31 December	2,321	–	–	2,321

Provision for impairment losses on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statement of financial position, and impairment loss or gain is recognized in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(c) Financial investments measured at amortised cost

	30 June 2020	31 December 2019
Debt securities issued by the following institutions in Mainland China (i)		
– Government	25,078,431	22,446,690
– Policy banks	3,432,340	3,552,145
– Corporates	730,983	640,914
Interest accrued	422,226	384,826
Subtotal	29,663,980	27,024,575
Interbank deposits	840,830	–
Investment management products	24,700,041	25,202,601
Interest accrued	438,225	460,737
Subtotal	25,138,266	25,663,338
Less: Provision for impairment losses (ii)	(1,502,098)	(1,460,872)
Total	54,140,978	51,227,041

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(c) Financial investments measured at amortised cost (continued)

- (i) As at the end of each of the reporting periods, certain debt securities were pledged for repurchase agreements (Note 40(f)).
- (ii) Movements in provision for impairment losses of financial investments measured at amortised cost are:

	For the six months period ended 30 June 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit – impaired	Lifetime expected credit losses credit – impaired	
Balance at 1 January	489,084	1,975	969,813	1,460,872
Transfers:				
– to lifetime expected credit losses credit-impaired	–	(1,975)	1,975	–
Charge for the period	13,964	–	27,262	41,226
Balance at 30 June	503,048	–	999,050	1,502,098
		Year ended 31 December 2019		
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit – impaired	Lifetime expected credit losses credit – impaired	Total
Balance at 1 January	468,002	37,064	452,470	957,536
Transfers:				
– to lifetime expected credit losses credit-impaired	(3,363)	(37,064)	40,427	–
Charge for the year	24,445	1,975	476,916	503,336
Balance at 31 December	489,084	1,975	969,813	1,460,872

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(d) Financial investments analysed as follows

	30 June 2020	31 December 2019
Financial investments measured at fair value through profit or loss		
Debt securities		
– Listed	2,171,685	932,877
– Unlisted	512,450	266,140
Fund investments and others		
– Unlisted	28,929,199	28,777,463
Subtotal	31,613,334	29,976,480
Financial investments measured at fair value through other comprehensive income		
Debt securities		
– Listed	4,988,847	5,033,359
– Unlisted	1,237,164	1,073,735
Interbank deposits		
– Listed	328,003	4,678,317
Equity investments and investment management products		
– Unlisted	971,357	923,707
Subtotal	7,525,371	11,709,118

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

18 FINANCIAL INVESTMENTS (continued)

(d) Financial investments analysed as follows (continued)

	30 June 2020	31 December 2019
Financial investments measured at amortized cost		
Debt securities		
– Listed	25,439,668	23,959,043
– Unlisted	4,195,526	3,063,597
Interbank deposits		
– Listed	840,830	–
Investment management products		
– Unlisted	23,664,954	24,204,401
Subtotal	54,140,978	51,227,041
Total	93,279,683	92,912,639
Listed	33,769,033	34,603,596
Unlisted	59,510,650	58,309,043
Total	93,279,683	92,912,639

Interbank deposits traded in the Mainland China interbank bond market are included in “Listed”.

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FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

19 INTEREST IN AN ASSOCIATE

	30 June 2020	31 December 2019
Interest in an associate	286,932	272,576

The following table contains information about the Group's associate which is immaterial to the Bank and is an unlisted corporate entity whose quoted market price is not available:

Name	Percentages of equity/ voting rights		Place of Incorporation/ registration	Business sector
	30 June 2020	31 December 2019		
Jinshang Consumer Finance Co., Ltd. “Jinshang Consumer Finance”	40%	40%	Shanxi, China	Consumer finance

20 INVESTMENT IN A SUBSIDIARY

	30 June 2020	31 December 2019
Qingxu Village and Township Bank (清徐晉商村鎮銀行股份有限公司)	25,500	25,500

Qingxu Jinshang Village and Township Bank Co., Ltd (Qingxu Village and Township Bank) was incorporated on 19 January 2012, with registered capital of RMB50 million. The principal activities of Qingxu Village and Township Bank are the provision of corporate and retail banking services. As at 30 June 2020 and 31 December 2019, the Bank holds 51% of equity interests and voting rights of Qingxu Village and Township Bank.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

21 PROPERTY AND EQUIPMENT

	Premises	Office equipment	Motor vehicles	Electronic equipment	Leasehold improvement	Total
Cost						
As at 1 January 2019	811,653	35,873	14,716	388,306	368,755	1,619,303
Additions	783,927	4,158	–	44,240	14,565	846,890
Disposals	(6,528)	(210)	–	(2,686)	(28,379)	(37,803)
As at 31 December 2019	1,589,052	39,821	14,716	429,860	354,941	2,428,390
Additions	3,131	1,303	–	7,061	47	11,542
Disposals	–	(668)	–	(1,147)	–	(1,815)
As at 30 June 2020	1,592,183	40,456	14,716	435,774	354,988	2,438,117
Accumulated depreciation						
As at 1 January 2019	(228,083)	(24,443)	(13,192)	(303,818)	(303,141)	(872,677)
Charge for the year	(56,443)	(4,117)	(468)	(37,618)	(25,386)	(124,032)
Disposals	4,509	125	–	2,261	26,079	32,974
As at 31 December 2019	(280,017)	(28,435)	(13,660)	(339,175)	(302,448)	(963,735)
Charge for the period	(37,309)	(1,824)	(215)	(19,608)	(10,107)	(69,063)
Disposals	–	642	–	836	–	1,478
As at 30 June 2020	(317,326)	(29,617)	(13,875)	(357,947)	(312,555)	(1,031,320)
Net book value						
As at 31 December 2019	1,309,035	11,386	1,056	90,685	52,493	1,464,655
As at 30 June 2020	1,274,857	10,839	841	77,827	42,433	1,406,797

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

21 PROPERTY AND EQUIPMENT (continued)

As at 30 June 2020, the net book values of premises of which title deeds were not yet finalized were RMB669 million (31 December 2019: RMB690 million). The Group is still in the progress of applying for the outstanding title deeds for the above premises. The directors of the Bank are of the opinion that there would be no significant costs in obtaining the title deeds.

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

	30 June 2020	31 December 2019
Held in Mainland China		
– Medium-term leases (10-50 years)	1,274,857	1,309,035

22 DEFERRED TAX ASSETS

(a) Analysed by nature

	30 June 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	5,762,424	1,440,606	4,937,139	1,234,285
– Accrued staff costs	603,408	150,852	597,791	149,448
– Others	643,712	160,928	539,469	134,867
Subtotal	7,009,544	1,752,386	6,074,399	1,518,600
Deferred income tax liabilities				
– Fair value changes of financial assets	(294,284)	(73,571)	(309,955)	(77,489)
Subtotal	(294,284)	(73,571)	(309,955)	(77,489)
Net balances	6,715,260	1,678,815	5,764,444	1,441,111

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

22 DEFERRED TAX ASSETS (continued)

(b) Movements in deferred tax

	Allowance for impairment losses (i)	Accrued staff costs	Change in fair value (ii)	Others	Net balance of deferred tax assets
1 January 2019	1,046,712	144,712	(7,557)	84,885	1,268,752
Recognised in profit or loss	187,573	4,154	(71,688)	49,982	170,021
Recognised in other comprehensive income	–	582	1,756	–	2,338
31 December 2019	1,234,285	149,448	(77,489)	134,867	1,441,111
Recognised in profit or loss	206,321	1,071	1,754	26,061	235,207
Recognised in other comprehensive income	–	333	2,164	–	2,497
30 June 2020	1,440,606	150,852	(73,571)	160,928	1,678,815

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

23 OTHER ASSETS

		30 June 2020	31 December 2019
Right-of-use assets	(a)	442,484	503,471
Accounts receivable and prepayments		431,657	608,853
Intangible assets	(b)	161,166	167,971
Land use rights	(c)	64,413	65,786
Repossessed assets	(d)	15,287	14,562
Long-term deferred expenses		9,224	9,922
Interest receivables	(e)	5,411	69,983
Subtotal		1,129,642	1,440,548
Less: Allowances for impairment losses		(28,908)	(15,250)
Total		1,100,734	1,425,298

(a) Right-of-use assets

	Premises
Book value as at 1 January 2019	570,962
Additions	28,607
Accumulated depreciation	(96,098)
Book value as at 31 December 2019	503,471
Deductions	(11,475)
Accumulated depreciation	(49,512)
Book value as at 30 June 2020	442,484

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

23 OTHER ASSETS (continued)

(b) Intangible assets

	Computer software and system development
Cost	
As at 1 January 2019	247,485
Additions	56,002
Disposals	—
As at 31 December 2019	303,487
Additions	9,599
Disposals	(9,599)
As at 30 June 2020	303,487
Accumulated amortization	
As at 1 January 2019	(107,870)
Additions	(27,646)
Disposals	—
As at 31 December 2019	(135,516)
Additions	(13,763)
Disposals	6,958
As at 30 June 2020	(142,321)
Book value	
As at 31 December 2019	167,971
As at 30 June 2020	161,166

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

23 OTHER ASSETS (continued)

(c) Land use rights

	30 June 2020	31 December 2019
Located in Mainland China: 10-50 years	64,413	65,786

The Group's right-of-use assets include the above fully prepaid land use rights and other right-of-use assets disclosed in note 23(a).

