



徽商銀行股份有限公司

Huishang Bank Corporation Limited

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

STOCK CODE: 3698

STOCK CODE OF PREFERENCE SHARES: 4608

2019 Interim Report



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Definitions

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

“Bank” or “Huishang Bank”	Huishang Bank Corporation Limited, including its subsidiaries and branches
“CBIRC”	the China Banking and Insurance Regulatory Commission
“CBRC”	the former China Banking Regulatory Commission
“CIRC”	the former China Insurance Regulatory Commission
“CBIRC Anhui Office”	the China Banking and Insurance Regulatory Commission Anhui Office
“CBRC Anhui Office”	the former China Banking Regulatory Commission Anhui Office
“CSRC”	the China Securities Regulatory Commission
“Domestic Shares”	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
“H Shares”	the ordinary shares issued by the Bank to overseas investors, which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Share Listing”	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
“H Share Listing Date”	the date on which dealings in the H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Latest Practicable Date”	the latest practicable date for the purpose of ascertaining certain information contained in this report, i.e. 28 August 2019
“Non-green Industries”	the heavily-polluting, highly energy-consuming and over-capacity industries
“PBOC”	the People’s Bank of China

Definitions

“Offshore Preference Shares”	44,400,000 non-cumulative perpetual offshore preference shares with a nominal value of RMB100 per share issued by the Bank at the issue price of US\$20 per share and listed on the Hong Kong Stock Exchange to raise US\$888 million
“Reporting Period”	the first half of 2019 (1 January 2019 to 30 June 2019)
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“US\$” or “U.S. Dollars”	U.S. dollars, the lawful currency of the United States
“Yuan” or “RMB”	Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this report shall be Renminbi
“MLF”	Medium-term Lending Facility
“IFRS”	International Financial Reporting Standards
“PMI”	Purchasing Managers’ Index
“GDP”	Gross Domestic Product
“PPP”	Public-Private Partnership
“TMLF”	Targeted Medium-term Lending Facility
“FVTPL”	Financial Instruments at Fair Value through Profit and Loss

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Registered Chinese name: 徽商銀行股份有限公司¹
Registered English name: Huishang Bank Corporation Limited
- 1.1.2 Legal representative: Wu Xuemin
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Secretary to the Board of Directors: Lian Baohua
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-551-62667729
Fax: +86-551-62667787
Postal code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 40/F, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP (Special General Partnership)
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dong Cheng District, Beijing, the PRC
International auditor: Ernst & Young
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Latham & Watkins LLP
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H Shares registrar: Computershare Hong Kong Investor Services Limited

Note: 1. Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, the Bank underwent H Share Listing (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 approved by the CBRC Anhui Office and a business license (unified social credit code: 913400001489746613) approved by the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As of 30 June 2019, the registered capital of Huishang Bank was RMB12,154,801,211. The Bank successfully issued Offshore Preference Shares with a total amount of US\$888 million in November 2016 and was listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal business scope in the PRC covers the taking of deposits from corporates and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompasses money market business, investment and trading business and transactions on behalf of customers. As of 30 June 2019, the Bank had 9,443 on-the-job employees. Apart from its headquarters, the Bank has 17 branches, 425 front offices (including 1 business department branch and 424 sub-branches). The Bank has three subsidiaries, namely Huishang Bank Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interests in Chery HuiYin Motor Finance Service Co., Ltd.

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

	January to June 2019	January to June 2018	Changes over the corresponding period of last year +/(-)%
Operational results			
Net operating income ⁽¹⁾	15,310	13,443	13.89%
Profit before tax	6,111	5,150	18.66%
Net profit attributable to shareholders of the Bank	4,920	4,273	15.14%

Unit: RMB, except for percentages

	January to June 2019	January to June 2018	Changes over the corresponding period of last year +/(-)%
Per ordinary share			
Basic earnings attributable to shareholders of the Bank	0.40	0.35	14.29%
Diluted earnings attributable to shareholders of the Bank	0.40	0.35	14.29%
Closing net assets attributable to shareholders of the Bank	5.45	5.12	6.45%

Unit: RMB million, except for percentages

	30 June 2019	31 December 2018	Changes over the end of last year +/(-)%
Scale indicators			
Total assets	1,098,208	1,050,506	4.54%
Including: Total loans and advances to customers ⁽²⁾	434,557	381,766	13.83%
Total liabilities	1,023,820	980,229	4.45%
Including: Total customer deposits ⁽³⁾	608,037	565,961	7.43%
Equity attributable to shareholders of the Bank	72,255	68,213	5.93%

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trading income/(loss), net income/(loss) from financial investments, dividend income and other operating income, net.

(2) Accrued interest and provision for impairment are not included in total loans and advances to customers.

(3) Accrued interest is not included in total customer deposits.

Chapter II Summary of Accounting Data and Business Data

2.2 FINANCIAL RATIOS

	January to June 2019	January to December 2018	January to June 2018	Unit: % Changes over the corresponding period of last year +/(–)
Profitability indicators ⁽¹⁾				
Return on average total assets	0.93	0.90	0.92	0.01
Return on average equity of shareholders	15.11	15.08	15.37	(0.26)
Net interest spread	2.37	2.21	2.19	0.18
Net interest margin	2.56	2.37	2.39	0.17

Proportion of net operating income

– Net interest income ⁽²⁾	83.77	66.67	82.15	1.62
– Net non-interest income ⁽³⁾	16.23	33.33	17.85	(1.62)
Cost-to-income ratio (including tax and surcharges) ⁽⁴⁾	22.02	23.02	21.95	0.07

	30 June 2019	31 December 2018	30 June 2018	Unit: % Changes over the corresponding period of last year +/(–)
Asset quality indicators				
Non-performing loan ratio	1.03	1.04	1.02	0.01
Allowance to non-performing loan ratio	301.37	302.22	288.74	12.63
Allowance to loans ratio	3.11	3.15	2.94	0.17

Capital adequacy indicators

Core Tier I capital adequacy ratio	8.44	8.37	8.51	(0.07)
Capital adequacy ratio	11.59	11.65	11.97	(0.38)
Equity to total assets ⁽⁵⁾	6.77	6.69	6.76	0.01

Notes: (1) The ratios are annualized.

(2) From January to June 2019 and from January to December 2018, the net interest income from financial instruments at fair value through profit or loss was charged to net trading income/(loss), while the data from January to June 2018 was not adjusted retrospectively.

(3) Net non-interest income in this indicator comprises net fees and commission income, net trading income/(loss), net income/(loss) on financial investments, dividend income and other operating income, net, but excludes net income from investment in associates.

(4) Cost-to-income ratio = Operating expenses/Operating income.

(5) Equity includes minority interests.

Chapter III Management Discussion and Analysis

3.1 OVERALL BUSINESS REVIEW

During the first half of 2019, against the complex and changing economic and financial conditions, stricter supervision on the financial industry, and gradually promoted interest rate liberalization, the Bank implemented consistently its macro control and monetary credit policies, put regulatory requirements into practice, adhered to “returning to the fundamental purposes and serving the real economy” and actively promoted the action initiative of “One Body, Two Wings (一體兩翼)” in the constant belief that innovation spurs transformation while management enhances quality and efficiency. All these facilitated a comprehensive transformation for high quality development, realizing steady growth in business scale and continuous improvement in operating and management level.

As at the end of June 2019, the total assets of the Bank were RMB1,098,208 million, representing an increase of RMB47,702 million or 4.54% as compared with the end of last year. Total loans and advances were RMB434,557 million, representing an increase of RMB52,791 million or 13.83% as compared with the end of last year. Total customer deposits were RMB608,037 million, representing an increase of RMB42,076 million or 7.43% as compared with the end of last year.

In the first half of 2019, the operating income of the Bank was approximately RMB15,310 million, representing an increase of RMB1,867 million, or 13.89%, as compared with the same period last year; net profit was RMB5,011 million, representing an increase of RMB716 million, or 16.66%, as compared with the same period last year.

As at the end of June 2019, the Bank’s non-performing loan balance was RMB4,480 million, representing an increase of RMB500 million as compared with the end of last year. Non-performing loan ratio was 1.03%, representing a decrease of 0.01 percentage point as compared with the end of last year. Non-performing loan provision coverage ratio was 301.37%, representing a decrease of 0.85 percentage point as compared with the end of last year.

3.2 ANALYSIS OF INCOME STATEMENT

3.2.1 Particulars of financial performance

	<i>Unit: RMB million</i>	
	January to June 2019	January to June 2018
Net interest income	12,825	11,043
Net fee and commission income	1,888	1,698
Other net income	597	702
Operating expenses	3,372	2,951
Share of profits in associates	67	66
Impairment losses on assets	5,894	5,408
Profit before tax	6,111	5,150
Income tax expense	1,100	855
Net profit	5,011	4,295
Net profit attributable to shareholders of the Bank	4,920	4,273

From January to June 2019, the Bank realized a profit before tax of RMB6,111 million, representing an increase of 18.66% as compared with the same period of last year. The effective income tax rate was 18.00%, representing an increase of 1.40 percentage points as compared with the same period of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.2 Net operating income

From January to June 2019, the Bank realized a net operating income of RMB15,377 million (including net income from investments in associates), representing an increase of 13.83% as compared with the same period of last year, among which, net interest income accounted for 83.40%, representing an increase of 1.65 percentage points as compared with the same period of last year; net non-interest income accounted for 16.60%, representing a decrease of 1.65 percentage points as compared with the same period of last year.

	January to June 2019	January to December 2018	Unit: % January to June 2018
Net interest income	83.40	66.32	81.75
Net fee and commission income	12.28	13.68	12.57
Other net income	3.88	19.48	5.20
Net income from investment in associates	0.44	0.52	0.48
Total	100.00	100.00	100.00

Note: Such analysis of net operating income comprises net income from investments in associates.

3.2.3 Net interest income

From January to June 2019, the Bank's net interest income amounted to RMB12,825 million, and net interest income from financial instruments at fair value through profit or loss amounted to RMB864 million, totalling RMB13,689 million, representing an increase of 23.96% as compared with the same period of last year. Such increase was mainly due to an expansion of the scale of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/costs of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

	January to June 2019			Unit: RMB million, except for percentages January to June 2018		
	Average Balance	Interest Income	Annualized Average Yield (%)	Average Balance	Interest Income	Annualized Average Yield (%)
Interest-earning assets						
Loans and advances to customers	409,187	10,754	5.26	321,033	8,151	5.11
Securities investments	501,210	12,589	5.02	456,350	12,056	5.31
Cash and balances with the central bank	73,670	533	1.45	77,525	600	1.56
Deposits and placements with banks and other financial institutions	47,714	572	2.40	44,478	604	2.73
Financial leasing	38,914	1,264	6.49	30,208	830	5.52
Total interest-earning assets and interest income (including interest income from FVTPL assets)	1,070,695	25,712	4.80	929,595	22,242	4.81

Note: FVTPL refers to financial instruments at fair value through profit or loss.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

	January to June 2019			January to June 2018		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from the central bank	29,354	442	3.01	26,775	407	3.06
Customer deposits	568,056	4,967	1.75	513,907	4,047	1.58
Deposits and placements from banks and other financial institutions ⁽¹⁾	212,220	3,410	3.21	202,133	4,092	4.07
Debt securities issued	179,708	3,204	3.57	117,012	2,653	4.56
Total interest-bearing liabilities and interest expenses (including interest expenses from FVTPL liabilities)	989,338	12,023	2.43	859,827	11,199	2.62
Net interest income and net interest income from FVTPL financial instruments	/	13,689	/	/	11,043	/
Net interest spread	/	/	2.37	/	/	2.19
Net interest margin	/	/	2.56	/	/	2.39

Note: (1) Included deposits and placements from banks and other financial institutions of insurance companies.

The annualized average yield of interest-earning assets was 4.80%, while the annualized average cost ratio of interest-bearing liabilities was 2.43%.

From January to June 2019, the net interest spread of the Bank was 2.37%, representing an increase of 0.18 percentage point as compared with the same period of last year. From January to June 2019, the net interest margin of the Bank was 2.56%, representing an increase of 0.17 percentage point as compared with the same period of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses of the Bank caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which were included in the impact of interest rate changes on changes to the amount of interest income and expenses.

Unit: RMB million

	January to June 2019		
	vs.		
	January to June 2018		
	Increase (decrease) factors		Net increase/
	Scale ⁽¹⁾	Interest rate ⁽²⁾	(decrease) ⁽³⁾
Assets			
Loans and advances to customers	2,238	365	2,603
Securities investments	1,185	(652)	533
Balances with the central bank	(30)	(37)	(67)
Deposits and placements with banks and other financial institutions	44	(76)	(32)
Financial leasing	239	194	434
Changes in interest income	3,376	94	3,470
Liabilities			
Borrowings from the central bank	39	(4)	35
Customer deposits	426	494	920
Deposits and placements from banks and other financial institutions	204	(886)	(682)
Debt securities issued	1,421	(870)	551
Changes in interest expenses	1,687	(863)	824
Changes in net interest income	1,689	957	2,646

Notes:

- (1) Represents average balance for the year minus average balance for the prior year, and then multiplied by average return rate/cost for the prior year.
- (2) Represents average return rate/cost for the year minus average return rate/cost for the prior year, and then multiplied by average balance for the year.
- (3) Represents interest income/expense for the year minus interest income/expense for the prior year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.4 Interest income

From January to June 2019, the Bank's interest income and interest income from financial assets at fair value through profit or loss recognized in net trading income/(loss) amounted to RMB25,712 million, representing an increase of RMB3,470 million or 15.60% as compared with the same period of last year, which was mainly due to the expansion in the scale of interest-earning assets. Among them, the interest income from securities investments was RMB12,589 million, representing an increase of RMB533 million or 4.42% as compared with the same period of last year; the interest income from loans and advances to customers of the Bank was RMB10,754 million, representing an increase of RMB2,603 million or 31.93% as compared with the same period of last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances to customers for the periods indicated:

Unit: RMB million, except for percentages

	January to June 2019			January to June 2018		
	Average Balance	Interest Income	Annualized Average Yields (%)	Average Balance	Interest Income	Annualized Average Yields (%)
Corporate loans	250,872	6,576	5.24	198,287	4,993	5.06
Retail loans ⁽¹⁾	144,271	3,931	5.45	109,990	2,847	5.20
Discounted bills	14,043	247	3.51	12,756	311	4.91
Loans and advances to customers	409,187	10,754	5.26	321,033	8,151	5.11

Note: (1) Retail loans comprised personal business loans and personal consumption loans (included residential mortgage loans).

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.5 Interest expenses

From January to June 2019, the Bank's interest expenses and interest expenses from financial liabilities at fair value through profit or loss recognized in net trading income/(loss) amounted to RMB12,023 million, representing an increase of RMB824 million or 7.36% as compared with the same period of last year, which was primarily attributable to an increase in the scale of interest-bearing liabilities.

Interest expense on customer deposits

From January to June 2019, the Bank's interest expense on customer deposits was RMB4,967 million, representing an increase of RMB920 million or 22.73% as compared with the same period of last year.

The following table sets forth the average balances, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail customer deposits for the periods indicated:

Unit: RMB million, except for percentages

	January to June 2019			January to June 2018		
	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	250,202	1,130	0.90	236,258	835	0.71
Time deposits	132,611	1,904	2.87	128,298	1,858	2.91
Sub-total	382,812	3,034	1.59	364,556	2,693	1.49
Retail customer deposits						
Demand deposits	59,865	168	0.56	55,011	152	0.56
Time deposits	96,734	1,600	3.31	74,270	1,063	2.88
Sub-total	156,599	1,769	2.26	129,281	1,215	1.89
Others ⁽¹⁾	28,644	164	1.15	20,070	139	1.39
Total customer deposits	568,056	4,967	1.75	513,907	4,047	1.58

Note: (1) Other deposits included margin deposits and credit card deposits.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.6 Net non-interest income

From January to June 2019, the Bank realized a net non-interest income of RMB2,552 million, representing an increase of RMB85 million or 3.45% as compared with the same period of last year, which was primarily attributable to the increase in net fee and commission income.

The table below sets out the main components of net non-interest income of the Bank for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2019	January to June 2018
Fee and commission income	1,992	1,841
Less: Fee and commission expenses	104	143
Net fee and commission income	1,888	1,698
Other net non-interest income⁽¹⁾	664	769
Total net non-interest income	2,552	2,467

Note: (1) Comprises net trading income/(loss), net income/(loss) from financial investments, dividend income, other operating income, net and net income from investments in associates.

3.2.7 Net fee and commission income

From January to June 2019, the net fee and commission income of the Bank was RMB1,888 million, representing an increase of RMB190 million or 11.19% as compared with the same period of last year, which was primarily attributable to an increase in income from bank card fee, financial leasing fee, guarantee and commitment fee.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2019	January to June 2018
Fee and commission income	1,992	1,841
Settlement fee income	40	30
Guarantee and commitment fee income	165	107
Investment banking fee income	439	516
Custodian service fee income	231	201
Bank card fee income	375	288
Settlement fees	8	12
Agency service fees	407	424
Financial leasing fee income	284	223
Other fee income	43	40
Fee and commission expenses	(104)	(143)
Net fee and commission income	1,888	1,698

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.8 Other net non-interest income

From January to June 2019, the Bank realized other net non-interest income of RMB664 million, representing a decrease of RMB105 million or 13.65% as compared with the same period of last year, which was mainly due to the decrease in net income/(loss) from financial investments and other operating income, net.

The following table sets forth the principal components of the Bank's other net income for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2019	January to June 2018
Net income/(loss) from financial investments	44	75
Net trading income/(loss) ⁽¹⁾	504	476
Net income from investment in associates	67	66
Other operating income, net ⁽²⁾	49	152
Total other net income	664	769

Notes:

- (1) From January to June 2019, the net interest income from financial instruments at fair value through profit or loss was included in net trading income/(loss), while the data from January to June 2018 was not adjusted retrospectively.
- (2) Other operation income, net comprises of dividend income.

3.2.9 Operating expenses

From January to June 2019, operating expenses of the Bank were RMB3,372 million, representing an increase of 14.27% as compared with the same period of last year.

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

	<i>Unit: RMB million</i>	
	January to June 2019	January to June 2018
Staff costs	(1,990)	(1,581)
Tax and surcharges	(128)	(100)
Depreciation and amortization	(360)	(209)
Lease expenses ⁽¹⁾	(33)	(182)
Other general and administrative expenses	(861)	(879)
Total operating expenses	(3,372)	(2,951)

Note: (1) The Bank adopted IFRS 16-Lease in 2019.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.10 Asset impairment losses

From January to June 2019, the Bank's allowance to asset impairment losses was RMB5,894 million, representing an increase of 8.99% as compared with the same period of last year.

	<i>Unit: RMB million</i>	
	30 June 2019	30 June 2018
Loans and advances to customers ⁽¹⁾	(2,339)	(2,194)
Financial investments	(2,402)	(2,577)
Deposits with banks and other financial institutions	(676)	(14)
Placements with banks and other financial institutions	16	(6)
Financial assets held under resale agreements	50	101
Credit commitments	(103)	(487)
Finance lease receivables	(368)	(258)
Other assets	(72)	27
Total	(5,894)	(5,408)

Note: (1) loans and advances to customers comprise of loans and advances to customers measured at amortised cost and at fair value through other comprehensive income.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS

3.3.1 Assets

As of 30 June 2019, the Bank's total assets amounted to RMB1,098,208 million, representing an increase of 4.54% as compared with the end of 2018. The increase in total assets was primarily due to an increase in assets such as loans and advances to customers.

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Total loans and advances to customers	434,557	39.57%	381,766	36.34%
Accrued interest of loans and advances	919	0.08%	803	0.08%
Provision for impairment on loans at amortised cost	(13,449)	–	(11,907)	–
Net loans and advances to customers	422,027	38.43%	370,661	35.28%
Financial Investments				
–Financial assets at fair value through profit or loss	81,164	7.39%	106,480	10.14%
–Financial assets at fair value through other comprehensive income	99,629	9.07%	105,806	10.07%
–Financial assets at amortised cost	300,864	27.40%	292,360	27.83%
Cash and balances with central bank	110,255	10.04%	88,144	8.39%
Deposits with banks and other financial institutions	11,513	1.05%	7,964	0.76%
Placements with banks and other financial institutions	3,853	0.35%	5,022	0.48%
Derivative financial assets	1,902	0.17%	209	0.02%
Financial assets held under resale agreements	10,292	0.94%	26,287	2.50%
Investments in associates	1,167	0.11%	1,100	0.10%
Fixed assets	2,223	0.20%	2,232	0.21%
Right-of-use assets	941	0.09%	–	–
Deferred tax assets	6,921	0.63%	5,749	0.55%
Finance lease receivables	42,203	3.84%	35,624	3.39%
Other assets	3,254	0.29%	2,867	0.27%
Total assets	1,098,208	100.00%	1,050,506	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances

As of 30 June 2019, the Bank's total loans and advances to customers amounted to RMB434,557 million, representing an increase of 13.83% as compared with the end of last year, and the total loans and advances to customers accounted for 39.57% of the Bank's total assets, up 3.23 percentage points from the end of last year.

Distribution of loans by product types

The following table sets forth the information on the Bank's loans and advances to customers by product types as of the dates indicated.

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Corporate loans	263,952	60.74%	223,163	58.46%
Discounted bills	6,377	1.47%	13,357	3.50%
Retail loans	164,228	37.79%	145,246	38.04%
Total loans and advances to customers	434,557	100.00%	381,766	100.00%

Corporate loans

As of 30 June 2019, the Bank's total corporate loans amounted to RMB263,952 million, representing an increase of 18.28% as compared with the end of last year, and accounted for 60.74% of the total loans and advances to customers of the Bank, representing an increase of 2.28 percentage points from the end of last year. During the first half of 2019, in view of the macroeconomic environment and regulatory requirements, the Bank served the real economy, supported the development of private enterprises and small and micro enterprises, thoroughly adjusted its loan structure, and systemically prevented various risks, achieving simultaneous optimization of corporate loan structure and risk return.

Discounted bills

As of 30 June 2019, the Bank's total discounted bills amounted to RMB6,377 million, representing a decrease of 52.26% as compared with the end of last year. Since this year, according to the regulatory requirements and changes in the bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after considering credit size, market yield, liquidity management and various risks as a whole.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances (Continued)

Retail loans

As of 30 June 2019, the Bank's total retail loans amounted to RMB164,228 million, representing an increase of 13.07% as compared with the end of last year, and accounted for 37.79% of total loans and advances to customers, representing a decrease of 0.25 percentage point from the end of last year.

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	90,864	55.33%	84,977	58.51%
Personal business revolving loans	6,739	4.10%	6,364	4.38%
Others ⁽¹⁾	66,625	40.57%	53,905	37.11%
Total retail loans	164,228	100.00%	145,246	100.00%

Note: (1) Other retail loans comprised products such as personal commercial real estate loans, direct banking personal credit guarantee online loans and Micro-Linked-Loan (微聯貸).

3.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both RMB and foreign currencies, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification:

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	81,164	16.85%	106,480	21.10%
Financial assets at fair value through other comprehensive income	99,629	20.68%	105,806	20.97%
Financial assets at amortised cost	300,864	62.47%	292,360	57.93%
Investments	481,657	100.00%	504,646	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank:

	<i>Unit: RMB million</i>	
	30 June 2019	31 December 2018
Debt securities	1,291	1,368
Inter-bank certificates of deposits	49	159
Beneficial rights in asset management plans, trust plans and others	61,598	74,698
Non-guaranteed wealth management products managed by other banks	16,650	28,910
Interest receivable	1,576	1,345
Net financial assets at fair value through profit or loss	81,164	106,480

Financial assets at fair value through other comprehensive income

The following table sets forth the components of financial assets at fair value through other comprehensive income of the Bank:

	<i>Unit: RMB million</i>	
	30 June 2019	31 December 2018
Debt securities	89,092	85,907
Inter-bank certificates of deposits	8,650	18,415
Equity securities	160	143
Interest receivable	1,727	1,341
Net financial assets at fair value through other comprehensive income	99,629	105,806

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets at amortised cost

The following table sets forth the components of financial assets at amortised cost of the Bank:

	<i>Unit: RMB million</i>	
	30 June 2019	31 December 2018
Debt securities	68,179	62,084
Inter-bank certificates of deposits	5,487	994
Beneficial rights in asset management plans, trust plans and others	231,064	233,068
Interest receivable	4,570	4,093
Less: provision for impairment	(8,436)	(7,879)
Net financial assets at amortised cost	300,864	292,360

Carrying value and market value

All assets classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the financial assets at amortised cost in the Bank's portfolio as of the dates indicated:

	30 June 2019		<i>Unit: RMB million</i> 31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost	300,864	301,318	292,360	292,951

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial investment amount (RMB'000)	Percentage of shareholdings (%)	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huishang Bank Financial Leasing Co., Ltd.	1,020,000	54	1,620,000	1,706,820	Promotion, participation in capital increase	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	1,167,256	Promotion, participation in capital increase	Company in which the Bank has shareholdings

Notes:

- (1) Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. in May 2017, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Huai'an (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting for material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd.
- (2) Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 3.9.7 "Business of subsidiaries and major companies in which the Bank has shareholdings" of this interim report.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities

As of 30 June 2019, the total liabilities of the Bank amounted to RMB1,023,820 million, representing an increase of 4.45% as compared with the end of last year, which was mainly due to steady growth of customer deposits.