(d) Repossessed assets

	30 June 2020	31 December 2019
Land use right and buildings	15,287	14,562
Less: impairment allowances	(1,709)	(1,709)
Net balances	13,578	12,853

(e) Interest receivables

	30 June 2020	31 December 2019
Interest receivables arising from: Loans and advances to customers	5,411	69,983
Total	5,411	69,983

As at the end of each of the reporting periods, interest receivables only include interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of the corresponding financial instruments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

24 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type of and location of counterparty

	30 June 2020	31 December 2019
Deposits in Mainland China		
– Banks	2,594,169	3,832,947
– Other financial institutions	4,101,295	360,969
Subtotal	6,695,464	4,193,916
Interest accrued	42,791	17,392
Total	6,738,255	4,211,308

25 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in Mainland China		
– Banks	1,400,000	1,010,000
– Other financial institutions	–	900,000
Subtotal	1,400,000	1,910,000
Interest accrued	1,214	1,455
Total	1,401,214	1,911,455

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

26 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In Mainland China		
– Banks	14,227,792	12,130,493
– Other financial institutions	707,073	64,898
Subtotal	14,934,865	12,195,391
Interest accrued	5,218	5,771
Total	14,940,083	12,201,162

(b) Analysed by type of collateral held

	30 June 2020	31 December 2019
Debt securities	11,248,400	8,118,550
Bank acceptances	3,686,465	4,076,841
Subtotal	14,934,865	12,195,391
Interest accrued	5,218	5,771
Total	14,940,083	12,201,162

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

27 DEPOSITS FROM CUSTOMERS

	30 June 2020	31 December 2019
Demand deposits		
– Corporate customers	45,183,373	42,147,037
– Individual customers	9,814,138	9,831,716
Subtotal	54,997,511	51,978,753
Time deposits		
– Corporate customers	31,468,799	26,598,692
– Individual customers	67,139,649	58,660,659
Subtotal	98,608,448	85,259,351
Pledged deposits		
– Acceptances	13,248,381	12,342,650
– Letters of credit and guarantees	1,179,030	940,743
– Letters of guarantees	34,144	49,150
– Others	400,358	2,288,930
Subtotal	14,861,913	15,621,473
Fiscal deposits	74	–
Inward and outward remittances	93,331	118,553
Interest accrued	2,930,453	2,344,100
Total	171,491,730	155,322,230

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

28 DEBT SECURITIES ISSUED

		30 June 2020	31 December 2019
Interbank deposits issued	(a)	36,422,660	43,300,165
Tier-two capital debts issued	(b)	1,996,184	1,995,749
Financial bonds issued	(c)	8,998,464	4,998,818
Subtotal		47,417,308	50,294,732
Interest accrued		231,891	50,372
Total		47,649,199	50,345,104

(a) Interbank deposits issued

- (i) During the six months ended 30 June 2020, the Bank issued a number of certificates of interbank deposits with a total nominal amount of RMB25,020 million and duration between 1 to 12 months. The coupon interest rates ranged from 1.35% to 2.95% per annum.
- (ii) In 2019, the Bank issued a number of certificates of interbank deposits with a total nominal amount of RMB43,950 million and duration between 1 to 12 months. The coupon interest rates ranged from 2.65% to 3.74% per annum.
- (iii) As at 30 June 2020, the fair value of interbank deposits issued was RMB36,034 million (31 December 2019: RMB42,908 million).

(b) Tier-two capital debts issued

- (i) The Bank issued 10-year fixed interest rate tier-two capital debts with a face value of RMB2,000 million on 19 August 2015. The coupon interest rate per annum is 5.80%. The Bank had an option to redeem the bonds at the end of the fifth year.
- (ii) As at 30 June 2020, the fair value of the tier-two capital debts issued was RMB2,107 million (31 December 2019: RMB2,065 million).

(c) Financial bonds issued

- (i) In April 2020, the Bank issued three-year financial bonds with a face value of RMB4,000 million. The coupon interest rate per annum is 3.00%. No financial bonds issued in 2019.
- (ii) As at 30 June 2020, the fair value of financial bonds issued was RMB9,143 million (31 December 2019: RMB5,051 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020
(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES

	30 June 2020	31 December 2019
Dividend payable	831,876	189,628
Accounts payable in the process of clearance and settlement	821,582	583,917
Accrued staff cost (a)	639,334	658,392
Provisions (b)	500,207	332,362
Lease liabilities	410,383	462,813
Contract liabilities (c)	80,575	67,101
Other taxes payable	8,433	60,053
Total	3,292,390	2,354,266

(a) Accrued staff cost

	30 June 2020	31 December 2019
Salary, bonuses and allowances payable	396,416	459,114
Supplementary retirement benefits payable	43,506	51,115
Pension and annuity payable	91,018	64,421
Other social insurance payable	26,362	11,887
Housing fund payable	16,230	12,343
Others	65,802	59,512
Total	639,334	658,392

Supplementary retirement benefits

The supplementary retirement benefits of the Group include an early retirement plan and a supplementary retirement plan. The early retirement plan is provided to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The supplementary retirement plan is provided to the Group's eligible employees.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES (continued)

(b) Provisions

		30 June 2020	31 December 2019
Provision for credit commitments	(i)	500,207	332,362

(i) Movements in provisions for credit commitments are as follows:

	For the six months period ended 30 June 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit – impaired	Lifetime expected credit losses credit – impaired	
Balance at 1 January	308,738	21,732	1,892	332,362
Transfers				
– to expected credit losses over the next 12 months	258	(258)	–	–
– to lifetime expected credit losses not credit-impaired	(34)	34	–	–
– to lifetime expected credit losses credit-impaired	(6)	(83)	89	–
Charge/(reversal) for the period	175,135	(6,946)	(344)	167,845
Balance at 30 June	484,091	14,479	1,637	500,207

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

29 OTHER LIABILITIES (continued)

(b) Provisions (continued)

(i) Movements of provisions for credit commitments is as follows: (continued)

	Year ended 31 December 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at 1 January	168,335	12,282	2,920	183,537
Transfers				
– to expected credit losses over the next 12 months	151	(151)	–	–
– to lifetime expected credit losses not credit-impaired	(22)	22	–	–
– to lifetime expected credit losses credit-impaired	(3)	(2)	5	–
Charge/(reversal) for the year	140,277	9,581	(1,033)	148,825
Balance at 31 December	308,738	21,732	1,892	332,362

(c) Contract liabilities

As at 30 June 2020, the aggregate amount of the transaction prices allocated to the remaining performance obligations under the Group's existing contracts was RMB81 million (31 December 2019: RMB67 million). This amount represents income expected to be recognised in the future from acceptance and guarantee services. The Group will recognise the expected income in future when the services are provided.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

30 SHARE CAPITAL

Authorised and issued share capital

	30 June 2020	31 December 2019
Number of shares authorised, issued and fully paid at par value of RMB1 each	5,838,650	5,838,650

On 18 July 2019, the Bank issued 860 million H shares with a par value of RMB1 at an offering price of HKD3.82 per share. On 14 August 2019, the Bank exercised the over-allotment option and issued 111 million H shares with a par value of RMB1 at HKD3.82 per share. The capital contribution was verified by KPMG Huazhen LLP.

31 RESERVES

(a) Capital reserve

	30 June 2020	31 December 2019
Share premium	6,568,558	6,568,558
Other capital reserve	59,044	59,044
Total	6,627,602	6,627,602

(b) Surplus reserve

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

Pursuant to the Company Law of the PRC and the Articles of Association of the Bank, the Bank is required to appropriate 10% of its net profit on an annual basis under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good of the prior year's accumulated losses, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders. For the six months period ended 30 June 2020, no resolution of discretionary surplus reserve was made by the shareholders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

31 RESERVES (continued)

(c) General reserve

Pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)” issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis.

(d) Fair value reserve

	For the six months period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	(23,204)	(17,935)
Changes in fair value recognised in other comprehensive income	(3,996)	(4,053)
Transfer to profit or loss upon disposal	(4,661)	(2,972)
Less: deferred tax	2,164	1,756
As at 30 June/31 December	(29,697)	(23,204)

(e) Impairment reserve

	For the six months period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	18,320	17,215
Impairment losses recognised in other comprehensive income	(621)	1,473
Less: deferred tax	155	(368)
As at 30 June/31 December	17,854	18,320

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

31 RESERVES (continued)

(f) (Deficit)/Surplus on remeasurement of net defined benefit liability

(Deficit)/Surplus on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

	For the six months period ended 30 June 2020	Year ended 31 December 2019
As at 1 January	(1,223)	525
Changes in fair value recognised in other comprehensive income	(1,330)	(2,330)
Less: deferred tax	333	582
As at 30 June/31 December	(2,220)	(1,223)

32 RETAINED EARNINGS

(a) Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting on 9 June 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019 as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Declaration of cash dividend in an aggregate amount of approximately RMB642 million to all existing shareholders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

32 RETAINED EARNINGS (continued)

(a) Appropriation of profits (continued)

In accordance with the resolution at the Bank's Annual General Meeting on 29 April 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018 as follows:

- Appropriation of statutory surplus reserve based on 10% of the net profit;
- Appropriation of discretionary surplus reserve based on 10% of the net profit which amounted to approximately RMB132 million;
- Appropriation of general reserve amounted to approximately RMB227 million; and
- Declaration of cash dividend in an aggregate amount of approximately RMB487 million to all existing shareholders.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Net (decrease)/increase in cash and cash equivalents

	For the six months period ended 30 June	
	2020	2019
Cash and cash equivalents at end of the period	7,341,272	10,653,439
Less: Cash and cash equivalents at beginning of the period	(7,894,947)	(7,202,528)
Net (decrease)/increase in cash and cash equivalents	(553,675)	3,450,911

(b) Cash and cash equivalents

	30 June 2020	31 December 2019
Cash on hand	355,386	244,124
Deposits with the central bank other than restricted deposits	5,605,450	5,554,358
Deposits with banks and other financial institutions	880,436	796,465
Placements with banks and other financial institutions	500,000	1,300,000
Total	7,341,272	7,894,947

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

34 CAPITAL MANAGEMENT

The Group's capital management includes capital adequacy ratio management and capital financing management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the former CBRC. The capital of the Group is divided into core tier-one capital, other core tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading peer banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

The Group calculates its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and other relevant regulations promulgated by the former CBRC.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The capital adequacy ratios and related components of the Group illustrated below are computed based on the Group's statutory financial statements prepared in accordance with PRC GAAP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

34 CAPITAL MANAGEMENT (continued)

The Group's capital adequacy ratios at 30 June 2020 and 31 December 2019 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	30 June 2020	31 December 2019
Total core tier-one capital		
– Share capital	5,838,650	5,838,650
– Qualifying portion of capital reserve	6,627,602	6,627,602
– Surplus reserve	3,467,020	3,467,020
– General reserve	2,788,427	2,788,427
– Other comprehensive income	(14,063)	(6,107)
– Retained earnings	1,557,120	1,419,577
– Qualifying portions of non-controlling interests	23,736	14,030
Core tier-one capital	20,288,492	20,149,199
Core tier-one capital deductions	(161,166)	(167,971)
Net core tier-one capital	20,127,326	19,981,228
Other tier-one capital	3,165	1,871
Net tier-one capital	20,130,491	19,983,099
Tier-two capital		
– Instruments issued and share premium	2,000,000	2,000,000
– Surplus provision for loan impairment	1,937,746	1,699,559
– Qualifying portions of non-controlling interests	6,330	3,741
Net tier-two capital	3,944,076	3,703,300
Net capital base	24,074,567	23,686,399
Total risk weighted assets	194,328,708	174,157,429
Core tier-one capital adequacy ratio	10.36%	11.47%
Tier-one capital adequacy ratio	10.36%	11.47%
Capital adequacy ratio	12.39%	13.60%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

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35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Group

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholdings, or with the right to appoint a director in the Bank.

Shareholdings in the Bank:

	30 June 2020	31 December 2019
Shanxi Financial Investment Holdings Limited (山西金融投資控股集團有限公司)	12.25%	12.25%
Huaneng Capital Services Co., Ltd. (華能資本服務有限公司)	10.28%	10.28%
Taiyuan Municipal Finance Bureau (太原市財政局)	7.98%	7.98%
Changzhi Nanye Industry Group Co., Ltd. (長治市南燁實業集團有限公司)	7.72%	7.72%
Shanxi Lu'an Mining (Group) Co., Ltd. (山西潞安礦業(集團)有限責任公司)	6.15%	6.15%
Shanxi International Electricity Group Limited Company (山西國際電力集團有限公司)	5.14%	5.14%
Shanxi Coking Coal Group Co., Ltd. (山西焦煤集團有限責任公司)	4.99%	4.99%
Changzhi Huashengyuan Mining Industry Co., Ltd. (長治市華晟源礦業有限公司)	4.02%	4.02%
Shanxi Jincheng Anthracite Mining Group Co., Ltd. (山西晉城無煙煤礦業集團有限責任公司)	3.43%	3.43%
Taiyuan Iron & Steel (Group) Co., Ltd. (太原鋼鐵(集團)有限公司)	3.43%	3.43%

The official names of these related parties are in Chinese. The English translation is for reference only.

(ii) Subsidiary of the Bank

The detailed information of the Bank's subsidiary is set out in Note 20.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(a) Related parties of the Group (continued)

(iii) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 19.

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(a) or their controlling shareholders.

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

(i) Transactions between the Bank and its major shareholders:

	For the six months period ended 30 June	
	2020	2019
Transactions during the period		
Interest income	10,300	13,828
Interest expense	11,447	5,723
Fee and commission income	6	—
	30 June 2020	31 December 2019
Balances at end of the period/year		
Loans and advances to customers	346,581	443,792
Deposits from customers	652,062	1,040,536

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(ii) Transactions between the Bank and its subsidiary:

The subsidiary of the Bank is its related party. The transactions between the Bank and its subsidiary are eliminated on combination.

	For the six months period ended 30 June	
	2020	2019
Transactions during the period		
Interest expense	1,593	1,765
	30 June 2020	31 December 2019
Balances at end of the period/year		
Deposits from banks and other financial institutions	47,568	208,756

(iii) Transactions between the Bank and its associate:

	For the six months period ended 30 June	
	2020	2019
Transactions during the period		
Interest income	18,024	12,255
Interest expense	431	881
Fee and commission income	11	—
	30 June 2020	31 December 2019
Balances at end of the period/year		
Deposits with banks and other financial institutions	1,050,000	507,355
Deposits from banks and other financial institutions	6,909	1,175

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(iv) Transactions between the Bank and other related parties:

	For the six months period ended 30 June	
	2020	2019
Transactions during the period		
Interest income	325,446	476,885
Interest expense	97,160	211,648
Operating expenses	75	84
Fee and commission income	18,502	7,311
Debt securities investments	204,369	179,153
Debt securities transferring	1,759,267	566,114
	30 June 2020	31 December 2019
Balances at end of the period/year		
Loans and advances to customers	14,105,951	7,994,624
Financial investments	10,924,256	7,553,445
Financial assets held under resale agreements	298,711	277,000
Other assets	572	–
Deposits from customers	9,289,949	10,390,421
Deposits from banks and other financial institutions	4,978,210	1,155,783
Other liabilities	16,451	3,302
Bank acceptances	5,873,878	3,396,692
Letters of credit	1,012,500	243,656
Loan commitments	1,384,256	1,673,485

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	For the six months period ended 30 June	
	2020	2019
Transactions during the period		
Interest income	63	110
Interest expense	257	269
	30 June 2020	31 December 2019
Balances at end of the period/year		
Loans and advances to customers	1,435	6,644
Deposits from customers	26,464	14,356

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is as follows:

	For the six months period ended 30 June	
	2020	2019
Key management personnel compensation	9,380	6,459

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(d) Loans and advances to directors, supervisors and officers

	30 June 2020	31 December 2019
Aggregate amount of relevant loans outstanding at the end of the period/year	1,435	6,644
Maximum aggregate amount of relevant loans outstanding during the period/year	6,824	6,644

36 SEGMENT REPORTING

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Treasury business

This segment covers the Group's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial market business segment also covers the management of the Group's overall liquidity position, including the issuance of debts.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others

These represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense arising from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	For the six months period ended 30 June 2020				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	1,878,832	(813,415)	581,663	–	1,647,080
Internal net interest (expense)/income	(191,283)	960,403	(769,120)	–	–
Net interest income/(expense)	1,687,549	146,988	(187,457)	–	1,647,080
Net fee and commission income	143,236	123,355	114,127	–	380,718
Net trading gains	–	–	45,514	2,977	48,491
Net gains arising from investment securities	–	–	512,653	–	512,653
Other operating income	–	–	–	11,920	11,920
Operating income	1,830,785	270,343	484,837	14,897	2,600,862
Operating expenses	(346,047)	(323,374)	(62,112)	(45,080)	(776,613)
Impairment losses on assets	(834,441)	(171,930)	(47,751)	–	(1,054,122)
Share of profits of an associate	–	–	–	14,356	14,356
Profit/(loss) before tax	650,297	(224,961)	374,974	(15,827)	784,483
Other segment information					
– Depreciation and amortization	62,316	58,233	11,184	–	131,733
– Capital expenditure	10,001	9,345	1,795	–	21,141

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	30 June 2020				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	114,791,085	18,597,206	132,087,662	–	265,475,953
Deferred tax assets	–	–	–	1,678,815	1,678,815
Total assets	114,791,085	18,597,206	132,087,662	1,678,815	267,154,768
Segment liabilities	97,458,804	77,471,792	71,940,099	–	246,870,695
Total liabilities	97,458,804	77,471,792	71,940,099	–	246,870,695

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	For the six months period ended 30 June 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	1,507,407	(363,479)	522,981	–	1,666,909
Internal net interest (expense)/income	(15,717)	819,229	(803,512)	–	–
Net interest income/(expense)	1,491,690	455,750	(280,531)	–	1,666,909
Net fee and commission income	127,086	101,763	79,180	–	308,029
Net trading gains	–	–	45,199	–	45,199
Net gains arising from investment securities	–	–	428,285	–	428,285
Other operating income	1,000	–	–	22,443	23,443
Operating income	1,619,776	557,513	272,133	22,443	2,471,865
Operating expenses	(369,961)	(360,057)	(67,885)	(1,331)	(799,234)
Impairment losses on assets	(120,326)	(64,551)	(713,635)	–	(898,512)
Share of profits of an associate	–	–	–	13,076	13,076
Profit/(loss) before tax	1,129,489	132,905	(509,387)	34,188	787,195
Other segment information					
– Depreciation and amortization	59,485	57,892	10,915	–	128,292
– Capital expenditure	363,922	354,179	66,777	–	784,878

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

36 SEGMENT REPORTING (continued)

Others (continued)

	31 December 2019				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	96,715,419	17,881,426	131,533,257	–	246,130,102
Deferred tax assets	–	–	–	1,441,111	1,441,111
Total assets	96,715,419	17,881,426	131,533,257	1,441,111	247,571,213
Segment liabilities	88,696,078	69,095,264	69,620,522	–	227,411,864
Total liabilities	88,696,078	69,095,264	69,620,522	–	227,411,864

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors is responsible for establishing and maintaining a robust and effective risk management system and determining general risk preference and risk tolerance of the Group. Based on the general strategy of the Group, the Committee of Risk Management under the Board reviews the Group's risk management system and basic principles, risk management strategies and internal control system framework. Senior management led by the president will be responsible for the control of credit risk, market risk, operational risk and approval of related policies and procedures; The Chief Risk Officer will be led by the president of the Bank. In addition, the Group set up the Department of Risk Management, Department of Credit Examination, Department of Asset and Liability Management, Department of Law and Compliance and the Audit Department based on the requirements of general risk management to perform respective functions in risk management, strengthen risk-covering portfolio management capabilities and conduct inspection on compliance with risk management policy of internal control system on a regular or irregular basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

To identify, assess, monitor and manage credit risks, the Group has designed effective system frameworks, credit policies and processes for credit risk management and implemented systematic control procedures. The responsible department for credit risk management include the Risk Management Department and the Credit Approval Department. The Risk Management Department is responsible for implementing the Group's overall risk management system, as well as risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. The Credit Approval Department is independent from customer relationship and product management departments, to ensure the independence of credit approval. Front office departments including the Corporate Business Department and the Personal Finance Department, carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the applications and their recommendations to the loan approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Stages of risks in financial instruments

The financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12-month expected credit losses.

Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3: Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial assets has increased significantly.

If the borrower is listed in the watch list and one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collateral (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Significant increase in credit risk (continued)

The borrowing is more than 30 days past due.

The Group uses watch lists to monitor credit risk of financial assets related to loans and treasury operations, and conducts regular assessments at the counterparty level. The standards used in determining whether credit risk increases significantly are regularly monitored and reviewed by management for appropriateness.

As at 30 June 2020 and 31 December 2019, the Group has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of “default” and “credit-impaired assets”

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for securities because of financial difficulties of the issuer; or
- overdue more than 90 days.

The above criteria apply to all financial assets of the Group and they are consistent with the definition of “default” adopted by the internal management of credit risk.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECLs”)

The Group adopts the ECL model to measure the provision for impairment losses on financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;
- EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;
- LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collateral or other credit support.

The Group determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the ECL for the future months. The results of the calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of the ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observable data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECLs”) (continued)

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).
- The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affect post-default recovery. LGD for different product types are different.
- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collateral and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines the loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collateral under the different time limits.

As at 30 June 2020 and 31 December 2019, there have been no significant changes in the estimate techniques and key assumptions of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECLs”) (continued)

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group’s best estimate of possible outcomes.
- Other forward-looking factors not incorporated in the above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impacts, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

The Group assessed the expected credit losses as at 30 June 2020 and comprehensively considered the impact of the current economic condition on the expected credit losses, including: the operating and financial conditions of the borrowers and the extent of impact COVID-19. The Group has made deferred repayment arrangements for the borrowers affected by COVID-19 but will not judge that their credit risk will inevitably increase significantly based on the deferred repayment arrangements; combining the analysis of the impact of factors such as COVID-19 on economic development trends, performed forward-looking forecasts to key macroeconomic indicators.

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”) (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	30 June 2020				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments*	Others**
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	37,674	-	-	-	-
– Neither overdue nor credit-impaired	128,574,109	2,430,447	17,246,022	91,700,541	75,268
Subtotal	128,611,783	2,430,447	17,246,022	91,700,541	75,268
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	848,483	-	-	-	-
– Neither overdue nor credit-impaired	3,253,872	-	-	-	246,497
Subtotal	4,102,355	-	-	-	246,497
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	2,609,723	-	-	1,832,944	-
– Credit-impaired but not overdue	3,672	-	-	269,900	4,438
Subtotal	2,613,395	-	-	2,102,844	4,438
Interest accrued	617,526	15,487	1,342	978,396	-
Less: Provision for impairment losses	(5,064,299)	(221)	(1)	(1,502,098)	(27,199)
Net value	130,880,760	2,445,713	17,247,363	93,279,683	299,004

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses ("ECL") (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2019				
	Loans and advances	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments*	Others**
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	1,339,642	–	–	–	–
– Neither overdue nor credit-impaired	107,623,484	2,596,464	16,624,996	91,160,927	178,047
Subtotal	108,963,126	2,596,464	16,624,996	91,160,927	178,047
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	1,185,741	–	–	–	–
– Neither overdue nor credit-impaired	3,190,613	–	–	300,000	137,883
Subtotal	4,376,354	–	–	300,000	137,883
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	2,129,945	–	–	1,784,629	–
– Credit-impaired but not overdue	13,064	–	–	155,000	7,849
Subtotal	2,143,009	–	–	1,939,629	7,849
Interest accrued	490,986	7,744	5,023	972,955	–
Less: Provision for impairment losses	(4,260,918)	(174)	(1)	(1,460,872)	(13,541)
Net value	111,712,557	2,604,034	16,630,018	92,912,639	310,238

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Others comprise interest receivables and other receivables in other assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”) (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows (continued):*