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Amount	% of the total	Amount	% of the total
Loans from the central bank	36,315	3.55%	40,721	4.15%
Deposits from banks and other financial institutions	114,168	11.15%	117,696	12.01%
Placements from banks and other financial institutions	33,346	3.26%	28,779	2.94%
Financial liabilities at fair value through profit or loss	54,334	5.31%	87,599	8.94%
Derivative financial liabilities	192	0.02%	138	0.01%
Financial assets sold under repurchase agreements	30,975	3.03%	27,845	2.84%
Total customer deposits	608,037	59.39%	565,961	57.74%
Interests payable on customer deposits	8,150	0.80%	7,837	0.80%
Taxes payable	1,777	0.17%	3,243	0.33%
Debt securities issued	125,073	12.22%	91,444	9.33%
Other liabilities	11,453	1.10%	8,967	0.91%
Total liabilities	1,023,820	100.00%	980,229	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities (Continued)

Customer deposits

The Bank has always been focusing on actively expanding its deposit business. In 2019, despite increasingly intense competition among its peers, the Bank managed to maintain a steady growth in its customer deposits through various forceful measures. As of 30 June 2019, the Bank's total customer deposits amounted to RMB608,037 million, representing an increase of 7.43% from the end of 2018, and accounted for 59.39% of the total liabilities of the Bank.

The following table sets forth customer deposits of the Bank by product types and customer types as of the dates indicated.

Unit: RMB million, except for percentages

Items	30 June 2019		31 December 2018	
	Balance	% of the total	Balance	% of the total
Corporate deposits				
Demand deposits	266,358	43.81%	256,454	45.31%
Time deposits	142,963	23.51%	133,976	23.67%
Subtotal	409,321	67.32%	390,430	68.98%
Retail customer deposits				
Demand deposits	56,799	9.34%	57,701	10.20%
Time deposits	111,722	18.37%	90,361	15.97%
Subtotal	168,521	27.71%	148,062	26.17%
Other deposits	30,195	4.97%	27,469	4.85%
Include: Pledged deposits	28,456	4.68%	27,073	4.78%
Total customer deposits	608,037	100.00%	565,961	100.00%

As of 30 June 2019, retail deposits of the Bank accounted for 27.71% of total customer deposits, representing an increase of 1.54 percentage points from the end of 2018.

The Bank's time deposits from customers to total deposits ratio has remained steady uplift since 2019. As of 30 June 2019, the Bank's time deposits to total customer deposits ratio was 41.88%, representing an increase of 2.24 percentage points from the end of 2018. Among them, retail time deposits accounted for 18.37% of the total customer deposits, representing an increase of 2.40 percentage points from the end of 2018; while corporate time deposits accounted for 23.51% of the total customer deposits, representing a decrease of 0.16 percentage point from the end of 2018.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.3 Equity

Unit: RMB million

Items	30 June	31 December
	2019	2018
Share capital	12,155	12,155
Other equity instruments	5,990	5,990
Capital reserve	6,760	6,760
Surplus reserve	10,411	9,553
General risk reserve	11,115	9,118
Other comprehensive income	1,390	1,587
Retained earnings	24,433	23,049
Total equity attributable to shareholders of the Bank	72,254	68,212
Non-controlling interest	2,133	2,065
Total equity	74,387	70,277

3.4 LOAN QUALITY ANALYSIS

3.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2019		31 December 2018	
	Amount	% of the total (%)	Amount	% of the total (%)
Pass	4,242.56	97.63	3,719.59	97.43
Special mention	58.22	1.34	58.27	1.53
Substandard	21.77	0.50	15.85	0.42
Doubtful	14.92	0.34	15.05	0.39
Loss	8.10	0.19	8.90	0.23
Gross loans and advances to customers	4,345.57	100.00	3,817.66	100.00
Total non-performing loans	44.80	1.03	39.80	1.04

Under the five-category classification system of loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. In 2019, affected by changes of the external business environment, the Bank's asset quality faced serious challenges. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained a stable quality of assets. As at the end of the Reporting Period, the NPL ratio of the Bank was 1.03%, representing a decrease of 0.01 percentage point as compared with the end of 2018.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2019				31 December 2018			
	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)
Corporate loans	2,639.52	60.74	37.14	1.41	2,231.63	58.46	32.44	1.45
Discounted bills ⁽¹⁾	63.77	1.47	–	–	133.57	3.50	–	–
Retail loans	1,642.28	37.79	7.66	0.47	1,452.46	38.04	7.36	0.51
Total loans and advances to customers	4,345.57	100.00	44.80	1.03	3,817.66	100.00	39.80	1.04

Note: (1) Overdue discounted bills are transferred to corporate loans.

3.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2019				31 December 2018			
	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)
Corporate loans								
Commerce and services	545.24	12.57	6.19	1.14	520.20	13.63	6.88	1.32
Manufacturing	443.01	10.19	18.99	4.29	448.86	11.76	15.70	3.50
Public utilities	905.59	20.84	0.10	0.01	672.23	17.61	0.15	0.02
Real estate	187.71	4.32	2.02	1.08	164.28	4.30	0.76	0.46
Construction	277.67	6.39	4.95	1.78	193.07	5.06	2.73	1.41
Transportation	66.23	1.52	0.27	0.41	64.34	1.69	0.49	0.76
Energy and chemical	126.98	2.92	4.00	3.15	100.76	2.64	4.00	3.97
Catering and travelling	11.85	0.27	0.10	0.84	12.92	0.34	1.59	12.31
Education and media	14.20	0.33	0.00	0.00	8.04	0.21	0.00	0.00
Financial	42.86	0.99	0.00	0.00	37.73	0.99	0.00	0.00
Others ⁽¹⁾	18.18	0.42	0.52	2.86	9.20	0.24	0.14	1.52
Discounted bills	63.77	1.47	0.00	0.00	133.57	3.50	0.00	0.00
Retail loans	1,642.28	37.77	7.66	0.47	1,452.46	38.03	7.36	0.51
Total loans and advances to customers	4,345.57	100.00	44.80	1.03	3,817.66	100.00	39.80	1.04

Note: (1) These mainly include the planting, forestry and livestock industry and the fishery industry.

In the first half of 2019, the Bank's overall credit strategy was to "practice the green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls in key areas and key industries, and strictly adhere to the risk bottom line". The Bank guided credit resources to better serve the real economy, actively allocated credit resources to "small and micro" enterprises and developed green credit. The Bank also implemented credit limit management over real estate and industries with overcapacity, and implemented industry risk prevention and control on the "Non-green Industries" such as steel, coal and shipbuilding industries and the related steel trade and coal trade industries.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2019				31 December 2018			
	Amount of loans	% of		NPL ratio (%)	Amount of loans	% of		NPL ratio (%)
the total		Amount of NPLs	the total			Amount of NPLs		
Anhui	3,904.71	89.85	43.54	1.11	3,414.30	89.43	38.50	1.13
Jiangsu	440.86	10.15	1.26	0.29	403.36	10.57	1.30	0.32
Total loans and advances to customers	4,345.57	100.00	44.80	1.03	3,817.66	100.00	39.80	1.04

The Bank has expanded its business into Nanjing, Jiangsu Province since 2009. In the first half of 2019, total loans attributable to Jiangsu Province accounted for 10.15% of the total loans and advances to customers, while NPLs attributable to Jiangsu Province accounted for 2.81% of the total NPLs.

3.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as at the dates indicated.

Unit: RMB100 million, except for percentages

	30 June 2019				31 December 2018			
	Amount of loans	% of		NPL ratio (%)	Amount of loans	% of		NPL ratio (%)
the total		Amount of NPLs	the total			Amount of NPLs		
Collateralized loans	1,710.68	39.38	22.91	1.34	1,628.19	42.65	24.00	1.47
Pledged loans	1,128.59	25.97	0.24	0.02	804.41	21.07	0.05	0.01
Guaranteed loans	651.16	14.98	18.53	2.85	602.24	15.78	13.33	2.21
Unsecured loans	791.37	18.21	3.12	0.39	649.25	17.01	2.42	0.37
Discounted bills	63.77	1.46	0.00	0.00	133.57	3.49	0.00	0.00
Total loans and advances to customers	4,345.57	100.00	44.80	1.03	3,817.66	100.00	39.80	1.04

With the economic downturn, the Bank focused on the implementations of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the Reporting Period, both NPL and NPL ratio of the Bank's guaranteed loans increased as compared with those at the end of 2018, which was mainly due to the change in the current overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

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3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.6 Loans of the top 10 single borrowers

The following table sets forth the loans of the Bank's top 10 single borrowers as at the dates indicated:

Unit: RMB million, except for percentages

		As of 30 June 2019	
Top 10 borrowers	Industry that borrower belongs to	Amount of loans	Percentage of net capital
A	Mining	2,991.00	3.23%
B	Financial services	1,969.00	2.12%
C	Mining	1,810.00	1.95%
D	Water resources, environment and public utility management	1,774.00	1.91%
E	Water resources, environment and public utility management	1,600.00	1.73%
F	Real estate	1,550.00	1.67%
G	Leasing and business services	1,490.00	1.61%
H	Water resources, environment and public utility management	1,410.00	1.52%
I	Construction	1,369.00	1.48%
J	Leasing and business services	1,336.00	1.44%
Total		17,299.00	18.66%

3.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as at the dates indicated:

Unit: RMB million, except for percentages

	30 June 2019	31 December 2018
Total overdue customer loans and advances listed by duration		
Less than 3 months	2,419	2,170
3 to 6 months	1,223	1,945
6 to 12 months	1,206	969
Over 12 months	1,706	745
Total	6,554	5,829
Less than 3 months	36.91%	37.23%
3 to 6 months	18.66%	33.37%
6 to 12 months	18.40%	16.62%
Over 12 months	26.03%	12.78%
Total	100.00%	100.00%

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3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.8 Restructuring loans

During the Reporting Period, the Bank's restructured NPLs amounted to RMB110.8114 million, representing a decrease of RMB36.5275 million as compared with the corresponding period of last year, which included 18 small corporate loans amounting to RMB109.9114 million and 1 retail loan amounting to RMB0.9 million.

3.4.9 Change of allowances for loan impairment ⁽¹⁾

The Bank adopts the Expected Credit Loss Model to assess impairment provision and loss on loans on a regular basis in accordance with the requirements of IFRS 9. In measuring the expected loss, the Bank uses a complex model comprising the future macroeconomic situation and the credit history of borrowers and makes relevant assumptions. After carrying out a forward-looking assessment of the expected credit loss on each loan, the Bank classifies the loans into stage one, two and three accordingly and determines the degree of impairment loss based on the degree of default. The Bank will regularly review the methodology and assumptions such as the criteria for significant increase in credit risk, the definition of credit-impaired assets, the parameters for expected credit loss measurement and forward-looking information to reduce the difference between the estimated impairment loss and the actual impairment loss on loans.

The following table sets forth the changes of the Bank's allowances for impairment on loans and advances to customers:

	<i>Unit: RMB million</i>	
	30 June	31 December
	2019	2018
Balance at the beginning of the period	12,026	9,486
Effect of adopting IFRS 9	0	(439)
Opening balance after adopting IFRS 9	12,026	9,047
Allowance for the period	2,339	4,697
Discounted interest on impairment provision of reversal/unwinding of caused by the write-down of interest on impaired loans and advances	(16)	(49)
Write-offs for the period	(1,083)	(2,173)
Reversal caused by the recovery of the original write-off loans and advances	234	504
Balance at the end of the period	13,500	12,026

Note: (1) Includes loans and advances to customers that are measured at amortized cost and at fair value through other comprehensive income.

The Bank adhered to a stable and prudent policy in respect of making provisions. As at the end of the Reporting Period, the balance of allowances for impairment losses on loans and advances to customers of the Bank amounted to RMB13,500 million, representing an increase of RMB1,474 million as compared with the end of last year. The NPL allowance coverage ratio was 301.37%, representing a decrease of 0.85% as compared with the end of last year; the allowance-to-loan ratio was 3.11%, representing a decrease of 0.04% as compared with the end of last year.

Chapter III Management Discussion and Analysis

3.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBIRC within the Reporting Period.

In the first half of 2019, the Bank calculated the capital adequacy ratio in accordance with the relevant requirements of the “Administrative Measures for Capital of Commercial Banks (Trial)” issued by the CBRC. As of 30 June 2019, the Bank’s capital adequacy ratio was 11.59%, Tier 1 capital adequacy ratio was 9.21%, and core Tier 1 capital adequacy ratio was 8.44%.

Unit: RMB million, except for percentages

	30 June 2019	31 December 2018
Core Tier 1 capital	67,802.98	63,528.66
Including: paid-up capital	12,154.80	12,154.80
Valid portion of capital reserve	8,150.71	8,347.52
Surplus reserve and general reserve	21,526.30	18,671.17
Retained earnings	24,432.85	23,048.94
Valid portion of minority interests	1,538.32	1,306.23
Regulatory deductions for core Tier 1 Capital	(326.40)	(181.09)
Core Tier 1 capital, net of deductions	67,476.58	63,347.58
Other Tier 1 capital, net of deductions	6,195.20	6,164.25
Tier 1 capital, net of deductions	73,671.78	69,511.83
Tier 2 capital	19,050.85	18,683.14
Including: Tier 2 capital instruments and premium	9,200.00	9,600.00
Surplus loan loss provisions	9,441.05	8,737.38
Valid portion of minority interests	409.80	345.75
Total capital, net of deductions	92,722.63	88,194.97
Risk-weighted assets	799,911.28	756,950.97
Capital adequacy ratio	11.59%	11.65%
Tier 1 capital adequacy ratio	9.21%	9.18%
Core Tier 1 capital adequacy ratio	8.44%	8.37%

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3.6 SEGMENT PERFORMANCES

Operating segments

The major business of the Bank includes: corporate banking, retail banking, treasury and others. The table below sets forth the segment performance of the Bank by business category as at the periods indicated:

Unit: RMB million, except for percentages

Items	January to June 2019		January to June 2018	
	Segment Profit		Segment Profit	
	Before Tax	Percentage	Before Tax	Percentage
Corporate banking	3,399	55.62%	2,710	52.62%
Retail banking	687	11.24%	686	13.32%
Treasury	1,939	31.73%	1,428	27.73%
Others	86	1.41%	326	6.33%
Total	6,111	100.00%	5,150	100.00%

3.7 OTHERS

3.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letters of guarantee, letters of credit, bank acceptance and bank commitment letters. Commitment letters include financial guarantees and other credit commitments, operating leases commitment, capital commitment, certificate government bond honor commitments and legal proceedings. Financial guarantees and other credit commitments are the main component of the bank commitment letters. Contingencies and commitments can be found in Note 40 to the financial statements of this interim report.

3.7.2 Overdue outstanding debt

As of 30 June 2019, the Bank had no overdue outstanding debt.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION

1. Slowdown in global economic recovery

Since 2019, affected by the easing of trade frictions and the suspension of interest rate hikes by the Fed, global economy continued to recover, market confidence was boosted, financial markets showed strong performance and stock markets in Europe and the US set new highs in turn. With the re-escalation of trade frictions in May, the global economic recovery has slowed down. Since the second quarter of 2019, the US manufacturing PMI index has hit a new low and the employment data fell sharply, indicating that the negative impact of the escalation of trade frictions on the US economy began to emerge. The recovery momentum of the Eurozone is under pressure as weak external demand drags down export growth. PMI of manufacturing industries in main countries such as Germany, Italy and Spain has continued to decline and fallen below 50 at the boom-bust line. Manufacturing industry is contracting, and overall economic growth is relatively weak. Japan's economy has maintained slow growth, and inflation is still far from the Bank of Japan's target of 2%. The US dollar index is expected to weaken, the pressure of capital outflow from emerging market and developing economies is suspended, the economy maintains rapid growth and the contribution to global economic growth will gradually recover under the warming expectations of Fed interest rate cuts and the easing of monetary policies in Europe and Japan.

2. China's economy is operating within a reasonable range

In the first half of 2019, affected by weak domestic demand and falling external demand, China's economic growth slowed down, but still operated within a reasonable range. Industrial production maintained basically stable, and the added value of industries above a designated scale decreased slightly as compared to last year. Investment growth remained stable, manufacturing investment slightly declined, infrastructure investment grew steadily, and real estate investment grew rapidly, which became the main support for investment growth. Consumption maintained high growth, consumption of necessities continued to rise, the decline of automobile consumption gradually narrowed, and online consumption increased rapidly. Import and export growth slowed down, export growth slightly declined, and import growth slowed down. Price inflation remained moderate, and the employment market remained generally stable. With efforts and efficiency in active fiscal policies being intensified and improved, the effect of tax and fee reduction began to emerge. Monetary policy remained stable, the broad monetary growth basically matched with the nominal GDP growth, the growth rate of social financing scale accelerated its rebounding, and the real financing environment improved.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

3. Interest rate integration will have an impact on the banking sector

The central bank puts “steadily advancing the integration of interest rates” (穩妥推進利率“兩軌併一軌”) at the top of nine tasks when deploying its annual key work in 2019. Since the first half of 2019, the central bank has repeatedly mentioned promoting the integration of market interest rate and deposit and loan interest rate, and said that the benchmark deposit and loan interest rate will not be released in future integration process. In June, the executive meeting of the State Council emphasized deepening the interest rate liberalization reform, and indicated that the integration of interest rate will be continuously promoted in the next half year. On the one hand, canceling the release of deposit and loan benchmark interest rate will put forward higher requirements for asset pricing and interest rate risk control ability of commercial banks; on the other hand, according to foreign experience, the deposit interest rate will gradually close to the market interest rate after the interest rate integration, and the market interest rate is higher than the benchmark deposit interest rate in most cases. Therefore, the completion of interest rate integration also poses a higher challenge to the debt cost control of banks.

4. The approval of establishment of financial subsidiaries was accelerated

In the first half of 2019, the approval of establishment of financial subsidiaries was accelerated, and the future capital management market would usher in new changes. By the end of June 2019, the establishment of 9 financial subsidiaries of banks had been approved, including 6 large banks, and 3 joint-stock banks. Among them, ICBC Wealth Management, CCB Wealth Management and BOCOM Wealth Management have been opened and operated. At present, financial subsidiaries of the banking department are the only capital management institutions that can span the public and private offerings, the loosening of constrains in their starting point of product sales, distribution channels and investment scope can help to provide themselves with favorable conditions to increase the supply of financial products and participate in the competition of the capital management industry. However, the improvement of capital management ability cannot be achieved overnight. Financial subsidiaries still have a long way to go in optimizing investment direction and enhancing active asset management ability, and their next development direction would be how to strengthen cooperation with other types of capital management institutions, enhance large-scale asset allocation ability and accelerate the transformation to active portfolio management.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

5. Fintech impacts traditional small and medium-sized banks

Since 2019, ICBC Technology, Bank of Beijing Fintech (北銀金融科技), BOC Fintech (中銀金融科技) have been established one after another. The pace of setting up fintech subsidiaries by banks has been accelerated. By the end of June 2019, 9 commercial banks had set up fintech subsidiaries, involving 3 large state-owned banks, 5 joint-stock banks and 1 city commercial bank. Facing the permeation of financial science and technology into the traditional business of banks in recent years, commercial banks have accelerated the establishment of fintech subsidiaries, attracted scientific and technological talents through market-oriented incentives, deepened financial services by relying on technological innovation, continuously enhanced the scientific and technological capabilities of banks, and actively responded to external challenges. At present, the integration of finance and technology is still in the initial stage. The fintech subsidiaries mainly serves parent banks with limited technology export. In the future, with the further deepening of the integration of finance and technology, fintech subsidiaries will have greater development potential, especially in the innovative application of block chains, artificial intelligence and other technologies. Financial products and solutions based on data and technology will burst out rapidly, and some small and medium-sized traditional banks' ability of using technology to serve their customers will be further affected.

6. Strong regulation has gradually mitigated financial risks

In recent years, the regulatory authorities have continued to rectify market chaos, strictly controlled shadow banking risks, and compressed RMB14 trillion of high-risk assets, ensuring the security and stability of the domestic financial system. In the first half of 2019, the regulatory authorities successively issued the "Guiding Opinions on Regulating Non-licensed Institutions of Banking Financial Institutions in Other Places" (《關於規範銀行業金融機構異地非持牌機構的指導意見》), "Measures for Disclosure of Information on the Net Stable Funding Ratio in Commercial Banks" (《商業銀行淨穩定資金比例信息披露辦法》), and "Notice on the Work of 'Consolidating the Achievements of Chaos Control and Promoting Compliance Construction'" (《關於開展“鞏固治亂象成果促進合規建設”工作的通知》), and continued to promote chaos rectification, standardize banking business development, and improve liquidity management requirements. Meanwhile, the CBIRC has broken interbank rigid payment to mitigate financial risks and guarantee the safe and stable operation of financial system. With the gradually increased opening up of financial industry, the banking industry will better participate in future market competition on the basis of orderly risks mitigation and more standardized operations.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

7. Prospects and measures

Looking forward to the second half of 2019, from the perspective of global economy, the economic recovery of major developed countries will continue to slow down. The Fed's interest rate cut is expected to drive the monetary policy shift of peripheral economies and ease the pressure of capital outflow from emerging market economies. However, the Sino-US trade frictions and the no-deal Brexit still face certain uncertainties, and the variables in the global economic recovery still exist. Domestically, boosted by tax and fee cuts, the profitability of enterprises is expected to improve, supporting the rebound of manufacturing investment; the growth of infrastructure investment will speed up under the accelerated launch of "stable investment" policies such as the new special debt policy; consumption will maintain relatively rapid growth driven by the combination of tax cuts and consumption promotion policies; and the foundation and momentum of China's economic growth will be more stable. In the second half of 2019, the effect of positive fiscal policies will be more apparent, monetary policy will remain stable, and economic growth is expected to stabilize gradually under the "six stabilities" policy and keep operating within a reasonable range.

The Bank will offer a comprehensive range of services for local economic and social development as the principle of its founding. It will adhere to the return to its roots, and focus on high-quality development, accelerate the implementation of three-year action plan of "One Body, Two Wings" (一體兩翼), vigorously improve the management of "three fundamental tasks", continue to consolidate the "four fundamental tasks" in business, orderly promote the "stabilization of growth, customer, liability, quality and foundation" and comprehensively build a modern bank with high-quality development.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION

3.9.1 Wholesale banking business

The Bank provides a full range of wholesale financial products and services for corporations, financial institutions and government agencies, including corporate loans, corporate deposits, investment banking, transaction banking and a series of fee- and commission-based services. In particular, the Bank is committed to providing comprehensive service solutions for all types of corporations.