Financial assets (excluding interests accrued) analysed by credit quality

	30 June 2020							
	Stage 1	Balance			Total	Provision for impairment losses		
		Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost								
Cash and deposits with the central bank	18,822,257	-	-	18,822,257	-	-	-	-
Deposits with banks and other financial institutions	1,930,447	-	-	1,930,447	(221)	-	-	(221)
Placements with banks and other financial institutions	500,000	-	-	500,000	-	-	-	-
Financial assets held under resale agreements	17,246,022	-	-	17,246,022	(1)	-	-	(1)
Loans and advances to customers	97,874,139	4,102,355	2,610,995	104,587,489	(2,813,592)	(886,561)	(1,364,146)	(5,064,299)
Financial investments	52,679,781	-	2,102,844	54,782,625	(503,048)	-	(999,050)	(1,502,098)
Other assets	75,268	246,497	4,438	326,203	(97)	(24,615)	(2,487)	(27,199)
Total	189,127,914	4,348,852	4,718,277	198,195,043	(3,316,959)	(911,176)	(2,365,683)	(6,593,818)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	30,737,644	-	2,400	30,740,044	(5,406)	-	(9,600)	(15,006)
Financial investments	7,407,426	-	-	7,407,426	(8,799)	-	-	(8,799)
Total	38,145,070	-	2,400	38,147,470	(14,205)	-	(9,600)	(23,805)
Credit commitments	52,228,357	351,328	4,337	52,584,022	(484,091)	(14,479)	(1,637)	(500,207)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”) (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows (continued):*

Financial assets (excluding interests accrued) analysed by credit quality (continued)

	31 December 2019				Provision for impairment losses			
	Stage 1	Balance Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	19,101,907	–	–	19,101,907	–	–	–	–
Deposits with banks and other financial institutions	1,296,464	–	–	1,296,464	(166)	–	–	(166)
Placements with banks and other financial institutions	1,300,000	–	–	1,300,000	(8)	–	–	(8)
Financial assets held under resale agreements	16,624,996	–	–	16,624,996	(1)	–	–	(1)
Loans and advances to customers	84,068,786	4,376,354	2,140,609	90,585,749	(2,223,034)	(906,674)	(1,131,210)	(4,260,918)
Financial investments	49,602,721	300,000	1,939,629	51,842,350	(489,084)	(1,975)	(969,813)	(1,460,872)
Other assets	178,047	137,883	7,849	323,779	(98)	(6,881)	(6,562)	(13,541)
Total	172,172,921	4,814,237	4,088,087	181,075,245	(2,712,391)	(915,530)	(2,107,585)	(5,735,506)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	24,894,340	–	2,400	24,896,740	(12,506)	–	(9,600)	(22,106)
Financial investments	11,581,726	–	–	11,581,726	(2,321)	–	–	(2,321)
Total	36,476,066	–	2,400	36,478,466	(14,827)	–	(9,600)	(24,427)
Credit commitments	40,701,255	555,697	6,227	41,263,179	(308,738)	(21,732)	(1,892)	(332,362)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”) (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows (continued):*

Financial assets (excluding interest accrued) analysed by credit quality

	30 June 2020			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	1.75%	20.95%	50.14%	3.33%
Financial assets at fair value through other comprehensive income	0.04%	N/A	80.00%	0.06%
Credit commitments	0.93%	4.12%	37.74%	0.95%

	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
Financial assets measured at amortised cost	1.58%	19.02%	51.55%	3.17%
Financial assets at fair value through other comprehensive income	0.04%	N/A	80.00%	0.07%
Credit commitments	0.76%	3.91%	30.38%	0.81%

As at 30 June 2020, the fair value of collateral held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB597 million (31 December 2019: RMB434 million). The fair value of collateral held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB623 million (31 December 2019: RMB574 million). The collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of expected credit losses (“ECL”) (continued)

(iii) Rescheduled loans and advances to customers

The Group has no rescheduled loans and advances to customers at 30 June 2020 and 31 December 2019.

(iv) Credit rating

The Group adopts a credit rating approach for managing the credit risk arising from the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (excluding interest accrued) analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2020	31 December 2019
Neither overdue nor impaired		
Ratings		
– AAA	37,214,665	33,212,536
– AA- to AA+	659,109	483,947
Subtotal	37,873,774	33,696,483
Unrated	148,004	149,297
Total	38,021,778	33,845,780

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FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Group has especially built up a market risk management structure and team. The Department of Risk Management takes the major responsibility for the exposure of market risk and preparation of relevant market risk management policies to submit to the Committee of Risk Management. According to the established standards and current management capabilities, the Group measures market risk with the major adoption of sensitivity analysis. Before the new products or new businesses are launched, their market risks will be identified according to regulations.

The major source of market risk of the Group is the asset and liability businesses involved in market operation and the risks in interest rate and exchange rate relating to products.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of financial markets business position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of bank assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Trading interest rate risk

Trading interest rate risk mainly arises from investment portfolios of treasury businesses. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of investment portfolios given a 100 basis points (1%) movement in the interest rates.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

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

	30 June 2020					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	18,827,971	398,342	18,429,629	-	-	-
Deposits with banks and other financial institutions	1,945,687	17,461	1,178,216	750,010	-	-
Placements with banks and other financial institutions	500,026	26	500,000	-	-	-
Financial assets held under resale agreements	17,247,363	1,342	17,246,021	-	-	-
Loans and advances to customers (1)	130,880,760	617,526	42,490,262	53,479,027	27,877,341	6,416,604
Financial investments (2)	93,279,683	28,170,562	4,937,283	16,242,760	28,781,236	15,147,842
Others	4,473,278	4,473,278	-	-	-	-
Total assets	267,154,768	33,678,537	84,781,411	70,471,797	56,658,577	21,564,446
Liabilities						
Borrowings from the central bank	1,118,017	817	-	1,117,200	-	-
Deposits from banks and other financial institutions	6,738,255	42,791	4,595,464	2,100,000	-	-
Placements from banks and other financial institutions	1,401,214	1,214	300,000	600,000	500,000	-
Financial assets sold under repurchase agreements	14,940,083	5,218	14,792,742	142,123	-	-
Deposits from customers	171,491,730	2,930,453	73,562,906	32,775,534	62,222,837	-
Debt securities issued	47,649,199	231,891	8,138,220	28,284,440	10,994,648	-
Others	3,532,197	3,532,197	-	-	-	-
Total liabilities	246,870,695	6,744,581	101,389,332	65,019,297	73,717,485	-
Asset-liability gap	20,284,073	26,933,956	(16,607,921)	5,452,500	(17,058,908)	21,564,446

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

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

	Total	31 December 2019				
		Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	19,108,325	505,488	18,602,837	–	–	–
Deposits with banks and other financial institutions	1,303,659	7,361	1,065,244	99,834	131,220	–
Placements with banks and other financial institutions	1,300,375	383	1,299,992	–	–	–
Financial assets held under resale agreements	16,630,018	5,023	10,111,157	6,513,838	–	–
Loans and advances to customers (1)	111,712,557	490,986	41,821,404	42,577,380	22,944,418	3,878,369
Financial investments (2)	92,912,639	27,424,714	6,911,655	17,400,101	29,678,749	11,497,420
Others	4,603,640	4,603,640	–	–	–	–
Total assets	247,571,213	33,037,595	79,812,289	66,591,153	52,754,387	15,375,789
Liabilities						
Borrowings from the central bank	870,731	731	180,000	690,000	–	–
Deposits from banks and other financial institutions	4,211,308	17,392	1,513,916	2,680,000	–	–
Placements from banks and other financial institutions	1,911,455	1,455	900,000	1,010,000	–	–
Financial assets sold under repurchase agreements	12,201,162	5,771	12,195,391	–	–	–
Deposits from customers	155,322,230	2,344,100	68,952,874	27,992,998	55,985,232	47,026
Debt securities issued	50,345,104	50,372	14,008,106	29,292,059	6,994,567	–
Others	2,549,874	2,549,874	–	–	–	–
Total liabilities	227,411,864	4,969,695	97,750,287	61,665,057	62,979,799	47,026
Asset-liability gap	20,159,349	28,067,900	(17,937,998)	4,926,096	(10,225,412)	15,328,763

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

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

- (1) As at 30 June 2020, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB1,470 million (31 December 2019: RMB1,455 million).
- (2) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group’s net profit or loss and equity. The following table sets forth the results of the Group’s interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	30 June 2020 (Decrease)/ Increase	31 December 2019 (Decrease)/ Increase
Change in net profit		
+ 100 basis points	(104,540)	(113,743)
- 100 basis points	104,667	117,867

	30 June 2020 (Decrease)/ Increase	31 December 2019 (Decrease)/ Increase
Change in equity		
+ 100 basis points	(130,127)	(242,004)
- 100 basis points	130,265	254,094

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Trading interest rate risk (continued)

(ii) Interest rate sensitivity analysis (continued)

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to non-derivative financial instruments of the Group;
- At the end of the reporting period, an interest rate movement of 100 basis points is based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk

The majority of the business of the Group is related to Renminbi, as well as a small amount of business related to United States dollars and other foreign currencies.

The changes in exchange rates will affect the financial position and cash flows of the Group. Due to the small amount of foreign currency business of the Group, the effect of foreign currency risk on the Group would be immaterial. The major principle of the Group's control on foreign currency risk is to achieve matching of assets and liabilities in each currency and to conduct daily monitoring on currency exposure.

The Group adopts sensitivity analysis to measure the possible effects of changes in exchange rates on net gains and losses and interests of the Group. As the foreign currency assets and liabilities account for an immaterial part of the total assets and total liabilities of the Group, the effect of changes in exchange rates on net gains and losses and interests of the Group would be immaterial.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of each of the reporting periods are as follows:

	30 June 2020			Total (RMB equivalent)
	RMB	USD (RMB equivalent)	Other (RMB equivalent)	
Assets				
Cash and deposits with the central bank	18,827,843	50	78	18,827,971
Deposits with banks and other financial institutions	1,774,408	37,893	133,386	1,945,687
Placements with banks and other financial institutions	500,026	–	–	500,026
Financial assets held under resale agreements	17,247,363	–	–	17,247,363
Loans and advances to customers	130,880,760	–	–	130,880,760
Financial investments (i)	93,279,683	–	–	93,279,683
Others	4,473,278	–	–	4,473,278
Total assets	266,983,361	37,943	133,464	267,154,768
Liabilities				
Borrowings from the central bank	1,118,017	–	–	1,118,017
Deposits from banks and other financial institutions	6,738,255	–	–	6,738,255
Placements from banks and other financial institutions	1,401,214	–	–	1,401,214
Financial assets sold under repurchase agreements	14,940,083	–	–	14,940,083
Deposits from customers	171,490,646	959	125	171,491,730
Debt securities issued	47,649,199	–	–	47,649,199
Others	3,364,795	36,316	131,086	3,532,197
Total liabilities	246,702,209	37,275	131,211	246,870,695
Net position	20,281,152	668	2,253	20,284,073
Off-balance sheet credit commitments	52,584,022	–	–	52,584,022

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of each of the reporting periods are as follows:
(continued)

	RMB	31 December 2019		Total (RMB equivalent)
		USD (RMB equivalent)	Others (RMB equivalent)	
Assets				
Cash and deposits with the central bank	19,108,193	55	77	19,108,325
Deposits with banks and other financial institutions	1,107,497	48,426	147,736	1,303,659
Placements with banks and other financial institutions	1,300,375	–	–	1,300,375
Financial assets held under resale agreements	16,630,018	–	–	16,630,018
Loans and advances to customers	111,712,557	–	–	111,712,557
Financial investments (i)	92,912,639	–	–	92,912,639
Others	4,603,640	–	–	4,603,640
Total assets	247,374,919	48,481	147,813	247,571,213
Liabilities				
Borrowings from the central bank	870,731	–	–	870,731
Deposits from banks and other financial institutions	4,211,308	–	–	4,211,308
Placements from banks and other financial institutions	1,911,455	–	–	1,911,455
Financial assets sold under repurchase agreements	12,201,162	–	–	12,201,162
Deposits from customers	155,321,102	1,002	126	155,322,230
Debt securities issued	50,345,104	–	–	50,345,104
Others	2,497,069	34,890	17,915	2,549,874
Total liabilities	227,357,931	35,892	18,041	227,411,864
Net position	20,016,988	12,589	129,772	20,159,349
Off-balance sheet credit commitments	41,263,179	–	–	41,263,179

- (i) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations.

The Group plays an active part in managing liquidity risks and improves the related management system in terms of organisation, institution, system, management and mechanism. The organisational structure of the Group's liquidity risk management consists of the Board of Directors, senior management and its Risk Management Committee and Asset and Liability Management Committee, Department of Risk Liquidity Indicator Management, Department of Asset and Liability Management, Department of Corporate Business, Department of Individual Business, Department of International Business, Department of Credit Examination, Department of Financial Market, Department of Information Technology and Audit Department, responsible for formulating liquidity risk management strategy and establishing internal control mechanism to support the implementation and supervision of liquidity risk management strategy.

The measurement of liquidity risk of the Group adopts liquidity indicator and cash flow gap calculation. By stress testing, the Group sets up mild, moderate and severe scenarios to examine the capacity to withstand liquidity or liquidity crises and improve liquidity contingency measures. In terms of response to liquidity risks, the Group strengthens management and monitoring of liquidity limits; establishes related liquidity emergency leading groups, early-warning indicators for internal and external liquidity risks and indicators that could trigger contingency plans and monitors these indicators; builds up quality liquidity assets reserve and financing capability management; erects liquidity risk reporting mechanism, in which the asset and liability management department reports to the Asset and Liability Management Committee, senior management and the Board of Directors on issues related to the status, stress testing and contingency plans of liquidity risks on a regular basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	30 June 2020					Total
	Indefinite (i)	Repayable on demand	Within one month	Between one month and three months and one year	Between one year and five years	
Assets						
Cash and deposits with the central bank	12,861,421	5,960,836	5,714	-	-	18,827,971
Deposits with banks and other financial institutions	-	1,929,508	-	16,179	-	1,945,687
Placements with banks and other financial institutions	-	-	500,026	-	-	500,026
Financial assets held under resale agreements	-	-	15,851,070	1,396,293	-	17,247,363
Loans and advances to customers	858,112	228,054	8,204,297	15,290,504	29,619,429	130,890,760
Financial investments	1,120,032	26,249,024	1,453,303	3,642,055	15,991,246	93,279,683
Others	3,695,367	777,911	-	-	-	4,473,278
Total assets	18,534,932	35,145,333	26,014,410	20,328,852	72,372,017	267,154,768
Liabilities						
Borrowings from the central bank	-	-	817	-	-	1,118,017
Deposits from banks and other financial institutions	-	4,305,464	-	332,791	-	6,738,255
Placements from banks and other financial institutions	-	-	-	301,214	500,000	1,401,214
Financial assets sold under repurchase agreements	-	-	14,283,346	514,477	-	14,940,083
Deposits from customers	-	60,827,741	5,256,682	8,650,125	63,574,976	171,491,730
Debt securities issued	-	-	1,784,256	6,353,963	8,998,465	47,649,199
Others	-	3,432,892	-	80,424	18,881	3,532,197
Total liabilities	-	68,566,097	21,325,101	16,152,570	73,092,322	246,870,695
Net position	18,534,932	(33,420,764)	4,689,309	4,176,282	6,865,487	20,284,073

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued) (c) Liquidity risk (continued)

	Indefinite (i)	31 December 2019					Total
		Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	
Assets							
Cash and deposits with the central bank	13,303,425	5,798,482	6,418	-	-	-	19,108,325
Deposits with banks and other financial institutions	-	665,078	236,119	-	402,462	-	1,303,659
Placements with banks and other financial institutions	-	-	1,300,375	-	-	-	1,300,375
Financial assets held under resale agreements	-	-	10,323,258	4,919,792	1,386,968	-	16,630,018
Loans and advances to customers	1,167,589	263,728	9,599,136	12,774,727	45,219,973	24,832,119	111,712,557
Financial investments	986,155	26,387,552	3,306,281	3,132,462	17,207,616	30,344,145	92,912,639
Others	3,767,156	836,484	-	-	-	-	4,603,640
Total assets	19,224,325	33,951,324	24,771,587	20,826,981	64,217,019	55,176,264	247,571,213
Liabilities							
Borrowings from the central bank	-	-	731	180,000	690,000	-	870,731
Deposits from banks and other financial institutions	-	513,916	-	1,151,685	2,545,707	-	4,211,308
Placements from banks and other financial institutions	-	-	900,443	1,012	1,010,000	-	1,911,455
Financial assets sold under repurchase agreements	-	-	12,136,265	64,897	-	-	12,201,162
Deposits from customers	-	57,442,897	3,739,047	8,497,576	28,620,210	56,975,471	155,322,230
Debt securities issued	-	-	2,635,902	11,372,204	29,292,059	5,007,037	50,345,104
Others	-	2,460,492	-	41,957	47,425	-	2,549,874
Total liabilities	-	60,417,305	19,412,388	21,267,374	62,199,933	62,029,933	227,411,864
Net position	19,224,325	(26,465,981)	(440,393)	(440,393)	2,017,086	(6,853,669)	20,159,349