In the first half of 2019, while maintaining its advantages in the existing wholesale business, the Bank continued to grow its wholesale business in the local market of Anhui Province with customer-centric mindset, and vigorously expanded to markets beyond Anhui Province such as Nanjing in an effort to foster new sources of business growth. The Bank continued to innovate in products and services and integrate various channel resources to provide integrated financial services for customers; continued to optimize customer structure and income structure with an aim to achieve sustainable growth through the integrated business operations; strengthened risk management and control, and comprehensively enhanced the profitability of assets, thus effectively promoting the rapid and healthy development of the wholesale banking business. As at the end of 2018, the Bank's market share of corporate deposits denominated in domestic and foreign currencies ranked first in Anhui Province for the eleventh consecutive year. In the first half of 2019, the Bank continued to maintain its leading position in corporate deposits within Anhui Province. Transformation-based business lines including investment banking, transaction banking and supply chain finance have all achieved rapid growth and have been widely recognized by the market.

In face of new changes in the economic and financial environment, the Bank will continue to focus on reform and innovation in the second half of 2019. The Bank will accelerate its integrated business development, further enhance its professional service capabilities, and make efforts to achieve sustainable and healthy development of the wholesale banking business.

Corporate loans

Corporate loans have always been the most important component of the Bank's loan portfolio. Currently, the main corporate loan customers of the Bank are enterprises and institutions legally operating in Anhui Province and Jiangsu Province. Corporate loans of the Bank mainly include working capital loans, fixed asset loans, PPP project loans and other corporate loans (by product type). The Bank provides working capital loans to corporate customers for their daily operations. The Bank provides fixed asset loans to satisfy corporate customers' financing needs in fixed asset investment projects including new construction, expansion, renovation and purchase of fixed assets. The Bank also provides other corporate loan products including PPP loans, supply chain financing and rural revitalization loans. In the first half of 2019, in the principle of supporting the development of the real economy and based on the national macro-economic policies, the Bank further optimized the industry structure of its corporate loans by prioritizing support for the development of green, intelligent manufacturing and strategic emerging industries, modern services industries and traditional advantageous industries and limiting the growth in loans to Non-green Industries. As at 30 June 2019, the balance of the Bank's corporate loans (including discounted bills) was RMB270,329 million, representing an increase of RMB33,809 million from the end of 2018.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

Discounted bills

In the first half of 2019, based on the overall balance of assets size, liquidity, profitability and risks, the Bank actively responded to the changes in the business environment, scientifically followed the pace of bills business development, enhanced the profitability of bills business, and facilitated the full compliance and healthy development of bills business. As of 30 June 2019, the Bank's balance of discounted bills amounted to RMB6,377 million.

Corporate deposits

The Bank provides corporate customers with corporate deposits products and services, including corporate demand deposits, corporate time deposits, corporate call deposits, corporate agreement deposits, negotiated deposits, corporate large amount certificates of deposit, corporate intelligent call deposits and corporate intelligent time deposits. The Bank actively addressed the challenges brought by interest rate liberalization. While focusing on improving its performance in corporate deposits, the Bank continued to enhance its competitiveness of corporate deposits market and expand the sources of low-cost corporate deposits, thus further improving the structure of corporate deposits. The Bank has established a leading market position in terms of corporate deposits in Anhui Province. The Bank had been ranking first in the amount of corporate deposits in Anhui Province from 2008 to the end of June 2019.

Transaction banking

In the first half of 2019, the Bank accelerated the construction and online innovation of supply chain financial brands, and created seven integrated financial service solution brands, namely, finance+government connection, finance+medical connection, finance+auto connection, finance+business connection, finance+E-commerce connection, finance+mine connection and cross-finance connection. The Bank also successfully launched our first supply chain online product "finance+supply chain connection" and realized online lending, our comprehensive service capabilities in the integration of local and foreign currencies have been steadily improved.

In terms of cash management, with the aim of building a bank that provides first-class cash management services and leveraging the advantages of its modern treasury and financial service platform, the Bank strived to provide comprehensive, integrated and one-stop treasury management services to corporate customers, and has developed a series of integrated treasury service solutions covering account management, collection and payment management, liquidity management, investment and finance management, risk management and other diversified financial services to meet the ever-changing corporate treasury management needs. In the first half of this year, the transaction volume of cash management business of the Bank reached RMB1,500 billion, representing an increase of 87.5% over the same period of last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

Investment banking business

To promote its business transformation, the Bank focuses on developing investment banking services such as lead underwriting of debt financing instruments, asset securitization, M&A financing, structural financing, investment and financing consulting. The Bank continually enriches its investment banking products by launching innovative products such as asset securitization, direct wealth management financing instruments, debt financing plans, credit risk mitigating instruments and other innovative products.

After being promoted to type A lead underwriting qualification by the National Association of Financial Market Institutional Investors at the end of 2017, the Bank has vigorously promoted the underwriting business of debt financing instruments. In the first half of 2019, the Bank completed the registration of 12 debt financing instruments, with a total registered amount of RMB20.20 billion; and completed the issuance of 21 debt financing instruments with an underwriting amount of RMB10.10 billion. At the same time, through independent creation of credit risk mitigation vouchers, the Bank helped private enterprises in debt issuing and financing, realized the breakthrough of bond financing support tools business, and reduced the financing cost of private enterprises.

Since 2019, the Bank continued to make breakthroughs in the asset securitization business, completing the lead underwriting business of multiple corporate asset securitization products. The Bank also achieved rapid growth in debt financing plan business and further satisfied the diversified corporate financing needs.

International business

In the first half of 2019, the Bank continued to strengthen the implementation of the “Belt and Road Initiative” and RMB internationalization strategy, increased financial support for “going global” enterprises by making full use of the two markets and two resources (namely domestic and overseas markets, domestic and foreign currencies), and stepped up efforts in promoting key off-balance sheet products with low capital consumption such as letters of credit, letters of guarantee and derivative products. The Bank continued to innovate in cross-border financing, cross-border RMB settlement, US dollar debt issuance, inter-bank agency and cross-border inter-bank cooperation, and explored the research and practical application of financial service solutions of transaction banking, so as to constantly improve the integrated financial services of the Bank.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

International business (Continued)

As at the end of June 2019, the Bank's total domestic and foreign currency receipts and payments amounted to US\$3.277 billion (excluding Nanjing), making the Bank rank 5th among 30 financial institutions in the province. International settlement amounted to US\$3.726 billion, representing a year-on-year increase of 12.03%, suggesting that the Bank's position as a mainstream cross-border clearing bank in Anhui Province was further consolidated.

The Bank has always adhered to the customer-based guideline, actively practiced the spirit of serving the real economy by increasing credit supply, and continuously increased the market share of international business. In the first half of 2019, the cumulative commitment of on- and off-balance sheet trade financing of the Bank under international trade financing and domestic letters of credit were equivalent to approximately RMB12.13 billion and approximately RMB25.274 billion, respectively; the cumulative transaction volume of foreign exchange funds amounted to US\$5.246 billion; the cumulative contracted value of the derivatives business was US\$1.832 billion, of which the contractual amount of forward settlement of foreign exchange amounted to US\$55.77 million, representing an increase of 101.6% as compared with the same period last year; the foreign currency bond investment accumulated to US\$222 million, the lending volume of foreign exchange funds was equivalent to US\$7.76 billion. The Bank's foreign exchange fund counterparties totaled 86, achieving full coverage of foreign exchange fund counterparties in Singapore, Hong Kong, Macao and Taiwan.

In respect of agent bank business, the Bank further tapped its potential in satisfying customer demands and business development needs by continuously expanding and improving its overseas agency networks and making full use of its agency business resources to provide strong support for cross-border integrated finance. As at the end of June 2019, the Bank had established agency partnership with 678 banks in 76 countries and regions. In respect of cross-border clearing channel construction, the Bank provides clearing services in 8 major currencies and has 14 overseas clearing accounts.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business

Business overview

In the first half of 2019, the Bank strengthened market expansion, innovated in financial products and services, and strengthened team building. On the basis of continuous consolidating the expansion of service outlet capacity, the Bank vigorously promoted retail offline gridded marketing and online customer acquisition, and actively carried out the construction of wealth management system in accordance with the Bank's development strategy of "One Body, Two Wings". The Bank also optimized the multi-tiered service management system catering for different retail customer groups, and proactively explored development modes of financial technology. These efforts have helped the Bank further lay a solid foundation for retail business development to improve its performance indicators in retail business at a faster pace and enhance its competitiveness in retail business.

In the first half of 2019, the Bank's customer structure was further optimized as its active customer base maintained a steady growth, with the number of medium-to-high-value customers grew faster than others. In the first half of year, the increment of personal financial assets across the Bank exceeded that of last year. The wealth management business maintained a rapid growth. The penetration of wealth management products (WMPs) continued to grow, and the sales of government bonds were in a leading position in Anhui Province. The size of retail customer deposits grew steadily, and the market share of retail deposits continued to grow. The scale of personal housing loan business continues to grow steadily.

In the second half of 2019, facing changes in the external business environment such as financial technology and stringent regulation, the Bank's retail business will face greater pressure. While improving its retail business philosophy, management level, innovation capacity and technology strength, the Bank will expand its talent pool for retail business, enrich the functions of its service outlets, broaden the wealth management product line, improve service quality and strengthen data analysis capacity building, and continue to consolidate the groundwork for improving the sales capacity of service outlets. The Bank will continuously accelerate the construction of retail product systems and improve the quality of product system construction by adhering to the "customer-oriented" philosophy, accelerate the online and offline integration as well as the cooperation and innovation with other parties by focusing on "providing quality retail products", so as to build a retail product system with more complete product categories, more flexible product pricing, more accurate customer targeting, more diversified sales channels, better product and service quality and higher brand awareness. The Bank will improve the wealth management system, form core competitiveness of retail products, actively explore the development model of the private banking industry, maintain the rapid and healthy development for various retail business lines, and comprehensively improve the overall competitiveness of and contribution of retail business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business primarily includes personal wealth management services, commission sale of funds, insurance brokerage business, commission sale of government bonds and commission sale of precious metals. As at the end of June 2019, the Bank's wealth management business (excluding direct banking business) amounted to RMB135.509 billion, representing an increase of RMB32.955 billion or 32.13% from the beginning of the year. In the first half of 2019, the Bank raised RMB163.117 billion for its personal wealth management business, representing a year-on-year increase of 59.64%. The intermediary business income from the Bank's personal wealth management business amounted to RMB116.6311 million.

Bank card business

One card

In the first half of 2019, based on the existing debit card products, the Bank actively adapted to the transformation and upgrading of the retail business, continued to apply the customer-centred business philosophy and closely focused on the payment and settlement needs of retail customers by actively promoting the innovation of the debit card products business and the integration of online and offline business to further diversify product portfolio; carrying out various types of marketing activities for bank cards; continuing to develop the habit of using bank cards among customers; and continuously improving customer stickiness to boost the rapid growth of the debit card business across the Bank. As at the end of June 2019, 17.90 million debit cards were issued in total, of which 13.81 million were valid cards, accounting for 77.15%. The deposit balances on debit cards were RMB91.1 billion, and the average deposit on debit cards was RMB6,600. A total of 71 types of Huangshan debit cards were issued.

Credit card

In respect of credit card business, under the overall development framework of "One Body, Two Wings (一體兩翼)", with aim to build and improve the digital credit card service system, the Bank vigorously expanded its customer base and underlying assets, fully implemented Internet, digitization and intelligent service, and improved the market influence, revenue contribution, risk control capability and customer satisfaction of credit card business.

As at the end of the Reporting Period, the Bank issued 1,360,660 valid credit cards in total. The number of credit cards issued during the Reporting Period was 127,554. In the first half of 2019, the transaction amount of credit cards was RMB18.91 billion in aggregate. The credit card overdraft amount was RMB11.739 billion, representing an increase of RMB501 million as compared with the end of the last year. Income from the credit card business amounted to RMB441 million, representing an increase of 28% as compared with the same period of the last year. As at 30 June 2019, credit cards NPL ratio was 2.31%, representing an increase of 0.36 percentage point from the end of the last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Retail loans

In the first half of 2019, the Bank strictly implemented the differentiated housing credit policy, and the personal housing loan business gave priority to the first self-use housing and improving housing demand, and the business scale continued to grow steadily. As at the end of June 2019, the balance of personal housing loans of the parent company was RMB90.713 billion, representing an increase of RMB5.888 billion or 6.94% from the beginning of the year.

In the first half of 2019, the Bank strengthened the planning of its personal business loans, micro loans and personal consumption loan business, facilitated the establishment of a customer-centered consumption loan product system, accelerated the development of online banking business, put greater efforts into channel integration and continuously improved its service quality, thereby steadily scaling up its personal consumption loan business. As at 30 June 2019, the balance of personal loans (excluding housing loans) of the Bank amounted to RMB35.984 billion, representing an increase of RMB3.997 billion or 12.50% from the beginning of the year. Among them, the balance of personal business loans was RMB29.579 billion, representing an increase of RMB1.634 billion from the beginning of the year; the balance of micro loans was RMB2.13 billion, representing an increase of RMB437 million from the beginning of the year; the balance of personal consumption loans was RMB4.275 billion, representing an increase of RMB1.926 billion from the beginning of the year.

Retail deposits

In the first half of 2019, in the face of the increasingly complex external economic trends and strengthened supervision, the Bank, focusing on customers' contextual needs for services such as value adding and preservation of funds, payment settlement and consumer finance, continuously innovated in products, mechanisms and technology and enhanced customer service driving by further improving service capacity and strengthening refined management in retail business, thus achieving rapid growth in retail customer deposits. As at the end of June 2019, the Bank's total retail deposits amounted to RMB168.521 billion, representing an increase of RMB20.459 billion or 13.82% from the end of 2018.

In the first half of 2019, the Bank further rationalized the management functions of inclusive financial outlets, promoted the transformation of inclusive financial outlets from retail debt business to comprehensive profit-making business, actively supported qualified inclusive financial outlets to vigorously expand personal online loan business and strengthened the debt business marketing of inclusive financial outlets. As at 30 June 2019, the balance of various deposits of the Bank's inclusive financial outlets (including Huinong, Huimin, Community and Micro loan sub-branches) was RMB31.921 billion, representing an increase of RMB6.607 billion or 26% from the beginning of the year; the balance of various loans of inclusive financial outlets (including Huinong, Huimin, Community and Micro loan sub-branches) was RMB5.588 billion, representing an increase of RMB984 million or 21.38% from the beginning of the year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.3 Financial market business

In the first half of 2019, China's economy maintained overall steady operation, with reasonable growth of various major macro-economic indicators, while the international economy faced a more complicated situation and external uncertainties are increasing. The PBOC continued to implement a prudent monetary policy and to ensure reasonable and sufficient liquidity through open market operations. For bond investment, the Bank continued to adopt a positive and steady strategy, and formulated corresponding investment plans. Firstly, the Bank increased the allocation of bonds, adjusted the portfolio structure and controlled the portfolio duration. The Bank increased the allocation of treasury bonds, investments in policy financial bonds and local government bonds. Secondly, the Bank actively participated in secondary market transactions, moderately participated in the medium to long-term interest rate bonds transactions and increased spread income. At the same time, the Bank continued to maintain market-making transaction activity and actively fulfilled the obligation to try to make market. Thirdly, the Bank strengthened the customer development, enhanced the business innovation and linkage, and made additional efforts to improve intermediate business income through first- and second-tier market linkage and bond lending.

As at the end of June 2019, the average duration of the Bank's RMB bond investment portfolios was 2.95 years; the rate of return on investment portfolios was 4.03%; the yield after taking account of the tax rebate on the interest income of treasury bonds and local government bonds was 4.72%. In the first half of 2019, the Bank promoted a continued steady growth of its business in financial markets through the optimization of investment portfolio structure and enrichment of business categories.

3.9.4 Asset management business

In the first half of 2019, the Bank's asset management business accelerated the transformation, assets under management rapidly increased and the business variety has been further enriched, forming a relatively complete net-worth product system including cash management products, closed products and regular open products. In respect of business scale, the balance of the Bank's wealth management products at the end of the Reporting Period amounted to RMB156.6 billion, representing an increase of 37.17% as compared to the end of last year, among which, the balance of net-worth products was RMB58.648 billion, and the proportion of net-worth wealth management products reached 37.45%. The net-worth transformation of wealth management products has been continuously deepened. In terms of customer system, in the first half of 2019, the structure of the Bank's wealth management customers has been further optimized, the balance of personal wealth management products reached RMB129.871 billion, representing an increase of 33.90% from the end of last year and accounting for 83% of the total.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Fund custody business

In the first half of 2019, by closely following the strategic plan and work arrangement, and upholding the market-oriented, innovation-driven and customer-centred service philosophy, the Bank has carried out a series of effective work initiatives in occupying custody market, expanding marketing channels and optimizing product structure, and achieved sustainable and steady growth in custody volume and intermediate business income with continuously diversified product variety. In terms of the increase of custody volume as compared to that of the beginning of the year and the year-on-year increase of intermediate business income, the Bank ranked the second place in the whole industry and the first place among city commercial banks. Among them, the balance of public funds under custody exceeded RMB20 billion for the first time, and both bank wealth management products business and broker asset management business achieve growth. In the first half of 2019, the growth of the custody volume of all three products ranked the first place in the whole industry.

As at 30 June 2019, the balance of assets under custody (excluding regulated products) was RMB780.394 billion, representing a year-on-year increase of RMB151.971 billion or 24.18%; the Bank achieved a custody fee income (excluding regulated products) of RMB154.9586 million, representing an increase of RMB15.8590 million or 11.40% as compared with the corresponding period of the last year.

3.9.6 Distribution channels

The Bank provides products and services through a variety of distribution channels. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channels.

Physical distribution channels

As at 30 June 2019, the Bank had built a total of 640 self-service banking outlets and put into operation a total of 1,999 sets of self-service equipment, including 265 automatic teller machines, 1,042 cash recycling machines, 361 self-service terminals and 331 intelligent self-service terminals (including self-service card issuing machines).

Electronic banking channels

The Bank places great emphasis on improving and expanding electronic banking channels, including online banking and mobile banking, which can effectively relieve the pressure on service outlets. In the first half of 2019, the trading account transactions via retail electronic channels accounted for 94.11% of the total, representing an increase of 0.74 percentage point as compared with the full year of 2018; and the trading account transactions via corporate electronic channels accounted for 87.37%, representing an increase of 2.24 percentage points as compared with the end of 2018.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.6 Distribution channels (Continued)

Online banking

In the first half of 2019, the Bank's personal online banking business continued to grow rapidly, with a substantial increase in customer base and growing activeness in customer transactions. As at 30 June 2019, the Bank's total number of personal online banking customers amounted to 4,280,600; the trading account transactions via personal online banking accounted for 74.30% of the total, representing an increase of 6.00 percentage points over the same period of last year. In the first half of 2019, the number of personal online banking transactions amounted to 192,134,900, representing a year-on-year increase of 48.83%; among that, the number of online payment transactions was 90,668,400, representing a year-on-year increase of 64.81%; the amount of online payment transactions totaled RMB69.656 billion, representing a year-on-year increase of 127.11%.

In the first half of 2019, the Bank has been committed to the iterative updating of corporate online banking, and has built a new smart financial service platform based on "account+payment+financing" and "transaction+data+scenario". As at the end of June 2019, number of the Bank's corporate online banking transactions amounted to 25,076,700, and the transaction amount reached RMB1,061.379 billion. The service capability of the Bank's corporate online banking has been continuously improved in customer focusing, product innovation, experience improvement, collaborative operation, and new technology applications.

Mobile banking

In the first half of 2019, the Bank's mobile banking continued to be based on customer relationship management and user experience, with a view to improving the quality of customers' financial life. As at 30 June 2019, the total number of mobile banking customers reached 3,776,100. During the Reporting Period, the number of mobile banking transactions reached 58,594,100, representing a year-on-year increase of 32.11%, and the transaction amount totaled RMB320.279 billion, representing a year-on-year increase of 79.66%.

Direct banking

As at the end of June 2019, the total number of the Bank's direct banking customers reached 16.6 million, the balance of various loans was RMB21.650 billion, representing an increase of RMB5.517 billion or 34.19% as compared with the beginning of the year, and there was no non-performing loans. In the first half of 2019, the Bank's direct banking realized a total revenue of RMB303 million, which quadrupled as compared with the same period of 2018. In terms of business development, focusing on four major sectors: Internet credit, Internet asset management, Internet wealth management and Internet account payment, our direct banking increased innovation and transformation, enriched application scenarios, enhanced user stickiness, improved risk control capabilities, and strived to build light assets and low-cost Internet banking.

After four years of rapid development, the Bank's direct banking has achieved certain results and industry recognition. In the first half of 2019, the Bank's direct banking was repeatedly recognized by the social authorities. Especially, the Bank's direct banking brand "Hui Chang You Cai (徽常有财)" was shortlisted for "China's Top 100 Quasi-Unicorn Enterprises in 2019" at the "2019 New Enterprise Forum" jointly sponsored by the *Internet Weekly* of the Chinese Academy of Sciences and the Information Science Research Center of the Chinese Academy of Social Sciences and was awarded the "2019 Internet Finance Quasi-Unicorn Brand"; "Hui Chang You Cai (徽常有财)" also won the "2019 Direct Bank Innovation Pioneer Award" at the 2nd Digital Transformation Strategy Conference for Commercial Banks. At the same time, "Hui Chang You Cai (徽常有财)" ranked third in the 2018 China Direct Bank Ranking, winning against a great many large state-owned banks and national joint-stock commercial banks.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings

Subsidiaries

Huishang Bank Financial Leasing Co., Ltd.

Incorporated in Hefei with a registered capital of RMB2 billion, Huishang Bank Financial Leasing Co., Ltd. (“Huishang Bank Financial Leasing”), a financial leasing company under the national banking system approved by the CBRC, officially opened for business on 30 April 2015. Huishang Bank Financial Leasing was jointly funded and established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and CTCE Group Materials Industry & Trade Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huishang Bank Financial Leasing, accounting for 51% of the total. In 2018, Huishang Bank Financial Leasing successfully increased its registered capital to RMB3 billion, 1.62 billion shares or 54% of which is held by the Bank.

The main business scope of Huishang Bank Financial Leasing includes: (1) financial leasing; (2) handling financial lease assets as transferor or transferee; (3) fixed-income securities investment; (4) receiving lease deposits from lessees; (5) absorbing time deposits with a term of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing from financial institutions; (8) offshore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); (11) other businesses approved by the CBRC.

Since its opening, Huishang Bank Financial Leasing has been rooted in Anhui and oriented towards the national market under the philosophy of “setting an example, laying foundation, pursuing customers and innovating in model”. While expanding its business scope and customer resources, Huishang Bank Financial Leasing provides customers with professional and integrated financial leasing services. It adheres to the concepts of sound operation and sustainable development and strives to strike a balance among business scale, growth rate, quality and efficiency. While upholding the philosophy of prudent risk management by improving risk management to enhance the ability to resist risks, it vigorously promotes business expansion and adjusts the structures of customers, products, businesses and income. Huishang Bank Financial Leasing develops its resource advantages and improves its core competitiveness to create sustainable competitive edge for its mid- and long-term development.

Jinzhai Huiyin Rural Bank Co., Ltd.

Incorporated in Jinzhai County of Lu’an City with a registered capital of RMB80 million, Jinzhai Huiyin Rural Bank Co., Ltd. (“Jinzhai Huiyin”) officially opened for business on 28 June 2013. Jinzhai Huiyin was jointly established by the Bank and Anhui Guoyuan Investment Co., Ltd. along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of the total. Its principal business includes: (1) absorbing deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) agency for issuance, agency for honoring and underwriting of government bonds; (8) agency collection and payment and insurance brokerage business; (9) other businesses approved by the banking regulatory authority under the State Council.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd. (Continued)

Since its opening, with the support of all shareholders, Jinzhai Huiyin has been rooted in Jinzhai County to serve “agriculture, rural areas and farmers” with a mission to promote comprehensive financial reform in the rural areas of Jinzhai and accelerate the economic and social development there, which is the original intention and objective of its establishment. With great efforts put in agricultural credit, deposit growth, channel building, and risk prevention and control, Jinzhai Huiyin has yielded good results in business development and received recognition from customers, local governments and regulatory authorities. In the first half of 2019, Jinzhai Huiyin officially launched mobile banking and WeChat banking services, thus enriching its settlement channels and improving customer satisfaction.

Wuwei Huiyin Rural Bank Co., Ltd.