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of "repayable on demand". Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of "indefinite".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	30 June 2020				
				Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative liabilities								
Borrowings from the central bank	1,118,017	1,135,266	-	2,450	4,983	1,127,833	-	-
Deposits from banks and other financial institutions	6,738,255	6,759,245	4,352,726	-	304,469	2,102,050	-	-
Placements from banks and other financial institutions	1,401,214	1,456,574	-	3,514	305,855	617,884	529,321	-
Financial assets sold under repurchase agreements	14,940,083	14,944,045	-	14,285,975	514,855	143,215	-	-
Deposits from customers	171,491,730	179,672,839	60,833,014	5,502,104	9,137,394	35,181,749	69,018,578	-
Debt securities issued	47,649,199	49,352,596	-	1,786,542	6,380,545	28,733,304	9,627,286	2,824,919
Other liabilities	3,532,197	3,565,882	3,022,509	13,927	15,065	158,280	299,570	56,531
Total non-derivative liabilities	246,870,695	256,886,447	68,208,249	21,594,512	16,663,166	68,064,315	79,474,755	2,881,450

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

	Carrying amount	Contractual undiscounted cash flow	31 December 2019					
			Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative liabilities								
Borrowings from the central bank	870,731	894,213	-	-	180,000	714,213	-	-
Deposits from banks and other financial institutions	4,211,308	4,311,499	513,916	-	1,178,111	2,619,472	-	-
Placements from banks and other financial institutions	1,911,455	1,944,669	-	901,033	-	1,043,636	-	-
Financial assets sold under repurchase agreements	12,201,162	12,195,884	-	12,130,823	65,061	-	-	-
Deposits from customers	155,322,230	160,194,769	57,284,116	3,575,262	8,133,390	28,409,502	62,734,871	57,628
Debt securities issued	50,345,104	52,046,000	-	2,640,000	11,440,000	30,186,000	5,664,000	2,116,000
Other liabilities	2,549,874	2,611,708	1,997,679	17,052	27,894	100,035	360,764	108,284
Total non-derivative liabilities	227,411,864	234,198,742	59,795,711	19,264,170	21,024,456	63,072,858	68,759,635	2,281,912

This analysis of the non-derivative liabilities by contractual undiscounted cash flows might be different from actual results.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, human mistakes and information system failures, or impact from other external events.

The Group has specified issues of operational risks, including its manifestation, management mode, reporting procedure, reporting cycle and statistics of loss and improved comprehensive risk management system, with major initiatives as follows:

- Establishment of operational risk management system in a crisscrossing manner. On the one hand, the Group establishes an operational risk management framework that is compatible with its nature, scale, complexity and risk characteristics, including the operational risk management mechanism that involves its board of directors, board of supervisors, senior management, head office and branches. On the other hand, a three-tier risk prevention system for the front office, middle office and back office has been established for every major risk faced by the Group.
- Formation of business philosophy of compliance and robustness. The Group fosters favourable control environment, including constant advances and promotion in operational risk culture by the board of directors and senior management.
- Preference to low operational risk under the framework of “robust” risk preference. By conducting controls on operational risk including identification, measurement, resolution, monitoring and reporting, the Group establishes mechanisms for risk avoidance, loss prediction, prevention, control, reduction, financing to control operational risk within the carrying capacity of the Group and maximise its profits.
- Prevention of operational risks based on the means of inspection and supervision. All departments and branches of the head office actively perform their duties of supervision and management, conduct routine and special inspections on operational risks in major businesses, establish ledger of all problems identified for rectification and check-off. Based on the inspection by departments, the internal audit department fully uses the off-site audit system, business risk early-warning system and remote monitoring system to detect violations and pay constant attention to risk-prone problems to prevent operational risks. In the meantime, inspections and investigations are exercised on key businesses, key institutions and key personnel to prevent operational risks.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

37 RISK MANAGEMENT (continued)

(d) Operational risk (continued)

- Combination of punishment and incentives to encourage compliance and standard operations. Integral management will be implemented on personnel who violate operational standards for strict ascertainment of responsibility; employees are encouraged to spontaneously disclose and actively report operational risks; internal management, compliance operation, inspection and supervision and swindle prevention and control of the head office and branches shall be quantitatively assessed for penalty points; innovative implementation of compliance and internal control management of institutions shall be assessed for bonus points.
- Substantive achievements in carrying out system training and improving staff operation skills have been effective in preventing operational risks for the Group.

38 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

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

(i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

(ii) *Receivables and other non-derivative financial assets*

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(b) Fair value measurement

(i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank, receivables with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate to the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate to the fair values.

Financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. The carrying amounts of financial investments at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) *Financial liabilities*

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

The book value and fair value of debt securities issued are presented in Note 28. The carrying amounts of other financial liabilities approximate to their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs, i.e., unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2: Fair value measured using Level 2 inputs, i.e., observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and
- Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and exchange rate. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is by reference to another instrument that is substantially the same.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

	30 June 2020			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
<i>Financial investments at fair value through profit or loss</i>				
– debt securities	–	2,536,131	148,004	2,684,135
– fund investments	–	26,249,024	–	26,249,024
– investment management products	–	345,486	2,276,445	2,621,931
– other investments	–	–	58,244	58,244
<i>Financial investments at fair value through other comprehensive income</i>				
– debt securities and interbank deposits	–	6,554,014	–	6,554,014
– investment management products	–	820,167	–	820,167
– equity investments	–	–	151,190	151,190
<i>Loans and advances to customers measured at fair value through other comprehensive income:</i>				
– corporate loans and advances	–	191,121	–	191,121
– discounted bills	–	30,548,923	–	30,548,923
Total	–	67,244,866	2,633,883	69,878,749

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
<i>Financial investments at fair value through profit or loss</i>				
– debt securities	–	1,049,720	149,297	1,199,017
– fund investments	–	26,387,551	–	26,387,551
– investment management products	–	54,371	2,276,444	2,330,815
– other investments	–	–	59,097	59,097
<i>Financial investments at fair value through other comprehensive income</i>				
– debt securities and interbank deposits	–	10,785,411	–	10,785,411
– equity investments	–	–	151,190	151,190
– investment management products	–	772,517	–	772,517
<i>Loans and advances to customers measured at fair value through other comprehensive income:</i>				
– corporate loans and advances	–	187,447	–	187,447
– discounted bills	–	24,709,293	–	24,709,293
Total	–	63,946,310	2,636,028	66,582,338

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movements during the six months ended 30 June 2020 in the balance of Level 3 fair value measurements are as follows:

	1 January 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Purchases, issues, sales and settlements			Unrealised gains or losses for the period included in profit or loss for assets held at the end of 30 June 2020
				Recorded in profit or loss	Recorded in other comprehensive income	Purchases	Issues	Sales	
Assets									
Financial assets at fair value through profit or loss									
– debt securities	149,297	-	-	(1,293)	-	-	-	-	148,004 (1,293)
– investment management products	2,276,444	-	-	1	-	-	-	-	2,276,445 1
– other investments	59,097	-	-	(853)	-	-	-	-	58,244 (853)
Subtotal	2,484,838	-	-	(2,145)	-	-	-	-	2,482,693 (2,145)
Financial investments at fair value through other comprehensive income									
– equity investments	151,190	-	-	-	-	-	-	-	151,190 -
Total	2,636,028	-	-	(2,145)	-	-	-	-	2,633,883 (2,145)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

38 FAIR VALUE (continued)

(c) Fair value hierarchy (continued)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses			Purchases, issues, sales and settlements			Unrealised gains or losses for the period included in profit or loss for assets and liabilities held at the end of the period
				Recorded in profit or loss	Recorded in other comprehensive income	Recorded in other comprehensive income	Purchases	Issues	Sales	
Assets										
Financial assets at fair value through profit or loss										
– debt securities	134,330	-	-	14,967	-	-	-	-	-	14,967
– investment management products	3,627,708	-	-	(6,556)	-	-	-	(1,344,708)	-	2,276,444
– other investments	58,285	-	-	812	-	-	-	-	-	59,097
Subtotal	3,820,323	-	-	9,223	-	-	-	(1,344,708)	-	2,484,838
Financial investments at fair value through other comprehensive income										
– equity investments	151,190	-	-	-	-	-	-	-	-	151,190
Total	3,971,513	-	-	9,223	-	-	-	(1,344,708)	-	2,636,028

During the six months ended 30 June 2020 and the year ended 31 December 2019, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

39 ENTRUSTED LENDING BUSINESS

The Group provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position. Surplus funding is accounted for as other liabilities.