Incorporated in Wuwei County of Wuhu City with a registered capital of RMB100 million, Wuwei Huiyin Rural Bank Co., Ltd. (“Wuwei Huiyin”) opened for business on 8 August 2010. The Bank contributed RMB40 million to its registered capital, accounting for 40% of the total. Other major shareholders of Wuwei Huiyin are local enterprises and individuals. Its principal business includes: (1) absorbing deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) agency for issuance, agency for honoring and underwriting of government bonds; (8) agency collection and payment and insurance brokerage business; (9) other businesses approved by the banking regulatory authority under the State Council.

Since its opening, Wuwei Huiyin has been adhering to the business philosophy of the Bank and the Scientific Outlook on Development. Based in Wuwei and focusing on villages and towns, it strongly supports the development of “agriculture, rural areas and farmers”, individual businesses and small and medium-sized enterprises. Following the business philosophy of “being close to villages and towns, serving agriculture, rural areas and farmers”, Wuwei Huiyin gives full play to the brand advantage of its parent bank to continuously innovate in the varieties and forms of loans and the related operation procedures. In doing so, Wuwei Huiyin provides flexible, high-quality and efficient financial services tailored for rural and agricultural customers in support of economic development in county areas. In an effort to provide financial support for the production and development of farmers, it also endeavors to extend its services to wider rural areas. In the first half of 2019, based on the county and rural revival strategies, Wuwei Huiyin further confirmed the development direction of supporting agriculture and small customers, strengthened institutional construction, and improved internal control management while cooperating with the relevant agencies to build up a person credit reporting system, thus improving the availability and convenience of rural basic financial services.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Established on 13 April 2009, Chery Huiyin Motor Finance Service Co., Ltd. (“Chery Huiyin”) is the first independently branded auto finance company in China. It was jointly invested and established by the Bank and Chery Automobile Co., Ltd. (“Chery Automobile”). Chery Huiyin was incorporated in Wuhu City with a registered capital of RMB1.5 billion. It is owned as to 20% by the Bank (representing 300 million shares), 49% by Chery Automobile (representing 735 million shares), and 31% by Chery Holdings Co., Ltd. (representing 465 million shares).

Approved by the CBRC, Chery Huiyin’s principal business includes: (1) accepting time deposits with a term of three months or more from domestic shareholders; (2) accepting loan deposits for purchase of vehicles from auto dealers and car rental deposits from lessees; (3) issuing financial bonds with approval; (4) interbank lending; (5) borrowing from financial institutions; (6) providing auto loans; (7) providing loans to auto dealers for their purchases of vehicles and operating equipment, including showroom construction loans, spare parts loans and equipment maintenance loans; (8) providing auto finance lease services (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto finance lease receivables to or from financial institutions; (10) sale and disposal of rental cars with residual value; (11) providing consulting and agency services related to auto financing activities; (12) equity investment in financial institutions relating to auto finance business, subject to approval.

3.10 RISK MANAGEMENT

In the first half of 2019, the banking industry was faced with more complicated risks and challenges under the complex and volatile domestic and international economic environments where various risks were intertwined and superimposed. Taking the “One Body, Two Wings” strategic plan as guideline and focusing on the construction of “six major finances” and “twelve major systems”, the Bank implemented the risk appetite featuring “prudence, rationality and soundness”, and accelerated the implementation of the three-year action plan for comprehensive risk management system and practice the prudent operation philosophy, in a drive to ensure the prudence of business development and the objectivity of asset classification and maintain sufficient risk provisions and capital adequacy. Subject to both external regulation and internal norms, the Bank upheld the philosophy of rational management and controlled major risks in a scientific and effective manner while insisting on “dual growth drivers”, i.e. business development and financial innovation. In the principle of stable operation, the Bank built a comprehensive, full-process risk management system covering all employees and strived to realize coordinated development that balances scale, quality and efficiency on the premise that risks are under control, so as to realize the value of comprehensive risk management and the strategic objective of transformation and upgrading of the Bank.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.1 Credit risk management

Credit risk refers to the risk of loss due to the default of the debtors or counterparties or the reduction in their credit ratings and performance capabilities. Credit risk is the major risk currently faced by the Bank, mainly involving on- and off-balance credit risk exposures in relation to loans, interbank lending, funds, guarantees, commitments, etc.

In the first half of 2019, based on comprehensive risk management, the Bank pursued effective results in improving credit risk management. The Bank refined its multi-level risk policy system by developing its risk appetite, risk limits, credit policy, consolidation management and other significant mechanisms according to its comprehensive risk management measures, and improved assessment measures for annual asset quality rating and impairment provisioning, with a view to achieving coordination between policies and assessment measures. The Bank strictly controlled customer access, strengthened credit rating management, standardized credit rating, formulated an annual credit rating plan with a specific work schedule and intensified spot checks; strengthened its risk alert and exit mechanism, and conducted key risk screening on loans to sensitive industries such as real estate and automobile; strengthened its risk control over key areas such as small businesses, government financing platforms, real estate, overcapacity and emerging businesses; guarded against the spread of external risks such as guarantee circles and trade financing; strictly implemented national industrial policies for industries with overcapacity and environmental protection policies; continued to strengthen its ability to design risk mitigation measures for credit approval, improve credit delivery methods and optimize credit structure; carried out comprehensive risk screening and on-site inspection and supervision with a focus on maintaining stable asset quality to ensure the effective implementation of risk control policies; strengthened follow-up management of loans with major risks, set up a watch list of debtors for dynamic management, and formulated solutions for disposal of loans with potential risks on a one-customer-one-policy basis such as collection, write-off, restructuring or transfer of the loans, so as to resolve potential risks by disposing of non-performing assets through different channels and means and revitalize existing assets. During the Reporting Period, the Bank's NPL balance increased somewhat, yet its asset quality structure was effectively optimized through a number of measures including reducing old loans and controlling new loans. Please refer to Section 3.4 "Loan Quality Analysis" in this report for the breakdown of loans.

3.10.2 Market risk management

Market risk refers to the risk of on- or off-balance-sheet loss caused by changes in interest rates, foreign exchange rates and other market factors. The market risk management of the Bank covers exchange rate risk and interest risk of trading accounts.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.2 Market risk management (Continued)

In the first half of 2019, in the face of complex and volatile external environment, the Bank focused on improving market risk management tools, optimizing market risk management processes, and promoting daily market risk management in an all-round manner. To improve the market risk monitoring mechanism, the Bank measured market risk using a full range of methods, including gap analysis, duration analysis, foreign exchange exposure analysis, sensitivity analysis, scenario analysis, risk value analysis, stress testing and back testing. The Bank effectively promoted the management of market risk limits, implemented a regular reporting system for the implementation of such limits, and conducted dynamic management and adjustment of some risk limit indicators. To improve its foresight and initiative in market risk management, the Bank carried out market risk stress tests to assess the potential losses or damage to the Bank under stress scenarios and took risk mitigation measures in advance accordingly. The Bank continued to optimize and perfect its market risk management tools and took the opportunity of transforming its capital management system to improve the yield curves and measurement models of relevant products. Adhering to process optimization and technological innovation and under the comprehensive risk management framework, the Bank fully identified, accurately measured and continuously monitored market risks in various business lines to control market risks within a tolerable range.

3.10.3 Operational risk management

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, information system failures and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine its operational risk management system and strengthen operational risk management. The Bank continued to promote the construction of an operational risk management system, strengthened the development of three major instruments for operational risk management, improved the key operational risk indicators, and refined the information system for operational risk management to improve the informatization of operational risk management. The Bank conducted multi-dimensional risk monitoring over institutions, business activities and customers for routine monitoring of operational risk in key areas such as credit business; made greater use of the external data such as the credit information of the PBOC, sorted out a list of customers with potential risks identified by other financial institutions, and carried out risk screening and subsequent countermeasures to prevent risk contagion; regularly collected major operational risk cases caused by presidents of sub-branches in and out of the Bank and gathered data on operational risk losses to develop key risk indicators and incorporate them into the monitoring system; strengthened IT risk management and, in coordination with the Bank's core system upgrade and transformation, carried out emergency drills for interruption of key information systems and business continuity management, with a view to playing the role of the second line of defense against information technology risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or unable to satisfy these needs at reasonable cost. The Risk Management Committee under the Board of Directors of the Bank and the Asset and Liability Management Committee and the Risk and Internal Control Management Committee under the senior management are jointly responsible for developing policies and strategies for overall management of liquidity risk.

The Bank's liquidity risk management aims to balance the relationship among "liquidity, safety and profitability", improve the liquidity management level, safeguard the sustainable and healthy development of various businesses, and implement the risk appetite featuring "prudence, rationality and soundness" of the Board of Directors, and to ensure that the Bank has sufficient funds to meet expected and unexpected capital requirements (including loan growth, deposit withdrawals, debt maturity, and changes in off-balance sheet irrevocable commitments) in a normal operating environment or under stress, so as to create a stable liquidity environment for continuing operations and promote positive interaction between liquidity management and business development. The Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and business development needs. By doing so, the Bank strives to pursue profit growth and value growth under the premise of ensuring liquidity, so as to strike a balance among the "liquidity, safety and profitability" of the Bank's funds. The Bank emphasizes risk prevention and mitigation while promoting business development and profit growth. The Bank stresses the importance of "ensuring adequate liquidity" and uses flexible approaches to manage and control the percentage of liquidity asset portfolio with the highest efficiency. According to its own characteristics and external market environment, the Bank has developed liquidity stress scenarios to ensure that there will be no liquidity risk in any stress scenarios or within the prescribed shortest survival period. Meanwhile, the Bank formulates contingency plans to prevent potential liquidity crisis and takes effective emergency measures to control the spread of risks under liquidity crisis scenarios.

With close monitoring of macroeconomic regulatory policies and capital market conditions, the Bank dynamically adjusts its liquidity management strategies and pace of capital operation according to its assets and liabilities business development and liquidity situation, thus effectively coping with the impact of periodic and seasonal factors on the Bank's liquidity and improving the Bank's ability to resist liquidity risk. As at the end of the Reporting Period, the liquidity coverage ratio of the Bank was 148.65%, its qualified quality liquidity assets amounted to RMB105,279 million and its net cash outflow in the next 30 days was RMB70,823 million. According to relevant requirements of the Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks, the Bank disclosed its net stable funding ratio in the interim report of 2019 for the first time and disclosed the additional information on the net stable funding ratio for the first two quarters. As at the end of June 2019, the net stable funding ratio of the Bank was 101.22%, of which available stable funding amounted to RMB638,203 million and required stable funding amounted to RMB630,529 million. As at the end of March 2019, the net stable funding ratio of the Bank was 100.90%, of which available stable funding amounted to RMB625,773 million and required stable funding amounted to RMB620,169 million. As at the end of December 2018, the net stable funding ratio of the Bank was 100.58%, of which available stable funding amounted to RMB580,866 million and required stable funding amounted to RMB577,529 million.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which adversely affects the financial position of the Bank. Interest rate risk of the Bank primarily arises from the mismatch of maturity dates or re-pricing term structure of its business portfolio. Term structure mismatch may result in the Bank's net interest income being affected by changes in the prevailing interest rates. In addition, different pricing benchmarks for different products may also expose assets and liabilities within the same re-pricing period to interest rate risk. Currently, the Bank mainly assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the durations of its business portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies issued by the PBOC when carrying out deposit taking and lending activities.

In the first half of 2019, the Bank deepened its strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer structure. First, the Bank strengthened loan pricing management in an effort to improve its risk pricing capability and return on loans. Second, the Bank promoted the rapid development of its intermediary business and expanded the revenue channels of the intermediary business. Third, the Bank strengthened the analysis of customers' comprehensive contribution using data from management accounting, thus effectively improving its pricing management. Fourth, the Bank conducts regular stress tests for interest rate risk and assessments on capability against interest rate risk, followed by responding strategies to effectively improve its capability to prevent interest rate risks.

3.10.6 Exchange rate risk management

Exchange rate risk refers to the risk of loss of the Bank's earnings arising from adverse changes in exchange rate in the case of overbought or oversold spot or forward positions in a particular foreign currency or duration mismatch of non-RMB denominated assets and liabilities. The Bank's foreign currency assets and liabilities are mainly denominated in US dollars, while the rest are denominated in euro, Hong Kong dollars and Japanese yen.

The Bank measures its exchange rate risk through qualitative and quantitative analyses. The main analysis methods include gap analysis, duration analysis, exposure analysis, sensitivity analysis, scenario analysis, VAR analysis, stress testing and back testing. In order to maintain its exchange rate risk within an acceptable range, the Bank implements stringent limit management measures, mainly including trading limits, risk limits, foreign exposure limits and stop loss limits.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.6 Exchange rate risk management (Continued)

The Bank's spot and forward foreign exchange transactions are mostly conducted on behalf of customers through "back-to-back" settlements that avoid exchange rate risk to a large extent. Under the new norm of bilateral fluctuations in RMB exchange rates, the Bank holds reasonable proprietary positions according to its limit management requirements and within the limit of combined exposure positions approved by the State Administration of Foreign Exchange. In addition, the Bank proactively uses derivatives to prevent the risk of exchange rate fluctuations.

3.10.7 Reputational risk management

Reputational risk refers to the risk of the Bank being negatively evaluated by stakeholders due to the Bank's operations, management and other activities or external events.

Reputational risk management, as an important part of the Bank's corporate governance and comprehensive risk management systems, covers all behaviors, business activities and business areas of the Bank and its subsidiaries. The Bank has developed reputational risk management measures and requirements to actively and effectively prevent reputational risk and cope with reputation events, with a view to minimizing the resulting losses and negative impacts. In the process of reputational risk management, the Bank prioritizes risk prevention and focuses on monitoring, analysis and early warning of public opinions in its daily operation, which has achieved good results. In addition, the Bank carries out external publicity and has established an effective management system which enables it to quickly resolve any misunderstanding or misinterpretation of information. Meanwhile, the Bank actively participates in social welfare undertakings and public activities to live up to its corporate social responsibility, in an effort to build a sound corporate image.

3.10.8 Compliance risk management

Compliance risk refers to the risk that a commercial bank may be subject to legal sanctions, regulatory punishments, major financial losses or reputational damage due to its failure to comply with relevant laws, regulations, rules and standards. The Board of Directors of the Bank takes the ultimate responsibility for the compliance of the Bank's business activities. The Risk Management Committee under the Board of Directors supervises the Bank's compliance risk management. The Board of Supervisors is responsible for supervising the Board of Directors and the senior management in performing their compliance management duties. The senior management is responsible for managing compliance risk, conducting assessments of compliance risk regularly and submitting compliance risk reports to the Board of Directors. The Bank has established a sound compliance risk management system and organizational structure, including three coordinated lines of defense against compliance risk (i.e. front, middle and back offices), and a vertical two-way reporting system amongst the head office, branches and sub-branches. The Bank has optimized its level and efficiency for compliance risk management through continuous improvement in compliance risk management system, so as to realize effective control of compliance risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.8 Compliance risk management (Continued)

During the Reporting Period, with a focus on its business development strategy, the Bank gave priority to internal control as usual, established the philosophy of “facilitating development with compliance”, and took more forward-looking and targeted measures for compliance management. The Bank implemented various regulatory requirements and strengthened the construction of its internal control system, thus achieving effective compliance risk management and receiving favorable comments from regulatory authorities. By carrying out special campaigns such as “Consolidating results from Rectification of Irregularities and Promoting Compliance Construction”, “Year of Quality Improvement”, “Consolidating and Enhancing the Special Rectification of the ‘Three Fundamental Tasks and Putting in Place Four Elements (三基四到位)’”, “Case Warning Education Activities” and “Identification of Non-performing Loan Liability”, the Bank promoted the construction of compliance culture, improved its internal rules and regulations, optimized the compliance risk identification and assessment process, strengthened the accountability for non-compliance, and increased support for legal compliance review and product innovation, thereby providing guarantee for the Bank’s compliance operations.

3.10.9 Anti-money laundering management

The Bank attached great importance to anti-money laundering and strictly implemented relevant laws and regulations aiming at preventing and controlling money laundering activities, with sound measures vigorously carried out across the Bank.

During the Reporting Period, the Bank put into practice the principle of “laying emphasis on risks, management, quality and effects” by applying it to anti-money laundering as well, enhanced the “three vertical and three horizontal” network of the anti-money laundering framework and promoted consolidation of resources and active participation by various business departments to effectively strengthen concerted efforts in anti-money laundering. Based on the thinking of establishing “systematic models for capturing indicators of the characteristics of cases”, the Bank collected typical cases of money laundering and their upstream criminal cases through multiple channels, and conducted analysis to sort out the characteristics and fund transaction patterns of money laundering activities for various types of crimes, so as to expand the indicators for self-monitoring of irregular transactions. Through designing, verifying, launching, evaluating and enhancing its models, the Bank adopted full life cycle management of models for monitoring. The Bank also developed sandbox modules of models for anti-money laundering personnel, so as to achieve “tailored” monitoring to strengthen the effectiveness of monitoring suspicious transactions. Based on the suspicious transactions reported by branch institutions, the Bank stepped up the collection, analysis and application of data and information to obtain timely warnings on risks.

Currently, under the increasingly complex international economic and financial situation and with the increased uncertainties from trade frictions between China and the United States, rapid development of information technology, artificial intelligence and Internet technology, the methods and means of money laundering are becoming more subtle and diverse, posing increasingly severe challenges in anti-money laundering. The Bank will implement risk-based anti-money laundering measures and constantly strengthen its internal control system in an ongoing effort to improve money laundering risk prevention and control.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.10 Implementation of the Basel Accord

The Bank is one of the earliest urban commercial banks in China committed to the implementation of the New Basel Capital Accord. The Bank has gradually promoted the implementation of the Basel Accord in accordance with the requirements under the Measures for Capital Management of Commercial Banks (Trial) and other regulatory policies. Under the first pillar, focusing on the measurement of the three major risks, the Bank gradually promoted the construction and implementation of advanced methods for capital measurement. Currently, the Bank has established and put into use an internal risk rating system for non-retail and retail credit risk of customers, and finished the verification and optimization of the risk rating models for manufacturing, wholesale and retail business. The internal risk rating system for non-retail credit risk of loans was also completed and being promoted throughout the Bank. The Bank has completed the business consultation on the standardized approach to measuring operational risk and the construction of an operational risk relationship system, and the Bank has continuously carried out the system optimization work this year to enrich its key risk indicators. The establishment of the internal models approach for market risk is under discussion and preparation. Under the second pillar, the Bank completed the internal capital adequacy assessment.

3.11 INFORMATION TECHNOLOGY

During the Reporting Period, for information technology management, the Bank adhered to the working ideas of stabilizing operation, controlling risks, promoting development and improving capabilities to improve IT infrastructure, strengthen risk prevention and control, and refine operation and management, thus effectively supporting and promoting the development of various business lines. The information system of the Bank continued to provide efficient services across the Bank. Firstly, actively promoting the construction of digital banking system. The Bank has set up a leading group for the construction of digital banking system to complete the upgrading of its big data platform, coordinate the management of external data, integrate internal and external data by using big data technology, facilitate the precise marketing of Huiyin ePay, explore to precisely identify potential customers of Fast E-loan (快E贷), develop a risk screening model for credit assets of small enterprises, comprehensively improve the big data application capabilities of the Bank and promote its business development via data. Secondly, accelerating the innovation development of technology products and services. By integrating external service channels and products and building a unified and multichannel corporate customer service platform, the Bank has realized the integration of customers, banks, products and services, and has built a banking service brand by providing customers with the best integrated financial services. Thirdly, enhancing the information technology security protection system. The Bank formulated and published the Guiding Opinions on the Information Technology Security Management of Huishang Bank in 2019 for guiding the construction of its information technology security system, initiated the special rectification work of network security, implemented the information technology security inspection and deepened the construction of office security protection system within the Bank. The Bank also strengthened the security reinforcement of important information systems and network systems to continuously improve the level and capability of information technology security protection across the Bank.

Chapter III Management Discussion and Analysis

3.12 PROFIT DISTRIBUTION OF ORDINARY SHARES

Profit distribution plan for 2018

The profit distribution plan of the Bank for 2018 was considered and approved at the 2018 annual general meeting of the Bank held on 30 June 2019.

Audited net profit of the parent company for 2018 was RMB8,578.03 million. Pursuant to the Articles of Association of the Bank, the profit distribution plan of the Bank for 2018 is as follows:

- (1) RMB857.803 million, RMB1,910.045 million and RMB857.803 million were allocated to the statutory surplus reserve, general risk provision and discretionary surplus reserve respectively, and the remaining distributable profit for the year amounted to RMB4,952.379 million;
- (2) a total cash dividend of approximately RMB681 million (inclusive of tax), i.e. RMB0.056 per share (inclusive of tax), will be declared and distributed to all shareholders.

In addition, the Bank may distribute a special dividend subject to the progress of the application for the A share offering and policy adjustment, which is expect to account for 15% of the Bank's audited net profit for 2018. At that time, the Bank will separately implement the decision-making process to determine the special dividend plan.

The final dividend for 2018 was payable to the holders of Domestic Shares and H Shares whose names appear on the register of members of the Bank as at 10 July 2019, and was paid on 26 August 2019. The dividend declared is denominated in RMB. The cash dividend payable to holders of Domestic Shares is paid in RMB whilst the dividend payable to holders of H Shares is paid in Hong Kong dollars. The exchange rate for dividend payable in Hong Kong dollars is the central parity of the average exchange rate of RMB against Hong Kong dollars published by the PBOC for the five business days (i.e. 24 June 2019 to 28 June 2019) immediately prior to the date on which the dividend was declared at the 2018 annual general meeting of the Bank.

Interim profit distribution for 2019

The Bank has no interim profit distribution plan for 2019.

Chapter III Management Discussion and Analysis

3.13 SOCIAL RESPONSIBILITY

In 2019, the Bank continued to honor the mission of “achieving dreams for customers, creating value for shareholders, promoting employee development and assuming responsibility of citizen” and serving the local economy by continuously promoting financial product innovation and improving customer service and customer experience to meet customers’ financial needs. The Bank also built the overall development framework of “One Body, Two Wings (一體兩翼)” and sped up the modernization of its corporate governance system and capacity, in an effort to build a modern bank with high-quality development in all-round manner. During the Reporting Period, the Bank used PPP, loans for shanty-town reformation projects and people’s livelihood loan and other business to develop people’s livelihood finance, thereby effectively serving the construction of public infrastructure. The Bank innovated in investment banking, transaction banking and other business models to offer strong support for the transformation and upgrading of enterprises; strengthened the role of green credit in leverage adjustment by promoting green credit to support low-carbon economy; made targeted efforts in promoting inclusive finance to reduce corporate financing costs and support the development of small and micro enterprises; broadened the coverage of financial services to support the development of “agriculture, rural areas and farmers”; vigorously developed poverty alleviation finance and used such models as industrial poverty alleviation and targeted poverty alleviation to improve the precision of financial poverty alleviation; provided customers with intelligent services and ultimate experience by deepening mobile finance and promoting online services. In order to firmly guard against systemic risks, the Bank emphasized the philosophy of financial security and focused on building a comprehensive, full-process risk management system covering all employees to enhance its risk management capabilities. In addition, the Bank played an active role in the national energy-saving and emission-reduction campaign by promoting green operations. The Bank has also been concerned about the physical and mental health of its employees, and has created a positive and harmonious corporate culture by adhering to people-oriented and focusing on employee capacity building.

The Bank comprehensively implemented the decision-making arrangements of the CPC Central Committee on implementing precision poverty alleviation works and the work requirements of the CPC Anhui Provincial Committee and Anhui Provincial Government on resolutely winning the fight against poverty, and comprehensively improved the financial service level for precision poverty alleviation. During the Reporting Period, the working documentary case in which the Bank accurately assisted the poverty alleviation of Wangzhou Village in Sixian County, Suzhou City won the “Best Social Responsibility Practice Case Award of the Year” by the China Banking Association.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	30 June 2019		Changes during the Reporting Period		31 December 2018	
	Number of Shares	Percentage (%)	Number of Shares	Number of Shares	Percentage (%)	
Domestic Shares	8,676,051,211	71.38	–	8,676,051,211	71.38	
H Shares	3,478,750,000	28.62	–	3,478,750,000	28.62	
Total number of ordinary shares	12,154,801,211	100.00	–	12,154,801,211	100.00	

Note: As at 30 June 2019, the Bank had a total of 17,881 shareholders of ordinary shares, including 1,570 shareholders of H Shares and 16,311 shareholders of Domestic Shares.

4.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN HOLDERS OF ORDINARY SHARES

As at 30 June 2019, the order of the top ten holders of ordinary shares of the Bank was sorted by: (1) (for H Shares) the aggregate of the H Shares of the Bank held by investors which were deposited into the Central Clearing and Settlement System of the Hong Kong Stock Exchange and registered under the name of HKSCC NOMINEES LIMITED, a wholly-owned subsidiary of the Hong Kong Stock Exchange, representing 28.59% of the total share capital of ordinary shares and representing 99.88% of the total H Shares issued; and (2) for Domestic Shares, the order was based on the number of shares held directly under the domestic shareholders register kept by China Securities Depository and Clearing Co., Ltd..

No.	Name of shareholder	Nature of shareholder	Shares held by the end of the period (share)	Percentage of total share capital of ordinary shares (%)	Type of share	Increase/decrease of shares during the Reporting Period (share)	Pledged or frozen (share)
1	HKSCC NOMINEES LIMITED	⁽¹⁾	3,474,594,478	28.59	H Share	38,400	⁽¹⁾
2	Anhui Energy Group Co., Ltd.	State-owned legal person	843,363,819	6.94	Domestic Share	0	0
3	Anhui Guoyuan Financial Holding Group Co., Ltd.	State-owned legal person	837,810,695	6.89	Domestic Share	127,882,931	0
4	Anhui Credit Guaranty Group Co., Ltd.	State-owned legal person	827,658,091	6.81	Domestic Share	0	413,829,020
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	515,935,874	4.24	Domestic Share	0	0
6	Zhongjing Sihai Co., Ltd.	Domestic non-state-owned legal person	489,165,776	4.02	Domestic Share	0	55,400,000
7	Hefei Xingtai Financial Holding (Group) Co., Ltd.	State-owned legal person	377,950,631	3.11	Domestic Share	0	0
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	294,012,833	2.42	Domestic Share	0	0
9	CCB Trust Co., Ltd.	State-owned legal person	248,102,994	2.04	Domestic Share	0	0
10	Anhui Hengtai Real Estate Development Co., Ltd. (安徽省恒泰房地產開發有限責任公司)	Domestic non-state-owned legal person	234,675,695	1.93	Domestic Share	0	234,675,695

Note: (1) The relevant information has not yet been obtained by the Bank, nor can it be verified based on the existing information.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

According to the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks of CBIRC, based on the register of members maintained by trustee agency of ordinary shares of the Bank and the information publicly disclosed and submitted by shareholders to the Bank etc. The substantial shareholders of ordinary shares the Bank as at the end of the Reporting Period are as follows:

No.	Name of shareholder	Number of shares held	Individual shareholding ratio	Joint shareholding ratio
1	Zhongjing Xinhua Asset Investment Management Company Ltd.	224,781,227	1.85%	16.12%
	Zhongjing Sihai Co., Ltd.	489,165,776	4.02%	
	Wealth Honest Limited	532,415,400	4.38%	
	Golden Harbour Investments Management Limited	440,000,000	3.62%	
	Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	273,449,000	2.25%	
2	Anhui Energy Group Co., Ltd.	843,363,819	6.94%	10.89%
	Anhui Wenergy Company Limited	150,814,726	1.24%	
	Xing An Holding Limited	329,973,600	2.71%	
3	Wkland Finance Holding Company Limited	562,254,000	4.63%	8%
	Wkland Finance Holding II Company Limited	410,130,600	3.37%	
4	Anhui Guoyuan Financial Holding Group Co., Ltd.	837,810,695	6.89%	7.19%
	Anhui Guoyuan Trust Co., Ltd.	35,751,470	0.29%	
	Anhui Guoyuan Ma'Anshan Asset Management Co., Ltd.	361,662	0.00%	
5	Anhui Credit Guaranty Group Co., Ltd.	827,658,091	6.81%	6.83%
	Anhui Jinrun Information Technology Co., Ltd.	2,524,326	0.02%	
6	Hefei Xingtai Financial Holding Group Co., Ltd.	377,950,631	3.11%	5.15%
	CCB Trust Co., Ltd.	248,102,994	2.04%	
	Hefei Xingtai Assets Management Co., Ltd.	445,368	0.00%	
7	Sunshine Life Insurance Corporation Limited	598,094,200	4.92%	4.92%
8	Anhui Transportation Holding Group Co., Ltd.	515,935,874	4.24%	4.26%
	Anhui Transportation Holding Group (H.K.) Limited	2,999,700	0.02%	
9	Wuhu Construction Investment Co., Ltd.	294,012,833	2.42%	2.42%
10	Anhui Publishing Group Co., Ltd.	103,693,815	0.85%	0.85%

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2019, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). In view of the Bank's profit distribution plan for 2017, where bonus shares were issued to shareholders on the basis of 1 share for every 10 shares, implemented in 2018, the number of shares held by shareholders in the table below reflects the number of shares held by shareholders after the issue of bonus shares.

Name of Shareholder	Type of share	Long/short		Number of shares	Percentage of	Percentage of	Note
		Position	Capacity		the underlying shares in issue	all issued ordinary shares	
					(%)	(%)	
Anhui Energy Group Co., Ltd.	H Share	Long	Interest of controlled corporation	329,973,600	9.49	2.71	1
	Domestic Share	Long	Interest of controlled corporation	150,814,726	1.74	1.24	1
	Domestic Share	Long	Beneficial owner	843,363,819	9.72	6.94	1
Xing An Holdings Co., Limited	H Share	Long	Beneficial owner	329,973,600	9.49	2.71	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	2,524,326	0.03	0.02	2
	Domestic Share	Long	Beneficial owner	827,658,091	9.54	6.81	2
Anhui Guoyuan Financial Holding Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	36,113,132	0.42	0.30	3
	Domestic Share	Long	Beneficial owner	837,810,695	9.66	6.89	3
Anhui Transportation Holding Group Co., Ltd.	H Share	Long	Interest of controlled corporation	2,999,700	0.09	0.02	4
	Domestic Share	Long	Beneficial owner	515,935,874	5.95	4.24	4
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	972,384,600	27.95	8.00	5
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	562,254,000	16.16	4.63	5
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	410,130,600	11.79	3.37	5
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	598,094,200	17.19	4.92	6
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	598,094,200	17.19	4.92	6
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Modern Innovation Holdings Co., Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8
Jing'An Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	713,947,003	8.23	5.87	7, 8

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Name of Shareholder	Type of share	Long/short		Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
		Position	Capacity				
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	9, 10, 11
	Domestic Share	Long	Interest of controlled corporation	489,165,776	5.64	4.02	8
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	7
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	489,165,776	5.64	4.02	8
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	972,415,400	27.95	8.00	10, 11
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	9
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	10
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
Qingdao State-owned Assets Supervision & Administration Commission	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Qingdao City Construction Investment (Group) Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Qingdao City Construction Financial Holding Group Co., Ltd.	H Share	Long	Security interest	440,000,000	12.65	3.62	11
China Golden Harbour (Holdings) Group	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Golden Harbour Global Holdings Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	11
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	11
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	11
CITIC Securities Company Limited	H Share	Long	Interest of controlled corporation	222,806,250	6.40	1.83	12
	H Share	Short	Interest of controlled corporation	210,573,750	3.74	1.73	12

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

- (1) Xing An Holdings Limited holds 329,973,600 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited.

At the same time, Anhui Energy Group Co., Ltd. directly holds 843,363,819 Domestic Shares (long position) of the Bank. In addition, Anhui Energy Group Co., Ltd. also effectively controls 150,814,726 Domestic Shares of the Bank that were held by its controlling subsidiary, Anhui Province Wenergy Co., Ltd. (安徽省皖能股份有限公司).

- (2) Anhui Jinrun Information Technology Co., Ltd. (安徽省金潤信息科技有限責任公司) holds 2,524,326 Domestic Shares (long position) of the Bank. Anhui Jinrun Information Technology Co., Ltd. is a wholly-owned subsidiary indirectly controlled by Anhui Credit Guaranty Group Co., Ltd. (安徽省信用擔保集團有限公司). As such, Anhui Credit Guaranty Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Jinrun Information Technology Co., Ltd. At the same time, Anhui Credit Guaranty Group Co., Ltd. holds 827,658,091 Domestic Shares (long position) of the Bank.

- (3) Anhui Guoyuan Financial Holding Group Co., Ltd. (安徽國元金融控股集團有限責任公司) was formerly known as Anhui Guoyuan Holding (Group) Co., Ltd. (安徽國元控股(集團)有限責任公司). The shareholdings in the Bank held by Anhui Guoyuan Financial Holding Group Co., Ltd. include the Domestic Shares of the Bank held by its controlling subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司) and Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司).

- (4) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 2,999,700 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 515,935,874 Domestic Shares (long position) of the Bank.

- (5) China Vanke Co., Ltd. is deemed to hold interests in a total of 972,384,600 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:

5.1 Wkland Finance Holding Company Limited holds 562,254,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

5.2 Wkland Finance Holding II Company Limited holds 410,130,600 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (6) Sunshine Life Insurance Corporation Limited holds 598,094,200 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.
- (7) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 224,781,227 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). Zhongjing Industry is a subsidiary as to 97.5% held by Shanghai Soong Ching Ling Foundation ("SCL Foundation"). As such, SCL Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.
- (8) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 489,165,776 Domestic Shares (long position) of the Bank. It is a subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.
- (9) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 273,449,000 H Shares (long position) of the Bank.

Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.

- (10) Wealth Honest Limited ("Wealth Honest") holds 532,415,400 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (11) Golden Harbour Investments Management Limited ("Golden Harbour") held 440,000,000 H Shares (long position) of the Bank. The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (10) above. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-owned Assets Supervision and Administration Commission of Qingdao City and its subsidiaries, Golden Harbour Global Holdings Limited, a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group, holds 70% equity interests in Wealth Honest Fund LP; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. The State-owned Assets Supervision and Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited own security interest in 400 million H Shares of the Bank.

- (12) CITIC Securities Company Limited is interested in a total of 222,806,250 H Shares (long position) and 210,573,750 H Shares (short position) of the Bank. These equity interests are all interests of derivatives, of which 182,613,750 Shares (long position) belong to listed derivatives – convertible instruments, and 40,192,500 Shares (long position) and 210,573,752 Shares (short position) belong to unlisted derivatives – cash-settled, respectively.

Save as disclosed above, the Bank is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) having any interests or short positions in the shares and underlying shares of the Bank as at 30 June 2019 as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.5 OFFSHORE PREFERENCE SHARES

4.5.1 Issuance and listing of Offshore Preference Shares in the recent three years

On 10 November 2016, the Bank conducted a non-public offering of 44,400,000 Offshore Preference Shares in offshore markets at the issue price of US\$20 per share and raised US\$888 million. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of Offshore Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

4.5.2 Number of offshore preference shareholders and their shareholdings

As at the end of the Reporting Period, the Bank recorded one offshore preference shareholder (or depository). Particulars of its shareholding were as follows:

Name of offshore preference shareholder	Nature of shareholder	Type of shares	Increase/ decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Offshore Preference Shares	-	100	44,400,000	-	Unknown

Notes:

- Particulars of shareholding of the offshore preference shareholders are based on the information in the Bank's register of offshore preference shareholders.
- As the issuance was an offshore non-public offering, the register of offshore preference shareholders presented the information on the Offshore Preference Shares held by DB Nominees (Hong Kong) Limited as the depository on behalf of the placee in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. at the end of the Reporting Period.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.5 OFFSHORE PREFERENCE SHARES (Continued)

4.5.3 Profit distribution of Offshore Preference Shares

During the Reporting Period, there was no dividend payment in respect of Offshore Preference Shares. Further announcement(s) in respect of payment of dividends on Offshore Preference Shares will be made by the Bank as and when appropriate.

4.5.4 Redemption or conversion of Offshore Preference Shares

During the Reporting Period, there was no redemption or conversion of Offshore Preference Shares issued by the Bank.

4.5.5 Restoration of voting rights of Offshore Preference Shares

During the Reporting Period, there was no restoration of voting rights of Offshore Preference Shares issued by the Bank.

4.5.6 Accounting policy adopted for Offshore Preference Shares and grounds

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing Offshore Preference Shares of the Bank conform to the accounting requirements as equity instruments, and will be accounted for as equity instruments.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Position Held
Wu Xuemin	Male	Chairman, Executive Director
Zhang Renfu	Male	President, Executive Director
He Jiehua ⁽¹⁾	Male	Executive Director
Zhu Yicun	Male	Non-executive Director
Yan Chen ⁽¹⁾	Male	Non-executive Director
Wu Tian	Male	Non-executive Director
Qian Dongsheng	Male	Non-executive Director
Gao Yang	Male	Non-executive Director
Wang Wenjin	Male	Non-executive Director
Zhao Zongren	Male	Non-executive Director
Dai Peikun	Male	Independent Non-executive Director
Zhou Yana	Female	Independent Non-executive Director
Liu Zhiqiang	Male	Independent Non-executive Director
Yin Jianfeng	Male	Independent Non-executive Director
Huang Aiming	Female	Independent Non-executive Director
Hu Jun	Male	Independent Non-executive Director
Zhang Youqi	Male	Chairman of the Board of Supervisors, Employee Representative Supervisor
Tang Chuan	Male	Employee Representative Supervisor, Chairman of Labor Union
Zhong Qiushi	Male	Employee Representative Supervisor, General Manager of Risk Management Department
Chen Rui	Male	Shareholder Supervisor
Li Ruifeng	Male	Shareholder Supervisor
Hu Jing	Female	Shareholder Supervisor
Pan Shujuan	Female	External Supervisor
Yang Mianzhi	Male	External Supervisor
Dong Xiaolin	Female	External Supervisor
Gao Guangcheng	Male	Vice President
Yi Feng	Male	Assistant to President
Xia Min	Male	Assistant to President
Ni Jianxiang	Male	Director of Retail Banking
Huang Xiaoyan	Female	Director of Investment and Wealth Management
Zhou Tong	Female	Director of Risk and Compliance
Li Dawei	Male	Financial Controller and General Manager of Financial Accounting Department
Gao Chunming	Female	Director of Corporate Banking
Lian Baohua	Male	Secretary of the Board of Directors

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Notes:

- (1) For details of the position changes of Mr. He Jiehua and Mr. Yan Chen, please refer to Section 5.2 “Appointment and Resignation during the Reporting Period” of this report.
- (2) The Bank held the 2018 first extraordinary general meeting on 28 November 2018, at which the fourth session of the Board of Directors was elected. Among the directors elected at the meeting, Mr. Wu Xuemin, Mr. Gao Yang, Mr. Zhao Zongren and Ms. Zhou Yana are re-elected directors, with their appointments effective from the date of the meeting. Mr. Zhang Renfu, Mr. Zhu Yicun, Mr. Wu Tian, Mr. Qian Dongsheng, Mr. Wang Wenjin, Mr. Dai Peikun, Mr. Liu Zhiqiang, Mr. Yin Jianfeng, Ms. Huang Aiming and Mr. Hu Jun are newly-appointed directors, whose qualifications are subject to the approval by the CBIRC Anhui Office. The Bank announced on 3 January and 21 January 2019, respectively, that the qualifications of the above new directors had been approved by the CBIRC Anhui Office.

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

1. The Bank announced on 3 January 2019 that, given that the appointments of the members of the fourth session of the Board of Directors had become effective, the members of the third session of the Board of Directors of the Bank, including Mr. Zhang Feifei, Mr. Zhu Jiusheng, Ms. Lu Hui, Mr. Qiao Chuanfu, Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Au Ngai, Daniel and Mr. Zhu Hongjun retired as directors of the Bank and from the respective positions in the Board committees.
2. The Bank announced on 27 March 2019 that the Board had convened a meeting on the date of the announcement in respect of the proposal to nominate Mr. He Jiehua as a candidate for executive director of the fourth session of the Board of the Bank. At the Bank’s 2018 annual general meeting held on 30 June 2019, the resolution on the election of Mr. He Jiehua as an executive director of the fourth session of the Board of the Bank was considered and approved, and his term of office as a director is the same as that of the fourth session of the Board of the Bank. The Bank announced on 8 August 2019 that the qualification of Mr. He Jiehua as an executive director of the Bank was approved by the CBIRC Anhui Office. His appointment as a director took effect from 8 August 2019. In addition, Mr. He Jiehua was elected as a member of the Risk Management Committee on 12 August 2019 and has been elected as the chairman of the Risk Management Committee with effect from 28 August 2019.
3. The Board of Directors of the Bank convened a meeting on 27 March 2019 and passed the resolution to appoint Mr. Yi Feng, an assistant to president of the Bank, as the vice president of the Bank, whose qualification is subject to the approval of CBIRC Anhui Office.
4. The Bank announced on 28 March 2019 that Mr. Qian Li had tendered his resignation to the Bank as a non-executive director, a member of the Strategic Development and Consumer Rights Protection Committee and a member of the Audit Committee under the Board of Directors of the Bank due to work re-arrangement. His resignation took effect on the same date.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD (Continued)

- The Bank announced on 26 April 2019 that the Board had convened a meeting on the date of the announcement in respect of the proposal to nominate Mr. Yan Chen as a candidate for non-executive director of the fourth session of the Board of the Bank. At the Bank's 2018 annual general meeting held on 30 June 2019, the resolution on the election of Mr. Yan Chen as a non-executive director of the fourth session of the Board of the Bank was considered and approved, and his term of office as a director is the same as that of the fourth session of the Board of the Bank. His qualification as a director is subject to the approval by the CBIRC Anhui Office.
- The Bank announced on 18 July 2019 that Mr. Ci Yaping had tendered his resignation to the Bank as an executive director, vice president and chairman of the Risk Management Committee under the Board of Directors of the Bank for the reason that he had reached the retirement age. His resignation took effect on the same date.

5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

- Mr. Zhu Yicun, a non-executive director of the Bank, is also the general counsel of Anhui Energy Group Co., Ltd..
- Mr. Wang Wenjin, a non-executive director of the Bank, ceased to be the chief risk officer of China Vanke Co., Ltd. and is currently a director, the executive vice-president and finance manager of China Vanke Co., Ltd.
- Ms. Zhou Yana, an independent non-executive director of the Bank, ceased to be an independent director of Ningbo Runhe High-tech Materials Technology Co., Ltd.
- Mr. Tang Chuan, the employee representative supervisor of the Bank, ceased to be the general manager of human resources department of the Bank.

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of directors or supervisors of the Bank which was required to be disclosed pursuant to the requirements of the Rule 13.51B(1) of the Hong Kong Listing Rules.

5.4 EMPLOYEES

1. Number of Employees

As of 30 June 2019, the Bank had a total of 9,443 employees in service.

2. Professional Structure

As of 30 June 2019, the professional structure of the Bank is as follows:

Categories	As of 30 June 2019	
	Number of employees	Percentage of the total
Management Personnel	2,299	24.35%
Business Personnel	5,167	54.71%
Supporting Personnel	1,977	20.94%
Total	9,443	100.00%

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEES (Continued)

3. Educational Structure

	As of 30 June 2019	
	Number of employees	Percentage of the total
Master's degrees or above	1,647	17.44%
Full-time bachelor's degrees	4,620	48.93%
Part-time bachelor's degrees	2,345	24.83%
Junior college degrees or below	831	8.80%
Total	9,443	100.00%

4. Age Structure

	As of 30 June 2019	
	Number of employees	Percentage of the total
Aged below 30 (inclusive)	4,645	49.19%
Aged 31-40	2,654	28.11%
Aged 41-50	1,737	18.39%
Aged above 50	407	4.31%
Total	9,443	100.00%

Staff Remuneration Policy

The Bank's remuneration policy aims to establish a sound, scientific and effective incentive and control mechanism for realization of shareholder value and optimization of the Bank's efficiency and employees' interests. The policy facilitates stable operation and sustainable development of the Bank, which is therefore conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. By following the principle of being "advanced, sustainable, compliant, timely, and operational", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

The Bank manages remuneration through three levels, namely the Board, headquarters and branches. The Board is responsible for the management of the total amount of remuneration and senior management's remuneration. The headquarters allocate the total amount of remuneration and carries out policy-based management in accordance with the instructions and guidance by the Board. All branches manage employees' salary within the scope of unified rules and framework.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEES (Continued)

Staff Training Plan

According to the development strategies and education and training development plans, the Bank develops and implements an annual training plan to provide guarantees for staff professionalism enhancement and their career development, and to provide intellectual support for comprehensive construction of a well-developed modern bank. During the Reporting Period, the Bank organized and provided special training for management at different levels, training classes for various business lines, as well as the construction of internal trainer teams by making full use of three training channels, namely, the Binhu training center of Huishang Bank, the online training platform "Huiyin Internet School", and the mobile learning platform "Huiyin Academy". The Bank commenced the establishment of a training curriculum system and arranged for qualification tests for all positions in the Bank, to further increase the proportion of all employees of the Bank possessing certificates for their positions. In the first half of 2019, the Bank conducted training for a total enrolment of approximately 50,000 persons with a total of 247,298 hours.

5.5 COMPOSITION OF BRANCHES

Set out below are details of the branches of the Bank in the PRC as of 30 June 2019:

Region	Name of the Institution	Business Address	Postal Code	Number of Institutions
Head Office	Head Office	Block A, Tianhui Building, No. 79, Anqing Road, Luyang District, Hefei, Anhui Province	230001	1
Anhui Province	Hefei Branch	No. 626, Huangshan Road, Gaoxin District, Hefei	230001	98
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	36
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	26
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	21
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	31
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	21
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	16
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	28
	Huangshan Branch	No. 2, Tuguang Road, Tunxi District, Huangshan	245000	12
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	13
	Chuzhou Branch	No. 95, Longpan Road, Chuzhou	239000	15
	Suzhou Branch	No. 123, Yinhe Yi Road, Suzhou	234000	16
Jiangsu Province	Xuancheng Branch	No.109, Meiyuan Road, Xuancheng District, Xuancheng	242000	19
	Bozhou Branch	Xiangzhang Mansion, No. 277, West Shaohua Road, Bozhou	236000	12
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	12
Total				442

Chapter VI Corporate Governance

6.1 OVERVIEW OF CORPORATE GOVERNANCE

The Bank is committed to maintaining a high standard of corporate governance and actively endeavours to adhere to international and domestic corporate governance best practices so as to safeguard the interests of shareholders and enhance corporate value. The Bank established a comparatively comprehensive corporate governance structure through clarifying the responsibilities of general meetings, the Board of Directors, the Board of Supervisors and senior management, and constantly improving the Bank's decision-making, execution and supervision mechanisms to ensure the independent operation of various parties and an effective check and balance.

During the Reporting Period, the general meetings, the Board of Directors, the Board of Supervisors and the committees of the Board of Directors and the Board of Supervisors played their corresponding roles and operated effectively so as to ensure the compliant operation and the steady healthy development of the Bank. During the Reporting Period, the Bank convened a total of 36 meetings, which consists of one general meeting, six Board of Directors meetings, nineteen Board of Directors committees meetings, five Board of Supervisors meetings, four meetings of the Supervisory Committee under the Board of Supervisors and one meeting of the Nomination Committee under the Board of Supervisors.

6.2 GENERAL MEETINGS

During the Reporting Period, the Bank held one general meeting. On 30 June 2019, the Bank held the 2018 annual general meeting in Hefei, Anhui Province. The notification, convening, holding and voting procedures of the meetings are in compliance with the Company Law of the PRC, the Articles of Association of the Bank and the Hong Kong Listing Rules. For the details of the resolutions, please see the announcement in relation to the poll results of the annual general meeting dated 1 July 2019, which was published on the websites of the Hong Kong Stock Exchange and the Bank, respectively.

6.3 BOARD OF DIRECTORS AND BOARD OF DIRECTORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held six Board of Directors meetings, at which 82 resolutions were considered and approved. The Bank held nineteen Board of Directors committees meetings (which consists of three Nomination and Remuneration Committee meetings, four Strategic Development and Consumer Rights Protection Committee meetings, four Risk Management Committee meetings, five Related Party Transaction Control Committee meetings and three Audit Committee meetings) at which 68 resolutions were studied and considered.