	30 June 2020	31 December 2019
Entrusted loans	11,139,054	11,100,352
Entrusted funds	11,139,487	11,105,820

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments are in the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

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

	30 June 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	1,175,327	733,891
– Original contractual maturity more than one year (inclusive)	5,889,757	2,947,449
Credit card commitments	6,439,045	6,542,674
Subtotal	13,504,129	10,224,014
Acceptances	34,382,785	27,215,046
Letters of credit	3,999,426	3,344,576
Letters of guarantees	697,682	479,543
Total	52,584,022	41,263,179

The Group may be exposed to credit risk in all the above credit businesses. The Group's management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of the expected future cash outflows.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Credit risk-weighted amount for credit commitments

	30 June 2020	31 December 2019
Risk-weighted amounts for credit commitments	26,671,135	21,095,590

The risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Capital commitments

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

	30 June 2020	31 December 2019
Contracted but not paid for	127,968	100,315
Authorised but not contracted for	–	–
Total	127,968	100,315

(d) Outstanding litigations and disputes

As at 30 June 2020, the Group was the defendant in certain outstanding litigations and disputes with an estimated gross amount of RMB18 million (31 December 2019: RMB1,015 million). The Group has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. In the opinion of the Group's lawyers and external lawyers, it is unlikely for the Group to receive unfavourable ruling in these cases. Therefore, the Group did not make provision for the litigation. The directors of the Bank are of the view that these litigations will not have any material adverse effects on the Group's businesses, financial condition, results of operations or prospects.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(e) Bonds underwriting commitments and redemption obligations

The Group has no outstanding bond underwriting commitments at the end of the reporting period.

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with relevant rules of the Ministry of Finance (“MOF”) and the PBoC.

The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at 30 June 2020 or 31 December 2019:

	30 June 2020	31 December 2019
Redemption obligations	2,972,457	3,363,845

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(f) Pledged assets

(i) Assets pledged as collateral

	30 June 2020	31 December 2019
For repurchase agreements:		
– Financial investments measured at amortised cost	12,063,635	8,750,712
– Discounted bills	691,968	63,822
Total	12,755,603	8,814,534

Financial assets pledged by the Group as collateral for liabilities are mainly debt securities for repurchase agreements.

(ii) Pledged assets received

The Group conducts resale agreements under standard terms of placements, and holds collateral for these transactions. The Group's balance of the financial assets held under resale agreements is disclosed in Note 16. The fair value of such collateral accepted by the Group was RMB17,246 million as at 30 June 2020 (31 December 2019: RMB16,625 million). These transactions were conducted under standard terms in the normal course of business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds interests:

The Group holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes and wealth management products issued by financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 30 June 2020 and 31 December 2019:

	30 June 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	28,929,199	28,929,199	28,718,366	28,718,366
Financial investments at fair value through other comprehensive income	820,167	820,167	772,517	772,517
Financial investments at amortised cost	23,664,954	23,664,954	24,204,400	24,204,400
Total	53,414,320	53,414,320	53,695,283	53,695,283

As at 30 June 2020 and 31 December 2019, the carrying amounts of the unconsolidated structured entities are equal to the maximum exposures.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(continued)

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interests:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interests held by the Group include investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2020 and 31 December 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

For the six months ended 30 June 2020, the amount of fee and commission income received from the abovementioned structured entities by the Group was RMB74 million (six months ended 30 June 2019: RMB82 million).

As at 30 June 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, was RMB31,522 million (31 December 2019: RMB31,274 million).

In September 2018, the Group transferred a portfolio of customer loans with a book value of RMB4,175 million to an unconsolidated securitization vehicle managed by an independent trust company, which issued asset-backed securities to investors. On 8 January 2020, all assets of the asset-backed securities have been recovered, and the trust liquidation was processed on 31 March 2020 (31 December 2019: the remaining balance amounted to RMB14 million).

Under the servicing arrangements with the independent trust company, the Group collects the cash flows of the transferred assets on behalf of the unconsolidated securitization vehicle. In return, the Group receives a fee that is expected to compensate the Group for servicing the related assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2020

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

41 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(continued)

(c) Unconsolidated structured entities sponsored by the Group during the period in which the Group does not have interests in as at 30 June 2020:

For the six months ended 30 June 2020, the aggregate amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January but matured before 30 June was RMB2,147 million (six months ended 30 June 2019: RMB2,839 million).

42 SUBSEQUENT EVENTS

On 21 August 2020, the Bank redeemed at face value all of the tier 2 capital bonds issued in 2015 with maturity of 10 years which amounted to RMB2,000 million.

Except for the event as disclosed above, the Group has no material events for disclosure subsequent to the end of the reporting period.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

The information set out below does not form part of the unaudited interim financial report, and is included herein for the purpose of providing information only.

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplementary financial information as follows:

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

(a) Liquidity coverage ratio

	30 June 2020	Average for the period ended 30 June 2020
Liquidity coverage ratio (RMB and foreign currencies)	215.32%	225.24%

	31 December 2019	Average for the year ended 31 December 2019
Liquidity coverage ratio (RMB and foreign currencies)	252.85%	240.44%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks (Trial), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

(b) Leverage ratio

	30 June 2020	31 December 2019
Leverage ratio	6.56%	7.16%

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks issued by the former CBRC effective since 1 April 2015, a minimum leverage ratio of 4% is required.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

1 LIQUIDITY COVERAGE RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (continued)

(c) Net Stable Funding Ratio

	30 June 2020	31 March 2020	31 December 2019
Net stable funding ratio	139.77%	138.99%	137.19%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio of 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 CURRENCY CONCENTRATIONS

	30 June 2020			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	37,943	133,257	207	171,407
Spot liabilities	(37,275)	(130,991)	(220)	(168,486)
Net position	668	2,266	(13)	2,921

	31 December 2019			Total
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	
Spot assets	48,481	147,605	208	196,294
Spot liabilities	(35,892)	(17,822)	(219)	(53,933)
Net position	12,589	129,783	(11)	142,361

As at 30 June 2020, the Group's structural position is RMB35 million.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with the central bank, amounts due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30 June 2020		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	133,174	–	133,174
Europe	147	–	147
Total	133,321	–	133,321

	31 December 2019		
	Banks and other financial institutions	Non-bank private sector	Total
Asia Pacific	147,524	–	147,524
Europe	148	–	148
Total	147,672	–	147,672

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(AMOUNTS IN THOUSANDS OF RENMINBI, UNLESS OTHERWISE STATED)

4 GROSS AMOUNTS OF OVERDUE LOANS AND ADVANCES

	30 June 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	85,325	812,558
– between 6 months and 1 year (inclusive)	1,244,257	239,211
– between 1 year and 3 years (inclusive)	725,009	596,809
– over 3 years	539,357	458,785
Total	2,593,948	2,107,363
Percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.06%	0.70%
– between 6 months and 1 year (inclusive)	0.92%	0.21%
– between 1 year and 3 years (inclusive)	0.54%	0.52%
– over 3 years	0.40%	0.40%
Total	1.92%	1.83%

LIST OF BRANCHES

As at June 30, 2020, details of the branches of the Bank are set out as below:

No.	Institution name	Institution address	Note
1	Head Office	No. 59 Changfeng Street, Xiaodian District, Taiyuan, Shanxi Province	4 sub-branches directly administered by the head office and a total of 84 outlets under its jurisdiction
2	Lvliang Branch	Intersection of Changzhi Road and Longfeng Street, Lishi District, Lvliang, Shanxi Province	7 outlets under its jurisdiction
3	Yuncheng Branch	No. 989 Pu'an Street, Yanhu District, Yuncheng, Shanxi Province	6 outlets under its jurisdiction
4	Linfen Branch	Block B, Guangqi Fortune Center, Hefen Road, Linfen, Shanxi Province	9 outlets under its jurisdiction
5	Shuozhou Branch	North side of Zhenhua East Street, Shuozhou Economic Development Zone, Shanxi Province	10 outlets under its jurisdiction
6	Datong Branch	No. 46, Weidu Avenue, Datong, Shanxi Province	10 outlets under its jurisdiction
7	Changzhi Branch	No. 288 Chengdong Road, Changzhi, Shanxi Province	10 outlets under its jurisdiction
8	Xinzhou Branch	Yiren Commercial Complex, Jianshe South Road, Xinfu District, Xinzhou, Shanxi Province	11 outlets under its jurisdiction
9	Jincheng Branch	1/F – 2/F, Zizhulin Building, Fengtai West Street, Jincheng, Shanxi Province	5 outlets under its jurisdiction
10	Jinzhong Branch	No. 678, Anning Street, Yuci District, Jinzhong, Shanxi Province	7 outlets under its jurisdiction
11	Yangquan Branch	1/F – 5/F, Commercial Building, Wanlong International Phase I, Nanda East Street, Yangquan, Shanxi Province	2 outlets under its jurisdiction



晋商银行
Jinshang Bank