6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held five Board of Supervisors meetings, at which 22 resolutions were considered.

The Bank held four meetings of the Supervisory Committee under the Board of Supervisors, at which 14 resolutions were considered. The Bank held one meeting of the Nomination Committee under the Board of Supervisors, at which 8 resolutions were considered.

Chapter VI Corporate Governance

6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Bank (including their spouses and children) in respect of their dealings in the Bank’s securities.

Having made specific enquiries to all the directors and supervisors of the Bank, the Bank confirmed that they had complied with the Model Code throughout the six months ended 30 June 2019.

6.6 INTERNAL CONTROL

Following the operation philosophy of compliant and steady development, the Bank has established an internal control system consisting of five elements, namely, internal environment, risk assessment, control measures, information and communication, and internal supervision according to the provisions under laws and regulations such as the Basic Norms of Internal Control for Enterprises and its relevant guidelines, the Guidelines for Internal Control of Commercial Banks as well as the relevant requirements of the Hong Kong Stock Exchange. The Bank has clearly defined the objectives, principles and organizational system of internal control through internal control system infrastructure, exerted full control over the whole process of various operation and management of the Bank, and in the course of carrying out internal control, continued to enhance our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board and senior management to establish and improve the internal control system; and overseeing the Board and its directors, senior management and senior officers to perform their duty of internal control. Senior management is responsible for the execution of internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and examines the effectiveness of internal control.

During the Reporting Period, the Bank continued to optimize internal control system to improve market risk, credit risk and operational risk management system. Therefore, the internal control system operated effectively. In addition, the Bank has conducted self-assessment of the internal control in 2018 during the Reporting Period. After the inspection by the Board of Directors of the Bank, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were found.

Chapter VI Corporate Governance

6.7 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank has applied the principles of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules. Except for the code provision A.4.2, the Bank strictly complied with all the code provisions as well as most of the recommended best practices of the CG Code. According to the code provision in paragraph A.4.2 of the CG Code set out in Appendix 14 to the Hong Kong Listing Rules, every director (including directors with a specified term) shall be subject to retirement by rotation at least once every three years. The term of the third session of the Board of Directors of the Bank expired on 10 July 2016. Due to time requirement of the nomination procedure for some shareholder directors and the selection of successors for some directors, the Bank completed the election of the members of the fourth session of the Board of Directors at the 2018 first extraordinary general meeting held on 28 November 2018, and the relevant directors have successively taken office. As at the end of January 2019, the re-election of the Board of Directors of the Bank has been completed.

Chapter VII Significant Events

7.1 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank did not hold or trade shares of other listed companies during the Reporting Period.

7.2 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank or its subsidiaries of the listed securities of the Bank during the Reporting Period.

7.3 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2019, the directors, supervisors and chief executives of the Bank and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code:

Name	Position	Type of shares	Capacity	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued ordinary shares (%)
Zhang Youqi	Chairman of the Board of Supervisors	Domestic Shares	Beneficial Owner	25,252	0.0003	0.0002
Tang Chuan	Supervisor	Domestic Shares	Beneficial Owner	56,009	0.0006	0.0005
Zhong Qiushi	Supervisor	Domestic Shares	Beneficial Owner	32,133	0.0004	0.0003
Yang Mianzhi	Supervisor	Domestic Shares	Beneficial Owner	6,613	0.0001	0.0001
Ci Yaping ⁽¹⁾	Former director, Vice President	Domestic Shares	Beneficial Owner	146,796	0.0017	0.0012

Note:

- (1) For details of the position changes of Mr. Ci Yaping, please refer to "Appointment and Resignation during the Reporting Period" under section 5.2 of this report.

Save as disclosed above, as at 30 June 2019, the Bank was not aware that any of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

Chapter VII Significant Events

7.4 PENALTY AND INVESTIGATION OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

There was no investigation or significant penalty imposed on the Bank, its directors, supervisors and senior management during the Reporting Period.

7.5 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in the PRC, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, the connected transactions between the Bank and connected persons were conducted in compliance with the normal commercial terms that were not more favourable than those for non-connected transactions of the same types. The transaction terms were fair and reasonable and in the interests of the Bank and its shareholders as a whole. All these transactions were made on normal commercial terms and in the ordinary course of business, and were exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposit from its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of business under normal deposits interest rate and normal commercial terms. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules, namely, financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms (or better to the issuer) where no security over the assets of the issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank offers loans and credit facilities to its connected persons in the ordinary course of business, on normal commercial terms and comparable terms offered to independent third parties. Therefore, these transactions will constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business for the benefit of a connected person on normal commercial terms, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Chapter VII Significant Events

7.5 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary course of business – other banking services and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) to its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of business at normal prescription fees, service fees and charges and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

It is expected that none of the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the total annual service and/or product fees paid to the Bank by a particular connected person and its associates will exceed 0.1%. Therefore, these transactions will constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

7.6 MATERIAL LITIGATIONS AND ARBITRATIONS

To the knowledge of the Bank, as of the end of June 2019, the Bank was involved in the following litigation cases in its ordinary course of business: 59 significant litigation and arbitration cases pending final judgment, with a total subject matter amount of RMB3,277 million, including 6 litigations and arbitrations cases against the Bank (as the defendant) pending final judgment with a subject matter amount over RMB500,000 each, totaling RMB345 million. The Bank made full provisions for doubtful accounts of loans involved in the above cases according to their expected losses in a prudent manner. None of these cases will have any material adverse impact on the Bank's financial position and operating results.

7.7 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, some assets of the Bank had been pledged to other banks and the Ministry of Finance of the PRC as collaterals for a sale and repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal or reorganization outside the normal scope of business. Please refer to Note 41 to the financial statements of this interim report for details of the asset pledge of the Bank.

Chapter VII Significant Events

7.8 APPLICATION FOR LISTING OF A SHARES

The 2018 annual general meeting was convened by the Bank on 30 June 2019, at which, among others, the proposal for initial public offering and listing of A shares (“A Share Offering”) was considered and approved. The Bank proposed issuing no more than 1.5 billion A shares. The Bank has announced the relevant matters in respect of the proposed A Share Offering of the Bank in the circular dated 15 May 2019.

The Bank is in the process of setting up an intermediary team for the A Share Offering which conducts relevant work, including due diligence, audit, compilation of a prospectus and preparation of reporting materials. The Bank aims to submit the reporting materials for the A Share Offering to CSRC before the end of 2019. The A Share Offering may or may not be completed, and the shareholders and potential investors are advised to exercise caution when dealing in the shares of the Bank. The Bank will publish announcements, in due course, to give the shareholders and potential investors the updates on the A Share Offering.

7.9 THE PUBLIC FLOAT OF H SHARES

During the Reporting Period and until the Latest Practicable Date, the public float of the Bank’s H Shares has been continuously below the minimum of 25% as required by Rule 8.08(1)(a) of the Hong Kong Listing Rules.

According to the Board resolutions, the Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) suggesting the substantial shareholders of the Bank to place down their shares in the Bank; (ii) seeking opportunities to conduct placing of H shares after considering the market conditions in full and with detailed planning; and (iii) the resolution on A Share Offering was considered and approved at the general meeting of the Bank and the Bank was proactively facilitating the A Share Offering so as to restore its public float as soon as possible.

7.10 REVIEW ON INTERIM RESULTS

Ernst & Young, as the external auditor of the Bank, has reviewed the interim financial report (unaudited) of the Bank prepared in accordance with the International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Bank has also reviewed and approved the interim results and financial report of the Bank for the six months ended 30 June 2019.

7.11 PUBLICATION OF INTERIM REPORT

The Bank has prepared its interim report under the International Financial Reporting Standards and the Hong Kong Listing Rules in both Chinese and English versions, which are available on the HKEXnews website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Bank at www.hsbank.com.cn.

In this interim report, the financial data for the six months ended 30 June 2018 and 2019 have not been audited; and the financial data for the year ended 31 December 2018 have been audited.

Chapter VIII Interim Financial Report Report on Review of Interim Financial Information



To the Board of Directors of Huishang Bank Corporation Limited

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

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 79 to 188, which comprises the condensed consolidated statement of financial position of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (the "Group") as at 30 June 2019 and the related condensed consolidated statements of income, 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 a report on interim financial information 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 are responsible for the preparation and presentation of interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information 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 information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

Ernst & Young

Certified Public Accountants

Hong Kong, 28 August 2019

Condensed Consolidated Income Statement

For the six month period ended 30 June 2019

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

	Notes	For the six month period ended 30 June	
		2019 Unaudited	2018 Unaudited
Interest income	4	23,716,233	22,241,523
Interest expense	4	(10,891,021)	(11,198,826)
Net interest income		12,825,212	11,042,697
Fee and commission income	5	1,991,978	1,840,806
Fee and commission expense	5	(104,241)	(142,971)
Net fee and commission income		1,887,737	1,697,835
Net trading gains	6	503,550	475,641
Net gains on financial investments	7	43,633	74,576
Dividend income		1,200	–
Other operating income net	8	48,717	151,808
Operating income		15,310,049	13,442,557
Operating expenses	9	(3,371,894)	(2,950,896)
Impairment losses on assets	11	(5,894,088)	(5,407,984)
Operating profit		6,044,067	5,083,677
Share of profits of associates		67,248	66,712
Profit before income tax		6,111,315	5,150,389
Income tax expense	12	(1,100,700)	(855,427)
Profit for the period		5,010,615	4,294,962
Net profit attributable to:			
Shareholders of the Bank		4,919,697	4,273,256
Non-controlling interests		90,918	21,706
Earnings per share attributable to the ordinary shareholders of the Bank (expressed in RMB per share)			
Basic/Diluted	13	0.40	0.35

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

Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	For the six month period ended 30 June	
		2019 Unaudited	2018 Unaudited
Profit for the period		5,010,615	4,294,962
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Net gains on investments in equity instruments designated at fair value through other comprehensive income	38	16,552	38,884
Less: associated impact of income tax	38	(4,138)	(9,721)
Subtotal		12,414	29,163
Items that may be reclassified subsequently to profit or loss			
– Net (losses)/gains on investments in debt instruments measured at fair value through other comprehensive income	38	(278,964)	858,001
Less: associated impact of income tax	38	69,741	(214,500)
Subtotal		(209,223)	643,501
Other comprehensive income for the year, net of tax		(196,809)	672,664
Total comprehensive income for the period		4,813,806	4,967,626
Total comprehensive income attributable to:			
Equity holders of the Bank		4,722,888	4,945,920
Non-controlling interests		90,918	21,706
		4,813,806	4,967,626

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

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

	Note	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Assets			
Cash and balances with the central bank	14	110,254,832	88,144,324
Deposits with banks and other financial institutions	15	11,513,103	7,964,464
Placements with banks and other financial institutions	16	3,852,607	5,022,470
Derivative financial assets	17	1,901,923	208,979
Financial assets held under resale agreements	18	10,292,070	26,286,656
Loans and advances to customers, net	19	422,026,905	370,661,381
Financial Investments			
– Financial assets at fair value through profit or loss	20	81,163,753	106,479,561
– Financial assets at fair value through other comprehensive income	20	99,629,117	105,805,594
– Financial assets at amortised cost	20	300,863,736	292,359,948
Investment in associates	21	1,167,256	1,100,008
Property, plant and equipment	22	2,223,336	2,231,716
Right-of-use assets	23	940,709	–
Deferred income tax assets	34	6,920,682	5,749,437
Finance lease receivables	24	42,202,670	35,624,476
Other assets	25	3,254,816	2,867,295
Total assets		1,098,207,515	1,050,506,309
Liabilities			
Borrowings from the central bank		36,315,198	40,720,519
Deposits from banks and other financial institutions	27	114,168,290	117,696,068
Placements from banks and other financial institutions	28	33,346,150	28,778,584
Financial liabilities at fair value through profit or loss	29	54,334,124	87,598,791
Derivative financial liabilities	17	191,840	137,938
Financial assets sold under repurchase agreements	30	30,975,172	27,844,684
Deposits from customers	31	616,186,862	573,798,311
Taxes payable	32	1,777,038	3,242,863
Debt securities issued	35	125,073,067	91,443,925
Other liabilities	33	11,452,297	8,967,167
Total liabilities		1,023,820,038	980,228,850
Equity			
Share capital	36	12,154,801	12,154,801
Other equity instruments	36	5,990,090	5,990,090
Capital reserve	36	6,760,445	6,760,445
Surplus reserves	37	10,411,269	9,553,466
General reserves	37	11,115,027	9,117,707
Other comprehensive income	38	1,390,267	1,587,076
Retained earnings		24,432,846	23,048,940
Equity attributable to shareholders of the Bank		72,254,745	68,212,525
Non-controlling interests		2,132,732	2,064,934
Total equity		74,387,477	70,277,459
Total equity and liabilities		1,098,207,515	1,050,506,309

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

Approved and authorized for issue by the Board of Directors on 28 August 2019.

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Financial Controller and General Manager
of Financial Accounting Department

Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank								
	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Other comprehensive income	Retained earnings	Non-controlling interests	Total equity
	Note 36	Note 36	Note 36	Note 37	Note 37	Note 38			
As at 1 January 2019	12,154,801	5,990,090	6,760,445	9,553,466	9,117,707	1,587,076	23,048,940	2,064,934	70,277,459
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	4,919,697	90,918	5,010,615
Other comprehensive income, net of tax	-	-	-	-	-	(67,307)	-	-	(67,307)
Asset impairment through other comprehensive benefits	-	-	-	-	-	(129,502)	-	-	(129,502)
Total comprehensive income for the period	-	-	-	-	-	(196,809)	4,919,697	90,918	4,813,806
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(680,668)	(23,120)	(703,788)
Additional capital stock	-	-	-	-	-	-	-	-	-
Appropriation to surplus reserve	-	-	-	857,803	-	-	(857,803)	-	-
Appropriation to general reserve	-	-	-	-	1,997,320	-	(1,997,320)	-	-
As at 30 June 2019	12,154,801	5,990,090	6,760,445	10,411,269	11,115,027	1,390,267	24,432,846	2,132,732	74,387,477
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086
Changes in accounting policy – the impact of IFRS 9	-	-	-	-	-	220,822	(51,019)	-	169,803
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(649,175)	19,055,505	1,508,781	59,381,889
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	8,747,031	113,342	8,860,373
Other comprehensive income, net of tax	-	-	-	-	-	1,902,064	-	-	1,902,064
Asset impairment through other comprehensive benefits	-	-	-	-	-	334,187	-	-	334,187
Total comprehensive income for the year	-	-	-	-	-	2,236,251	8,747,031	113,342	11,096,624
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(653,269)	(5,665)	(658,934)
Additional capital stock	1,104,982	-	-	-	-	-	(1,104,982)	-	-
Appropriation to surplus reserve	-	-	-	1,600,165	-	-	(1,600,165)	-	-
Appropriation to general reserve	-	-	-	-	1,395,180	-	(1,395,180)	-	-
(3) Changes in share capital									
Capital injection to a subsidiary	-	-	9,404	-	-	-	-	448,476	457,880
As at 31 December 2018	12,154,801	5,990,090	6,760,445	9,553,466	9,117,707	1,587,076	23,048,940	2,064,934	70,277,459

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2019

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

	For the six month period ended 30 June	
	2019	2018
	Unaudited	Unaudited
Cash flows from operating activities:		
Profit before income tax	6,111,315	5,150,389
Adjustments:		
Impairment losses on assets	5,894,088	5,407,984
Recovery of written-off loans	234,301	252,174
Depreciation and amortization	359,523	208,947
Net (gains)/losses on disposals of property, plant and equipment	(204)	924
Net losses on financial investment	(43,633)	(74,576)
Fair value changes in financial assets at fair value through profit or loss and derivatives	491,632	(850,526)
Dividend income	(1,200)	–
Share of results of associates ventures	(67,248)	(66,712)
Interest income from financial investments	(10,593,513)	(8,621,634)
Interest expense from lease liabilities	20,443	–
Interest expense from debt securities issued	2,071,336	2,652,662
Subtotal	4,476,840	4,059,632
Net changes in operating assets:		
Net (increase)/decrease in balances with the central bank	(1,231,609)	5,335,820
Net increase in deposits and placements with banks and other financial institutions	(3,125,253)	(20,771)
Net decrease in financial assets at fair value through profit or loss	122,224	18,586,404
Net decrease in financial assets held under resale agreements	16,033,971	7,700,728
Net increase in loans and advances to customers	(53,639,690)	(34,005,621)
Net increase in finance lease receivables	(6,842,657)	(5,302,455)
Net increase in other assets	(3,268,721)	(3,732,719)
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	1,004,008	19,902,812
Net decrease in borrowings from the central bank	(4,730,460)	(11,563,581)
Net decrease in financial liabilities at fair value through profit or loss	(35,490,530)	–
Net increase in financial assets sold under repurchase agreements	3,542,162	1,165,445
Net increase in deposits from customers	42,075,776	19,743,559
Net increase/(decrease) in other liabilities	2,369,176	(1,400,255)
Income taxes paid	(3,708,527)	(3,041,089)
Net cash inflow from operating activities	(42,413,290)	17,427,909

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2019
(All amounts expressed in thousands of RMB unless otherwise stated)

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Cash flows from investing activities:		
Dividends received	1,200	10,620
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	23,491	217
Purchase of property, plant and equipment, intangible assets and other long-term assets	(190,043)	(243,524)
Interest income received from financial investments	10,597,146	8,662,650
Proceeds from disposal and maturity of financial investments	146,692,876	55,317,638
Purchase of financial investments	(125,333,650)	(93,017,756)
Net cash outflow from investing activities	31,791,020	(29,270,155)
Cash flows from financing activities:		
Proceeds from issuance of bonds	68,630,000	100,360,000
Cash received from investment	–	457,880
Dividends and interest paid on debts issued	(484,335)	(2,423,077)
Cash paid relating to lease liabilities	(149,068)	–
Cash paid relating to debt repayments	(36,623,578)	(84,756,444)
Net cash inflow from financing activities	31,373,019	13,638,359
Impact on cash and cash equivalents resulted from exchange rate changes	6,274	(32,115)
Net increase in cash and cash equivalents	20,757,023	1,763,998
Cash and cash equivalents at beginning of the period	34,069,155	27,280,446
Cash and cash equivalents at end of the period (Note 44)	54,826,178	29,044,444

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

Notes to the Condensed Consolidated Interim Financial Statements

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2018.

1.1 Standard, amendments and interpretation effective and have been early adopted by the Group in 2019

On 1 January 2019, the Group adopted the following new standard, amendments and interpretation.

IFRS 16	Leases
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments
IAS 19 Amendments	Plan amendment, curtailment or settlement
IAS 28 Amendments	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/tax loss, tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for "significant market fluctuations" in the absence of a plan amendment, curtailment or settlement.

Notes to the Condensed Consolidated Interim Financial Statements

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1.1 Standard, amendments and interpretation effective and have been early adopted by the Group in 2019 (Continued)

IAS 28 Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The adoption of the above standard, amendments and interpretation does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

1.1.1 IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 and IFRIC 4. The standard requires that the classifications of finance leases and operating leases be cancelled and that lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases chosen to be accounted for using a practical expedient), and to separately recognise depreciation and interest expense. The Group will adopt IFRS 16 from 1 January 2019 and apply the modified retroactive approach without restating comparative figures. The Group will not reassess existing contracts and will use the practical expedients to leases previously classified as operating leases before 1 January 2019. As a lessee, the Group will elect recognition exemption not to recognise the right-of-use assets and lease liabilities for short-term leases and lease of low value assets, but recognise lease expenses on a straight-line basis over the lease term. Therefore, the 2019 financial information presented in this interim financial information is not comparable to the 2018 comparative information presented under the original lease criteria.

For the operating lease commitments disclosed in the financial statement as at 31 December 2018, the Group uses 4.33% as the weighted average incremental borrowing rate. The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

Operating lease commitments as at 31 December 2018	1,162,793
Weighted average incremental borrowing rate as at 1 January 2019	4.33%
Less: Commitments relating to short-term leases	(28,674)
Commitments relating to those leases with a remaining lease term ending on or before 31 December 2019	(26,508)
Commitments relating to leases of low-value assets	(47)
Operating lease commitments as at 1 January 2019	1,107,564
Discounted operating lease commitments as at 1 January 2019	(149,103)
Lease liabilities as at 1 January 2019	958,461

Notes to the Condensed Consolidated Interim Financial Statements

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	Definition of a Business	1 January 2020
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date has been deferred indefinitely

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 material. 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.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The Group is considering the impact of these standards, amendments and interpretations on the consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2018.

3 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Assets		
Cash and balances with the central bank	109,907,106	87,764,181
Deposits with banks and other financial institutions	9,837,224	5,882,055
Placements with banks and other financial institutions	4,453,584	5,575,389
Derivative financial assets	1,901,923	208,979
Financial assets held under resale agreements	10,292,070	26,286,656
Loans and advances to customers	419,727,275	368,288,372
Financial Investments		
– Financial assets at fair value through profit or loss	81,163,753	106,479,561
– Financial assets at fair value through other comprehensive income	99,629,117	105,805,594
– Financial assets at amortised cost	300,863,736	292,359,948
Investments in subsidiaries	1,809,133	1,809,133
Investments in associates	1,167,256	1,100,008
Property, plant and equipment	2,182,458	2,188,905
Right-of-use assets	934,727	–
Deferred tax assets	6,483,351	5,623,236
Other assets	3,110,494	2,799,483
Total assets	1,053,463,207	1,012,171,500

Notes to the Condensed Consolidated Interim Financial Statements

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

3 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Liabilities		
Borrowings from the central bank	36,315,198	40,720,519
Deposits from banks and other financial institutions	114,356,812	117,929,527
Placements from banks and other financial institutions	298,579	813,684
Financial liabilities at fair value through profit or loss	54,334,124	87,598,791
Derivative financial liabilities	191,840	137,938
Financial assets sold under repurchase agreements	30,975,172	27,844,684
Deposits from customers	612,600,185	570,112,432
Taxes payable	1,715,160	3,106,099
Debt securities issued	125,073,067	91,443,925
Other liabilities	5,983,896	4,791,102
Total liabilities	981,844,033	944,498,701
Equity		
Share capital	12,154,801	12,154,801
Other equity instruments	5,990,090	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	10,411,269	9,553,466
General reserve	10,791,391	8,881,346
Other comprehensive Income	1,390,267	1,587,076
Retained earnings	24,130,315	22,754,979
Total equity	71,619,174	67,672,799
Total equity and liabilities	1,053,463,207	1,012,171,500

Chairman

President

Head of Finance Department

Notes to the Condensed Consolidated Interim Financial Statements

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

3 THE BANK'S STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
As at 1 January 2019	12,154,801	5,990,090	6,751,041	9,553,466	8,881,346	1,587,076	22,754,979	67,672,799
(1) Comprehensive income								
Profit for the period	-	-	-	-	-	-	4,823,852	4,823,852
Other comprehensive income, net of tax	-	-	-	-	-	(67,307)	-	(67,307)
Asset impairment through other comprehensive benefits	-	-	-	-	-	(129,502)	-	(129,502)
Total comprehensive income for the year	-	-	-	-	-	(196,809)	4,823,852	4,627,043
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(680,668)	(680,668)
Additional capital stock	-	-	-	-	-	-	-	-
Appropriation to surplus reserve	-	-	-	857,803	-	-	(857,803)	-
Appropriation to general reserve	-	-	-	-	1,910,045	-	(1,910,045)	-
As at 30 June 2019	12,154,801	5,990,090	6,751,041	10,411,269	10,791,391	1,390,267	24,130,315	71,619,174
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984
Changes in accounting policies –								
Impact of adopting IFRS 9	-	-	-	-	-	220,822	(51,019)	169,803
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(649,175)	18,778,894	57,511,787
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	8,578,030	8,578,030
Other comprehensive income, net of tax	-	-	-	-	-	1,902,064	-	1,902,064
Asset impairment through other comprehensive benefits	-	-	-	-	-	334,187	-	334,187
Total comprehensive income for the year	-	-	-	-	-	2,236,251	8,578,030	10,814,281
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(653,269)	(653,269)
Additional capital stock	1,104,982	-	-	-	-	-	(1,104,982)	-
Appropriation to surplus reserve	-	-	-	1,600,165	-	-	(1,600,165)	-
Appropriation to general reserve	-	-	-	-	1,243,529	-	(1,243,529)	-
As at 31 December 2018	12,154,801	5,990,090	6,751,041	9,553,466	8,881,346	1,587,076	22,754,979	67,672,799

Notes to the Condensed Consolidated Interim Financial Statements

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

4 NET INTEREST INCOME

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Interest income		
Balances with the central bank	533,276	600,212
Deposits and placements with banks and other financial institutions	571,995	603,725
Loans and advances to customers	10,753,876	8,151,298
Investment securities (a)	10,593,513	12,056,368
Finance leases	1,263,573	829,920
Subtotal	23,716,233	22,241,523
Unwinding of discount on allowance	17,077	20,391
Interest expense		
Borrowings from the central bank (b)	(442,350)	(407,080)
Deposits and placements from banks and other financial institutions	(3,410,034)	(4,092,297)
Deposits from customers	(4,967,301)	(4,046,787)
Debt securities issued	(2,071,336)	(2,652,662)
Subtotal	(10,891,021)	(11,198,826)
Net interest income	12,825,212	11,042,697

- (a) According to *Circular on Revising and Issuing 2018 Versions of Financial Statement Templates for Financial Enterprises (Cai Kuai [2018] No. 36)*, interest income arising from financial assets at fair value through profit or loss had been included as net trading gains in the period ended 30 June 2019. In the period ended 30 June 2018, such amount was still included in net interest income and not reclassified accordingly.
- (b) Borrowings from the central bank include general borrowings from the PBOC, rediscounted bills held under repurchase agreements, closed anti-repo and lending facilities with the PBOC.

Notes to the Condensed Consolidated Interim Financial Statements

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

5 NET FEE AND COMMISSION INCOME

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Fee and commission income		
Settlement and clearing fees	40,488	29,952
Guarantee and commitment fees	164,569	107,046
Investment banking fees	439,090	516,582
Custody fees	231,322	200,553
Bank card fees	374,968	288,054
Acquiring business fees	8,259	11,637
Agency commissions	406,688	423,750
Finance lease fees	282,628	222,108
Others	43,966	41,124
Subtotal	1,991,978	1,840,806
Fee and commission expense	(104,241)	(142,971)
Net fee and commission income	1,887,737	1,697,835

6 NET TRADING GAINS

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Net gains from foreign exchange	28,294	83,624
Net gains from interest rate products	867,765	392,017
Net losses from commodity products	(392,509)	–
Total	503,550	475,641

Net gains from financial investments mainly include gains arising from fair value changes of financial assets and liabilities at fair value through profit or loss.

Notes to the Condensed Consolidated Interim Financial Statements

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

7 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Net gains from financial assets at fair value through other comprehensive income	55,521	75,497
Net gains/(losses) from financial assets at amortised cost	321	(921)
Net losses from financial assets at fair value through profit or loss	(14,950)	–
Other	2,741	–
Total	43,633	74,576

All the net gains recognised from the derecognition of financial assets measured at amortised cost are resulted from trading for the six month period ended 30 June 2019.

8 OTHER OPERATING INCOME, NET

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Net gains/(losses) on bills	6,428	(10,877)
Others	42,289	162,685
Total	48,717	151,808

Notes to the Condensed Consolidated Interim Financial Statements

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

9 OPERATING EXPENSES

	For the six month period ended 30 June	
	2019	2018
	Unaudited	Unaudited
Staff cost (Note 10)	(1,989,824)	(1,581,006)
Business tax and surcharges	(128,215)	(100,104)
General operating and administrative expenses	(817,775)	(852,188)
Operating lease rental expenses	(33,494)	(182,108)
Depreciation of property, plant and equipment (Note 22)	(148,989)	(136,857)
Depreciation of right-of-use assets (Note 23)	(124,673)	–
Amortization expenses for long-term prepaid expenses	(52,029)	(41,449)
Amortization expenses for intangible assets (Note 25(d))	(29,454)	(26,266)
Amortization expenses for land use rights (Note 25(c))	(4,378)	(4,375)
Others	(43,063)	(26,543)
Total	(3,371,894)	(2,950,896)

10 STAFF COST

	For the six month period ended 30 June	
	2019	2018
	Unaudited	Unaudited
Salaries, bonuses, allowances and subsidies	(1,456,958)	(1,116,642)
Pension costs	(220,694)	(198,356)
Labor union fee and staff education fee	(31,083)	(26,385)
Other social insurance and welfare costs	(281,089)	(239,623)
Total	(1,989,824)	(1,581,006)

Notes to the Condensed Consolidated Interim Financial Statements

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

11 IMPAIRMENT LOSSES ON ASSETS

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Loans and advances		
– At amortised cost		
– Stage 1	(251,872)	(919,279)
– Stage 2	(1,275,872)	(364,645)
– Stage 3	(879,485)	(877,264)
– At fair value through other comprehensive income		
– Stage 1	68,489	(33,002)
Financial investments		
– Financial assets at amortised cost	(2,506,514)	(2,576,162)
– Financial assets at fair value through other comprehensive income	104,180	(874)
Credit commitments	(102,905)	(486,601)
Deposits with banks and other financial institutions	(675,754)	(13,576)
Placements with and loans to banks and other financial institutions	15,527	(6,081)
Financial assets held under resale agreements	50,011	100,516
Finance lease receivables (note 24)	(367,893)	(258,412)
Other assets	(72,000)	27,396
Total	(5,894,088)	(5,407,984)

Notes to the Condensed Consolidated Interim Financial Statements

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

12 INCOME TAX EXPENSE

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Current income tax		
– Chinese mainland income tax	(2,206,342)	(1,178,828)
Deferred tax (Note 34)	1,105,642	323,401
Total	(1,100,700)	(855,427)

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Profit before tax	6,111,315	5,150,389
Tax calculated at the applicable statutory tax rate of 25%	(1,527,829)	(1,287,597)
Tax effect arising from income not subject to tax (a)	499,699	457,364
Tax effect of items such as expenses not deductible for tax purposes (b)	(53,845)	(14,347)
Tax filing differences from previous years	1,600	(10,847)
Unrecognised deductible temporary differences and deductible losses (c)	(20,325)	–
Income tax expense	(1,100,700)	(855,427)

- (a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.
- (b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses and loan amounts written off in excess of the relevant deductible threshold under the relevant PRC tax regulations.
- (c) The subsidiary of the Group, Wuwei Huiyin Village and Township Bank Co., Ltd. incurred tax losses for the current period, and the Group cannot reasonably assess if the subsidiary will have sufficient taxable income to realise the tax loss in the future, so the deferred tax assets of the tax loss are not recognized.

Notes to the Condensed Consolidated Interim Financial Statements

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

13 EARNINGS PER SHARE (BASIC AND DILUTED)

- (a) Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the reporting period.

	For the six month period ended 30 June	
	2019 Unaudited	2018 Unaudited
Net profit attributable to shareholders of the Bank (in RMB thousands)	4,919,697	4,273,256
Weighted average number of ordinary shares in issue (in thousands)	12,154,801	12,154,801
Basic earnings per share (in RMB)	0.40	0.35

Equity information is in Note 36(a). The number of ordinary shares of the Bank increased in second half of 2018 due to the distribution of stock dividends, which had no impact on the amount of owner's equity. Therefore, basic earnings per share of the Bank for the six month period ended 30 June 2018 was recalculated on the basis of adjusted shares.

(b) **Diluted earnings per share**

There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for both six month periods ended 30 June 2019 and ended 30 June 2018.

When calculating basic earnings per share for ordinary shares, the dividend of preference shares issued in the current year shall be deducted from the net profit attributable to the shareholders of the Bank. In 2016, the Bank issued non-cumulative preference shares. The Bank has not yet declared a preferred stock dividend for the six month period ended 30 June 2019.

The preference shares are potentially convertible to ordinary shares available. As of 30 June 2019, the trigger conditions for the conversion had not occurred, and the convertible features of preference shares had no impact on the calculation of basic and diluted earnings per share for the six month period ended 30 June 2019.

Notes to the Condensed Consolidated Interim Financial Statements

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

14 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Cash	1,101,977	1,109,950
Statutory reserves (a)	63,475,507	62,243,898
Surplus reserves (b)	45,640,895	24,754,888
Subtotal	110,218,379	88,108,736
Interest receivable	36,453	35,588
Total	110,254,832	88,144,324

- (a) The Group places statutory deposit reserves with the People's Bank of China ("the PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the Bank were as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Statutory reserve rate for RMB deposits	10.0%	11.0%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

As at 30 June 2019, statutory reserve rates for Jinzhai Huiyin Village and Township Bank Co., Ltd. and Wuwei Huiyin Village and Township Bank Co., Ltd. were 7% and 8% (31 December 2018: 9% and 8%).

- (b) Surplus deposit reserves maintained with the PBOC are mainly for clearing purposes.

Notes to the Condensed Consolidated Interim Financial Statements

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Banks in Mainland China	10,860,400	5,289,329
Other financial institutions in Mainland China	309,371	47,367
Banks in other countries and regions	623,809	2,615,924
Subtotal	11,793,580	7,952,620
Interest receivable	64,318	26,473
Less: allowances for impairment losses	(344,795)	(14,629)
Total	11,513,103	7,964,464

Deposits with banks and other financial institutions' allowances for impairment losses were RMB344.80 million (31 December 2018: RMB14.63 million).

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Banks in Chinese mainland	845,965	1,828,271
Other financial institutions in Chinese mainland	3,000,000	3,100,000
Other financial institutions in other countries and regions	-	100,000
Subtotal	3,845,965	5,028,271
Interest receivable	13,366	16,450
Less: allowances for impairment losses	(6,724)	(22,251)
Total	3,852,607	5,022,470

Placements with banks and other financial institutions were in Stage 1, and allowances for impairment losses were RMB6.72 million (31 December 2018: RMB22.25 million).

Notes to the Condensed Consolidated Interim Financial Statements

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

17 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2019		
	Notional Amount	Unaudited	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	1,144,230	6,820	(3,651)
– Currency swaps	12,306,033	150,505	(61,365)
– Interest rate swaps	21,762,000	44,634	(126,824)
– Precious metal swap	19,375,425	1,699,964	–
Total	54,587,688	1,901,923	(191,840)

	As at 31 December 2018		
	Notional Amount	Audited	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	730,732	3,365	(407)
– Currency swaps	6,349,245	156,699	(67,976)
– Interest rate swaps	14,790,000	48,915	(69,555)
Total	21,869,977	208,979	(137,938)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
By collateral type:		
Debt securities	10,315,819	26,150,179
Bills	–	199,611
Subtotal	10,315,819	26,349,790
Interest receivable	3,192	13,818
Less: allowances for impairment losses	(26,941)	(76,952)
Total	10,292,070	26,286,656

Financial assets held under resale agreements were in Stage 1, and allowances for impairment losses were RMB26.94 million (31 December 2018: RMB76.95 million).

Notes to the Condensed Consolidated Interim Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Loans and advances measured at amortised cost		
– Corporate loans	263,952,393	223,163,204
– Personal loans	164,227,576	145,245,686
Subtotal	428,179,969	368,408,890
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	6,377,034	13,356,764
Subtotal	6,377,034	13,356,764
Total	434,557,003	381,765,654
Interest receivable	919,145	803,160
Total loans and advances	435,476,148	382,568,814
Less: allowance for loans at amortised cost	(13,449,243)	(11,907,433)
Loans and advances to customers, net	422,026,905	370,661,381
Allowance for loans at fair value through other comprehensive income	(50,850)	(119,339)

(b) Loans and advances to customers are assessed as follows (excluding interest receivable):

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime – ECL impaired)	Total
As at 30 June 2019				
Total loans and advances to customers	417,194,286	12,883,198	4,479,519	434,557,003
Allowance for impairment losses				
Loans and advances measured at amortised cost	(4,357,532)	(4,970,299)	(4,121,412)	(13,449,243)
As at 31 December 2018				
Total loans and advances to customers	362,192,170	15,593,960	3,979,524	381,765,654
Allowance for impairment losses				
Loans and advances measured at amortised cost	(3,504,296)	(4,862,848)	(3,540,289)	(11,907,433)

Notes to the Condensed Consolidated Interim Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers

(1) Reconciliation of allowance for impairment losses measured at amortised cost:

	For the six month period ended 30 June 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2019	3,504,296	4,862,848	3,540,289	11,907,433
Impairment losses for the period	251,872	1,275,872	879,485	2,407,229
Stage conversion				
Transfers to Stage 1	626,999	(587,681)	(39,318)	–
Transfers to Stage 2	(10,771)	52,726	(41,955)	–
Transfers to Stage 3	(14,864)	(633,466)	648,330	–
Write-off and transfer out	–	–	(1,082,642)	(1,082,642)
Recovery of loans and advances written off	–	–	234,301	234,301
Unwinding of discount on allowance	–	–	(17,078)	(17,078)
As at 30 June 2019	4,357,532	4,970,299	4,121,412	13,449,243

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2018				9,485,604
Impact of adopting IFRS 9				(463,890)
Opening balance under IFRS 9	2,926,494	3,305,258	2,789,962	9,021,714
Impairment losses for the year	456,320	2,364,789	1,781,556	4,602,665
Stage conversion				
Transfers to Stage 1	227,556	(212,803)	(14,753)	–
Transfers to Stage 2	(77,925)	88,697	(10,772)	–
Transfers to Stage 3	(28,149)	(683,093)	711,242	–
Write-off and transfer out	–	–	(2,172,841)	(2,172,841)
Recovery of loans and advances written off	–	–	504,161	504,161
Unwinding of discount on allowance	–	–	(48,266)	(48,266)
As at 31 December 2018	3,504,296	4,862,848	3,540,289	11,907,433

Notes to the Condensed Consolidated Interim Financial Statements

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

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Reconciliation of allowance for impairment losses on loans and advances to customers (Continued)

(2) Reconciliation of allowance for impairment losses measured at fair value through other comprehensive income:

	For the six month period ended 30 June 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2019	119,339	–	–	119,339
Impairment losses for the period	(68,489)	–	–	(68,489)
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
Unwinding of discount on allowance	–	–	–	–
As at 30 June 2019	50,850	–	–	50,850

For the six month period ended 30 June 2019, the domestic branch adjusted the five-category classification and customer rating of customer loans and advances. The loan principal of stage 1 transferred to stage 2 and stage 3 was RMB2.1 billion, the loan principal from stage 2 to stage 3 was RMB1.4 billion, and the loan principal transferred from stage 2 to stage 1 was RMB2.3 billion. The loan principal transferred from stage 3 to stage 1 and stage 2 is not significant.

	Year ended 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2018	–	–	–	–
Impact of adopting IFRS 9	25,362	–	–	25,362
Opening balance under IFRS 9	25,362	–	–	25,362
Impairment losses for the year	93,977	–	–	93,977
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
Unwinding of discount on allowance	–	–	–	–
As at 31 December 2018	119,339	–	–	119,339

Notes to the Condensed Consolidated Interim Financial Statements

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

20 INVESTMENT SECURITIES

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at fair value through profit or loss		
Listed outside Hong Kong		
– Government bonds	919,291	868,255
– Other debt securities	371,816	499,835
– Interbank certificates of deposits	48,675	159,180
Subtotal	1,339,782	1,527,270
Unlisted		
– Beneficial rights in trust and asset management plans	61,597,587	74,697,756
– Non-guaranteed wealth management products managed by other banks	16,650,051	28,909,989
Subtotal	78,247,638	103,607,745
Interest receivable	1,576,333	1,344,546
Total	81,163,753	106,479,561

As at 30 June 2019 and 31 December 2018, there was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at fair value through other comprehensive income		
Debt securities		
Listed outside Hong Kong		
– Debt securities	89,091,806	85,906,546
– Interbank certificates of deposits	8,650,204	18,415,455
Subtotal	97,742,010	104,322,001
Equity securities		
Unlisted		
– Equity investment	159,571	143,019
Subtotal	159,571	143,019
Interest receivable	1,727,536	1,340,574
Total	99,629,117	105,805,594

Notes to the Condensed Consolidated Interim Financial Statements

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

20 INVESTMENT SECURITIES (Continued)

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at amortised cost		
Listed outside Hong Kong		
– Debt securities	68,178,660	62,084,168
– Interbank certificates of deposits	5,486,795	993,706
Unlisted		
– Beneficial rights in trust and asset management plans	231,064,452	233,068,480
Subtotal	304,729,907	296,146,354
Interest receivable	4,569,583	4,092,442
Less: allowance for impairment losses	(8,435,754)	(7,878,848)
Financial assets at amortised cost, net	300,863,736	292,359,948

Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organized by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. and (c) products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The details of unconsolidated structured entities invested by the Group are set out in Note 43.

Investment securities analyzed by issuer are as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at FVTPL		
By issuers		
– Government	919,291	868,255
– Banks and other financial institutions	78,618,583	104,167,224
– Legal entities	49,546	99,536
Subtotal	79,587,420	105,135,015
Interest receivable	1,576,333	1,344,546
Total	81,163,753	106,479,561

Notes to the Condensed Consolidated Interim Financial Statements

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

20 INVESTMENT SECURITIES (Continued)

Investment securities analyzed by issuer are as follows: (Continued)

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at FVOCI		
Debt instruments		
By issuers		
– Government	54,574,526	52,410,960
– Banks and other financial institutions	27,271,019	37,303,896
– Legal entities	15,896,465	14,607,145
Subtotal	97,742,010	104,322,001
Equity instruments	159,571	143,019
Interest receivable	1,727,536	1,340,574
Total	99,629,117	105,805,594

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Financial assets at AC		
By issuers		
– Government	51,976,764	45,943,320
– Banks and other financial institutions	244,099,554	241,568,969
– Legal entities	8,653,589	8,634,065
Subtotal	304,729,907	296,146,354
Interest receivable	4,569,583	4,092,442
Less: allowance for impairment losses	(8,435,754)	(7,878,848)
Financial assets at AC, net	300,863,736	292,359,948

Notes to the Condensed Consolidated Interim Financial Statements

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

21 INVESTMENTS IN ASSOCIATES

Investments in associates of the Group comprising of ordinary shares of unlisted companies are as follows:

As at 30 June 2019

Associates	Place of establishment	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor						
Finance Service Co., Ltd.	PRC	40,594,637	34,758,362	1,004,042	336,239	20%

As at 31 December 2018

Associates	Place of establishment	Assets	Liabilities	Revenue	Net profit	Percentage of shares
Chery Huiyin Motor						
Finance Service Co., Ltd.	PRC	36,932,770	31,432,734	1,657,913	697,886	20%

	Six months ended 30 June 2019	Year ended 31 December 2018
Balance at beginning of the period/year	1,100,008	971,050
Additions	-	-
Cash dividends received	-	(10,620)
Share of results, net of tax	67,248	139,578
Balance at end of the period/year	1,167,256	1,100,008

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with a registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20% of the total capital. With the approval of CBRC Anhui Branch on 24 December 2012, the authorised registered capital of Chery Huiyin Motor Finance Service Co., Ltd. was increased to RMB1 billion. As at 31 December 2014, the Group's share in this associate was RMB200 million or 20%. On 30 September 2014, this associate has completed its shareholding reform, and renamed as Chery Huiyin Motor Finance Service Corporation Limited. In December 2017, the three shareholders of the associate subscribed for 500 million shares in the associate with capital injection of RMB1.52 billion, in proportion to their respective shareholding ratio. After the capital increase, the registered capital of the associate increased from RMB1 billion to RMB1.5 billion. After the capital increase, the Group's share in this associate was RMB300 million or 20% of the total capital.

Notes to the Condensed Consolidated Interim Financial Statements

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

22 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Construction-in-progress	Total
Cost					
As at 1 January 2019	1,644,522	61,961	1,594,867	876,562	4,177,912
Additions	15,777	33	57,709	86,842	160,361
Transfers in/(out)	4,978	278	–	(9,463)	(4,207)
Disposals	(158)	(2,123)	(57,057)	–	(59,338)
Other transfers out	–	–	–	(13,657)	(13,657)
As at 30 June 2019	1,665,119	60,149	1,595,519	940,284	4,261,071
Accumulated depreciation					
As at 1 January 2019	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Depreciation charge	(55,723)	(1,371)	(91,895)	–	(148,989)
Disposals	157	1,893	55,400	–	57,450
As at 30 June 2019	(914,739)	(54,938)	(1,068,058)	–	(2,037,735)
Net book value	750,380	5,211	527,461	940,284	2,223,336

	Buildings	Motor vehicles	Electronic and other equipments	Construction-in-progress	Total
Cost					
As at 1 January 2018	1,515,308	67,294	1,482,040	610,952	3,675,594
Additions	65,526	–	173,105	366,908	605,539
Transfers in/(out)	72,102	–	1,849	(93,895)	(19,944)
Disposals	(8,414)	(5,333)	(62,127)	–	(75,874)
Other transfers out	–	–	–	(7,403)	(7,403)
As at 31 December 2018	1,644,522	61,961	1,594,867	876,562	4,177,912
Accumulated depreciation					
As at 1 January 2018	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Depreciation charge	(78,309)	(4,626)	(199,727)	–	(282,662)
Disposals	7,862	5,173	55,695	–	68,730
As at 31 December 2018	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Net book value	785,349	6,501	563,304	876,562	2,231,716

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Condensed Consolidated Interim Financial Statements

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

23 RIGHT-OF-USE ASSETS

	Buildings	Motor vehicles	Total
Cost			
As at 1 January 2019	1,009,086	2,965	1,012,051
Additions	59,251	880	60,131
Disposals and transfers out	(8,232)	–	(8,232)
As at 30 June 2019	1,060,105	3,845	1,063,950
Accumulated depreciation			
As at 1 January 2019	–	–	–
Depreciation charge	(123,839)	(834)	(124,673)
Transfers out	1,432	–	1,432
As at 30 June 2019	(122,407)	(834)	(123,241)
Net book value	937,698	3,011	940,709

All lands and buildings of the Group are located outside Hong Kong.

24. FINANCE LEASE RECEIVABLES

The Group's finance lease receivables are analysed by maturity date as follows:

As at 30 June 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	24,784,234	19,020,923	4,877,668	48,682,825
Unrealised revenue	(2,375,547)	(2,586,946)	(689,427)	(5,651,920)
Allowance	(538,802)	(314,215)	(364,821)	(1,217,838)
Interest receivable of finance leases	389,603	–	–	389,603
Net	22,259,488	16,119,762	3,823,420	42,202,670
As at 31 December 2018	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	13,445,640	19,431,976	7,739,122	40,616,738
Unrealised revenue	(1,908,426)	(496,893)	(2,023,171)	(4,428,490)
Allowance	(240,522)	(396,220)	(213,203)	(849,945)
Interest receivable of finance leases	286,173	–	–	286,173
Net	11,582,865	18,538,863	5,502,748	35,624,476

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

24. FINANCE LEASE RECEIVABLES (Continued)

The changes of the allowance for the financing lease receivables are as follows:

	Six month period ended 30 June 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL – impaired)	
As at 1 January 2019	251,977	5,687	592,281	849,945
Impairment losses for the period (Note 26)	234,578	25,841	107,474	367,893
Stage conversion				
Transfers to Stage 1	54,000	–	(54,000)	–
Transfers to Stage 2	–	283,990	(283,990)	–
Transfers to Stage 3	(1,753)	(1,303)	3,056	–
As at 30 June 2019	538,802	314,215	364,821	1,217,838

The Group's finance lease receivables are all managed by its subsidiary, Huishang Bank Financial Leasing Co., Ltd. For the six month period ended 30 June 2019, the principal of the Group's five largest finance lease receivables and the related allowance were RMB1,912,594 thousand and RMB18,515 thousand, respectively, which accounted for 4.44% and 1.52% of the total balance, respectively (31 December 2018: the principal of the Group's five largest finance lease receivables and the related allowance were RMB2,288,638 thousand and RMB45,086 thousand, respectively, which accounted for 5.63% and 4.85% of the total balance, respectively).

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

25 OTHER ASSETS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Interest receivable (a)	34,449	45,020
Other receivables (b)	1,117,572	980,691
Less: impairment allowance (b)	(148,213)	(96,958)
Funds to be settled	1,176,476	839,691
Long-term prepaid expenses	232,776	255,862
Land use rights (c)	144,462	148,840
Foreclosed assets	522,110	441,872
Less: impairment allowance	(199,949)	(177,125)
Intangible assets (d)	169,107	181,089
Others	207,337	249,527
Less: impairment allowance	(1,311)	(1,214)
Total	3,254,816	2,867,295

(a) Interest receivable

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Investment securities and financial assets at fair value through profit or loss	–	18,977
Loans and advances to customers	29,535	24,651
Placements with and loans and advances to banks, other financial institutions and the central bank	–	1,392
Finance leases	4,914	–
Total	34,449	45,020

The interest receivable disclosed by the Group during the period was interest receivable on the relevant financial instruments that are due but not received at the end of reporting period, and interest on financial instruments based on the effective interest rate method is included as part of the carrying value of the financial assets.

Notes to the Condensed Consolidated Interim Financial Statements

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

25 OTHER ASSETS (Continued)

(b) Other receivables

The Group's other receivables are analysed by age as follows:

As at 30 June 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	874,572	128,612	114,388	1,117,572
Allowance for impairment losses	(9,589)	(40,615)	(98,009)	(148,213)
Net	864,983	87,997	16,379	969,359

As at 31 December 2018	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	753,309	179,252	48,130	980,691
Allowance for impairment losses	(8,221)	(44,982)	(43,755)	(96,958)
Net	745,088	134,270	4,375	883,733

The carrying amounts of other receivables in other assets in Stages 1, 2 and 3 were RMB874.57 million, RMB128.61 million, RMB114.39 million (31 December 2018: RMB753.31 million, RMB179.25 million, RMB48.13 million), and the allowances for impairment losses in Stages 1, 2 and 3 were RMB9.59 million, RMB40.62 million and RMB98.01 million (31 December 2018: RMB8.22 million, RMB44.98 million and RMB43.76 million).

(c) Land use rights

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Cost		
Balance at beginning of the period/year	170,863	170,863
Additions	-	-
Disposals	-	-
Balance at end of the period/year	170,863	170,863
Accumulated amortisation		
Balance at beginning of the period/year	(22,023)	(13,273)
Additions	(4,378)	(8,750)
Disposals	-	-
Balance at end of the period/year	(26,401)	(22,023)
Net book value		
At end of the period/year	144,462	148,840

Notes to the Condensed Consolidated Interim Financial Statements

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

25 OTHER ASSETS (Continued)

(d) Intangible assets

Intangible assets of the Group are mainly computer software.

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Cost		
Balance at beginning of the period/year	446,618	380,164
Additions	21,007	51,936
Transfers-ins	4,207	19,944
Disposals	(18,795)	(5,426)
Balance at end of the period/year	453,037	446,618
Accumulated amortisation		
Balance at beginning of the period/year	(265,529)	(216,149)
Additions	(29,454)	(54,806)
Disposals	11,053	5,426
Balance at end of the period/year	(283,930)	(265,529)
Net book value		
At end of the period/year	169,107	181,089

Notes to the Condensed Consolidated Interim Financial Statements

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

26 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES)

	As at 1 January 2019	Additions/ Deductions	Recovery	Utilised	As at 30 June 2019
Deposits with banks and other financial institutions	(14,629)	(675,754)	–	345,588	(344,795)
Placements with banks and other financial institutions	(22,251)	15,527	–	–	(6,724)
Financial assets held under resale agreements	(76,952)	50,011	–	–	(26,941)
Financial assets at amortised cost	(7,878,848)	(2,506,514)	–	1,949,608	(8,435,754)
Finance lease receivables	(849,945)	(367,893)	–	–	(1,217,838)
Foreclosed assets	(177,125)	(22,824)	–	–	(199,949)
Other assets – bad debts	(98,172)	(49,176)	(2,176)	–	(149,524)
Total	(9,117,922)	(3,556,623)	(2,176)	2,295,196	(10,381,525)

	As at 1 January 2018 (After standard conversion)	Additions/ Deductions	Recovery	Utilised	As at 31 December 2018
Deposits with banks and other financial institutions	(7,554)	(7,075)	–	–	(14,629)
Placements with banks and other financial institutions	(4,932)	(17,319)	–	–	(22,251)
Financial assets held under resale agreements	(105,103)	28,151	–	–	(76,952)
Financial assets at amortised cost	(4,132,558)	(4,556,359)	–	810,069	(7,878,848)
Finance lease receivables	(551,096)	(298,849)	–	–	(849,945)
Foreclosed assets	(150,238)	(26,887)	–	–	(177,125)
Other assets – bad debts	(145,588)	12,870	–	34,546	(98,172)
Total	(5,097,069)	(4,865,468)	–	844,615	(9,117,922)

Notes to the Condensed Consolidated Interim Financial Statements

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

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Banks in Chinese mainland	22,150,554	21,870,183
Other financial institutions in Chinese mainland	91,021,662	94,794,329
Interest payable	996,074	1,031,556
Total	114,168,290	117,696,068

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Banks in Chinese mainland	33,054,778	28,558,474
Interest payable	291,372	220,110
Total	33,346,150	28,778,584

29 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Interbank certificates of deposit issued	32,380,669	86,218,858
Precious metal contracts	21,023,209	555,716
Interest payable	930,246	824,217
Total	54,334,124	87,598,791

As at 30 June 2019, the face value of Interbank certificates of deposit issued at fair value through profit or loss amounted to RMB33.42 billion. For the six month period ended 30 June 2019, the fair value of the above-mentioned financial liabilities was approximately the same as the amount that the Group would be contractually required to pay to the holders.

Notes to the Condensed Consolidated Interim Financial Statements

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

30 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Securities sold under repurchase agreements	30,966,500	23,295,368
Precious metals sold under repurchase agreements	–	4,128,970
Interest payable	8,672	420,346
Total	30,975,172	27,844,684

31 DEPOSITS FROM CUSTOMERS

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Demand deposits		
– Corporate deposits	266,357,617	256,455,273
– Personal deposits	56,798,926	57,781,700
Time deposits (including deposits at call)		
– Corporate deposits	142,963,336	133,975,554
– Personal deposits	111,722,119	90,361,078
Pledged deposits held as collateral	28,456,110	27,073,461
Remittances payable	1,662,471	217,120
Other deposits	76,121	96,738
Interest payable	8,150,162	7,837,387
Total	616,186,862	573,798,311

32 TAXES PAYABLE

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Corporate income tax	1,291,267	2,793,452
Value-added tax	421,176	371,659
Business tax and surcharges	51,245	52,964
Others	13,350	24,788
Total	1,777,038	3,242,863

Notes to the Condensed Consolidated Interim Financial Statements

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

33 OTHER LIABILITIES

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Dividends payable (a)	794,596	126,527
Unearned rent and deposits under lease arrangements (b)	3,168,391	2,528,094
Funds to be settled	404,002	442,261
Asset securitization	85,510	451,835
Salary and welfare payable (c)	2,077,705	1,809,482
Entrusted services	39,541	219,654
Long term suspension of customer deposits	126	133
Provision	713,926	603,193
– Allowance for litigation losses (Note 40)	230,372	230,372
– Provision for impairment of credit commitments (d)	463,464	360,559
Project funds payable	37,548	36,352
Lease liabilities	883,167	–
Others	3,247,785	2,749,636
Total	11,452,297	8,967,167

(a) Dividends payable

As at 30 June 2019, the general meetings of shareholders were held and it decided to distribute cash dividends to all shareholders. Details are listed in note 39.

(b) Unearned rent and deposits under lease arrangements

As at 30 June 2019, the Group's unearned rent and deposits under lease arrangements are all relating to its subsidiary, Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income on finance leases.

Notes to the Condensed Consolidated Interim Financial Statements

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

33 OTHER LIABILITIES (Continued)

(c) Salary and welfare payable

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Short-term employee benefits	2,018,698	1,754,461
Termination benefits	12,451	10,637
Defined contribution plans	46,556	44,384
Total	2,077,705	1,809,482

Short-term employee benefits

	As at 1 January 2019	Increase in current period	Decrease in current period	As at 30 June 2019
Wages, bonuses, allowances and subsidies	1,398,132	1,454,787	(1,197,964)	1,654,955
Employee benefits	–	114,477	(114,477)	–
Social insurance	916	70,059	(70,065)	910
Including:				
Medical insurance	830	66,848	(66,856)	822
Occupational injury insurance	36	542	(540)	38
Maternity insurance	50	2,669	(2,669)	50
Housing fund	2,284	92,406	(92,202)	2,488
Labour union fee and staff education fee	39,361	31,083	(24,927)	45,517
Other short-term employee benefits	313,768	752	308	314,828
Total	1,754,461	1,763,564	(1,499,327)	2,018,698

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Wages, bonuses, allowances and subsidies	1,289,370	2,517,796	(2,409,034)	1,398,132
Employee benefits	213	180,304	(180,517)	–
Social insurance	810	167,060	(166,954)	916
Including:				
Medical insurance	161	159,706	(159,037)	830
Occupational injury insurance	35	2,126	(2,125)	36
Maternity insurance	614	5,228	(5,792)	50
Housing fund	1,223	171,210	(170,149)	2,284
Labour union fee and staff education fee	25,220	85,629	(71,488)	39,361
Other short-term employee benefits	313,813	14	(59)	313,768
Total	1,630,649	3,122,013	(2,998,201)	1,754,461

Notes to the Condensed Consolidated Interim Financial Statements

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

33 OTHER LIABILITIES (Continued)

(c) **Salary and welfare payable** (Continued)

Defined contribution plans

	As at 1 January 2019	Increase in current period	Decrease in current period	As at 30 June 2019
Basic pension insurance	6,150	122,964	(122,843)	6,271
Unemployment Insurance	237	3,394	(3,414)	217
Annuity scheme	4,250	97,730	(96,017)	5,963
Total	10,637	224,088	(222,274)	12,451

	As at 1 January 2018	Increase in current year	Decrease in current year	As at 31 December 2018
Basic pension insurance	7,235	242,384	(243,469)	6,150
Unemployment Insurance	396	5,672	(5,831)	237
Annuity scheme	10,683	193,392	(199,825)	4,250
Total	18,314	441,448	(449,125)	10,637

Termination benefits

	As at 30 June 2019	As at 31 December 2018
Early retirement benefits	46,556	44,384

Notes to the Condensed Consolidated Interim Financial Statements

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

33 OTHER LIABILITIES (Continued)

(d) Provision – Provision for impairment of credit commitments

	Six month period ended 30 June 2019			Total
	Stage 1	Stage 2	Stage 3	
	(12-month ECL)	(Lifetime ECL)	(Lifetime ECL– impaired)	
As at 1 January 2019	292,381	68,060	118	360,559
Impairment losses for the period	161,242	(58,623)	286	102,905
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(283)	283	–	–
Transfers to Stage 3	(4)	–	4	–
As at 30 June 2019	453,336	9,720	408	463,464

	As at 31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
	(12-month ECL)	(Lifetime ECL)	(Lifetime ECL– impaired)	
As at 1 January 2018				–
Impact of adopting IFRS 9				209,908
Opening balance under IFRS 9	205,486	3,531	891	209,908
Impairment losses for the year	18,626	132,055	(30)	150,651
Stage conversion				
Transfers to Stage 1	68,277	(67,534)	(743)	–
Transfers to Stage 2	(8)	8	–	–
Transfers to Stage 3	–	–	–	–
As at 31 December 2018	292,381	68,060	118	360,559

Notes to the Condensed Consolidated Interim Financial Statements

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

34 DEFERRED INCOME TAXES

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

	For the six month period ended 30 June	
	2019 Unaudited	2018 Audited
Balance at beginning of the period/year	5,749,437	4,724,487
The impacts of transition to IFRS 9	–	(56,601)
Charged to the income statement	1,105,642	1,826,968
Credited to other comprehensive income	65,603	(745,417)
Balance at end of the period/year	6,920,682	5,749,437

Items included in deferred tax assets and liabilities are as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Deferred tax assets		
Impairment allowance for assets	6,106,294	5,430,243
Salary and welfare payable	443,778	429,254
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	76,086	–
Impairment of financial assets at fair value through other comprehensive income	127,271	153,315
Impairment of loans and advances to customers at fair value through other comprehensive income	12,712	29,835
Credit commitment impairment	115,866	90,140
Others	502,098	177,638
Total deferred income tax assets	7,384,105	6,310,425

Notes to the Condensed Consolidated Interim Financial Statements

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

34 DEFERRED INCOME TAXES (Continued)

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Deferred income tax liabilities		
Valuation of financial instruments and derivative financial instruments at fair value through profit or loss	–	(31,962)
Fair value changes of financial assets at fair value through other comprehensive income	(323,157)	(345,603)
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	(283)	(273)
Impairment of financial assets at fair value through other comprehensive income	(127,271)	(153,315)
Impairment of loans and advances to customers at fair value through other comprehensive income	(12,712)	(29,835)
Total deferred income tax liabilities	(463,423)	(560,988)
Net	6,920,682	5,749,437

Deferred taxes recorded in the income statements for the year comprise the following temporary differences:

	Six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Impairment allowance for assets	676,051	722,513
Salary and welfare payable	14,524	(185,139)
Fair value changes of financial instruments and derivative financial instruments at fair value through profit or loss	108,048	(374,497)
Fair value changes of financial assets at fair value through other comprehensive income	(26,044)	218
Fair value changes of loans and advances to customer at fair value through other comprehensive income	(17,123)	56,844
Credit commitment impairment	25,726	174,127
Others	324,460	(70,665)
Total	1,105,642	323,401

Notes to the Condensed Consolidated Interim Financial Statements

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

35 DEBT SECURITIES ISSUED

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
11 Subordinated debts with fixed rate (a)	3,994,890	3,994,608
15 Financial bonds 02 (b)	499,908	499,867
15 Tier 2 capital bonds (c)	7,990,667	7,990,012
15 Financial bonds 04 (d)	499,899	499,857
16 Financial bonds 01 (e)	6,999,972	6,999,800
16 Financial bonds 02 (f)	2,999,815	2,999,773
17 Green financial bonds (g)	999,279	999,901
18 Green financial bonds (h)	3,999,973	3,999,966
19 Financial bonds 01 (i)	9,000,000	–
19 Financial bonds 02 (j)	1,000,000	–
Interbank certificates of deposit issued (k)	86,251,136	62,891,889
Interest payable	837,528	568,252
Total	125,073,067	91,443,925

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 on China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 1 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they have been qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.

Notes to the Condensed Consolidated Interim Financial Statements

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

35 DEBT SECURITIES ISSUED (Continued)

- (c) The Group issued RMB8 billion of tier 2 capital bonds on 11 September 2015 on the China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.
- (d) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (e) The Group issued RMB7 billion of financial bonds on 12 August 2016 on the China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (f) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (g) The Group issued RMB1 billion of financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.
- (h) The Group issued RMB4 billion of financial bonds on 29 May 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.5%, paid annually.
- (i) The Group issued RMB9 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.52%, paid annually.
- (j) The Group issued RMB1 billion of financial bonds on 8 March 2019 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.8%, paid annually.
- (k) The Group issued 39 interbank certificates of deposit at discount with a total face value of RMB58.63 billion with maturity ranging from one month to one year. As at 30 June 2019, the face value of the undue interbank certificates of deposit issued was RMB87.60 billion.

For the six month period ended 30 June 2019, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

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36 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

(a) Share capital

The Bank's share capital is comprised of fully paid ordinary shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Number of authorized shares fully paid in issue (in thousands)	12,154,801	12,154,801

(b) Other equity instruments

Preference shares outstanding as at 30 June 2019 and 31 December 2018

Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original currency (USD)	Amount (RMB)	Maturity date	Conversion conditions
30 June 2019 Offshore preference shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: issuance fee							(38,098)		
Carrying amount							5,990,090		

Changes in preference shares outstanding

	1 January 2019		Increase		30 June 2019	
	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
Offshore preference shares	44.4	5,990,090	-	-	44.4	5,990,090

	1 January 2018		Increase		31 December 2018	
	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value	Amount (million shares)	Carrying value
Offshore preference shares	44.4	5,990,090	-	-	44.4	5,990,090

Notes to the Condensed Consolidated Interim Financial Statements

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

36 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(b) Other equity instruments (Continued)

The key terms are as follows:

(1) Dividend

The initial annual dividend rate is 5.50% and is subsequently adjustment of per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that is due and payable. Dividend payment method is non-cumulative.

(2) Redemption

The Bank may, subject to obtaining CBIRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date or on any dividend payment date thereafter. The redemption price for the Offshore Preference Shares shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

(3) Compulsory conversion of preference shares

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of holders of preference shares or the holders of ordinary shares) irrevocably and compulsorily convert all or some of the Offshore Preference Shares into such number of H Shares.

Offshore preference shares issued by the Bank are classified as equity instruments and listed in equity of the condensed consolidated statement of financial position. The capital raised by the aforesaid overseas preference shares is used to supplement other first class capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

	As at	As at
	30 June 2019	31 December 2018
	Unaudited	Audited
1. Total equity attributable to equity holders of the Bank	72,254,745	68,212,525
(1) Equity attributable to ordinary equity holders of the Bank	66,264,655	62,222,435
(2) Equity attributable to other equity holders of the Bank	5,990,090	5,990,090
2. Total equity attributable to non-controlling interests	2,132,732	2,064,934

Notes to the Condensed Consolidated Interim Financial Statements

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

36 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(c) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- (i) share premium arising from the issuance of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations.

Capital surplus can be utilised for the issuance of stock dividends or increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Share premium	6,760,445	6,760,445

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37 SURPLUS RESERVES AND GENERAL AND REGULATORY RESERVES

	Surplus reserves (a)	General reserves (b)
As at 1 January 2018	7,953,301	7,722,527
Appropriation to surplus reserves (a)	1,600,165	–
Appropriation to general reserves (b)	–	1,395,180
As at 31 December 2018	9,553,466	9,117,707
Appropriation to surplus reserves (a)	857,803	–
Appropriation to general reserves (b)	–	1,997,320
As at 30 June 2019	10,411,269	11,115,027

(a) Surplus reserves

Pursuant to the “Company Law of the PRC” and the Group’s Articles of Association, the Group is required to appropriate 10% of its net profit in the statutory consolidated financial statements to the non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The group in the withdrawal of statutory surplus reserve, can be withdrawn arbitrary surplus reserve. Subject to the approval of the shareholders’ meeting, arbitrary surplus reserve can be used to make up the loss of previous years or to increase the share capital.

As at 30 June 2019 and 31 December 2018, the Bank’s statutory surplus reserve balances were RMB5,414.97 million and RMB5,414.97 million. The others were discretionary surplus reserve.

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 “Requirements on Impairment Allowance for Financial Institutions” (the “Requirements”) issued by the Ministry of Finance on 20 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets and shall be raised within five years. The Requirements became effective from 1 July 2012.

38 OTHER COMPREHENSIVE INCOME

	Fair value change of equity instruments at FVOCI		Fair value change of debt instruments at FVOCI		Impairment change of debt instruments at FVOCI		Total
	Amount	Income	Amount	Income	Amount	Income	
	before tax	tax impact	before tax	tax impact	before tax	tax impact	
As at 1 January 2018	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	(649,175)
Changes in amount for the previous year	110,577	(27,644)	2,425,508	(606,377)	445,583	(111,396)	2,236,251
As at 31 December 2018	133,519	(33,380)	1,249,985	(312,496)	732,598	(183,150)	1,587,076
Changes in amount for the period	16,552	(4,138)	(106,295)	26,574	(172,669)	43,167	(196,809)
As at 30 June 2019	150,071	(37,518)	1,143,690	(285,922)	559,929	(139,983)	1,390,267

Notes to the Condensed Consolidated Interim Financial Statements

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

39 DIVIDENDS

(a) Dividends for ordinary shares

	For the six month period ended 30 June	
	2019 Unaudited	2018 Audited
Dividends declared for the period/year	680,668	276,245
Dividends per ordinary share (in RMB)	0.056	0.025
Dividends paid during the period/year	12,599	336,857

The final dividend of RMB0.56 for every 10 shares in respect of the year ended 31 December 2018 has been approved by the shareholders in a general meeting.

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

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Appropriation to general reserve;
- (iv) Payment of preference shares dividends; and
- (v) Allocations to the discretionary reserve with approval from the general meetings of shareholders. These reserves form part of the shareholders' equity.

In accordance with the relevant regulations, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the PRC Generally Accepted Accounting Principles and (ii) the retained profits determined in accordance with IFRS.

Notes to the Condensed Consolidated Interim Financial Statements

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

40 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Bank acceptance	38,704,685	29,745,001
Letters of credit issued	9,054,295	9,079,553
Letters of guarantee issued	18,851,516	18,896,430
Loan commitments	5,741,892	5,571,942
Unused credit card lines	22,232,143	21,143,614
Total	94,584,531	84,436,540
Impairment allowance for credit commitments (Note 33(d))	463,464	360,559

(b) Capital commitments

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Contracted but not provided for	428,472	220,404

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 31 December 2018
Within 1 year	315,039
Between 1 year and 5 years	675,127
Later than 5 years	172,627
	1,162,793

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2019 and 31 December 2018, the nominal values of treasury bonds the Group was obligated to redeem prior to maturity were RMB3.64 billion and RMB3.27 billion respectively.

Notes to the Condensed Consolidated Interim Financial Statements

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

40 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(e) Legal proceedings

During the reporting period, the Group was involved as defendants in certain lawsuits arising from its normal business operations. At 30 June 2019, provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2018: RMB0.23 billion). Based on legal advice, the management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

41 COLLATERAL

(a) Pledged assets

Assets are pledged as collateral under repurchase agreements, borrowing from the central bank, treasury deposits with other banks and the Ministry of Finance.

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Fair value changes of financial assets at fair value through other comprehensive income	41,774,990	29,752,590
Financial assets at amortised cost	17,713,849	22,883,870
Fair value changes of financial assets at fair value through profit or loss	–	2,040,000
Total	59,488,839	54,676,460

The carrying value of financial assets sold under repurchase agreements by the Group as at 30 June 2019 was RMB30.98 billion (as at 31 December 2018: RMB27.85 billion) as set out in Note 30. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

For financial assets sold under repurchase agreements, the related security rights have been transferred to the counterparty. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize amounted to zero as at 30 June 2019 (as at 31 December 2018: zero).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

(b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in the purchase of assets under resale agreements. Certain collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB0.40 billion as at 30 June 2019 (31 December 2018: RMB7.00 billion). The Group has no collateral that is re-pledged and obligated to return as at 30 June 2019 (31 December 2018: none).

Notes to the Condensed Consolidated Interim Financial Statements

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

42 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2019	As at 31 December 2018
Financial guarantees and credit related commitments	29,236,642	30,615,812

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

43 STRUCTURED ENTITIES

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products ("WMP") issued and managed by the Bank. The Group had not provided any guarantee or undertaking with regard to principal or returns for these products. Wealth management products were mainly invested in money market instruments, bonds and loan assets. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Returns would be allocated to investors based on the performance of the assets. The Group receives management fee as the manager of these wealth management products. For the six month period ended 30 June 2019 and the year of 2018, total wealth commission income the Group received were RMB351.22 million and RMB893.27 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they were not consolidated.

As at 30 June 2019, the carrying value of non-guaranteed wealth management products that the Group issued and managed was RMB147.47 billion (31 December 2018: RMB101.39 billion). As at 30 June 2019 the Group's maximum exposure to these unconsolidated structured entities was zero (31 December 2018: none).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk or reduce its interest in WMP vehicles disclosed above.

Notes to the Condensed Consolidated Interim Financial Statements

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

43 STRUCTURED ENTITIES (Continued)

(b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group entered into transactions with unconsolidated structured entities which included wealth management products, the trust fund and asset management plan schemes issued and managed by other independent third parties during the period ended 30 June 2019 and 31 December 2018. The Group classifies these assets into “debt instruments classified as receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions.

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

At 30 June 2019	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	16,650,051	16,650,051
– Trust fund and asset management plan	61,597,587	61,597,587
Financial assets at amortised cost		
– Trust fund and asset management plan	223,089,744	223,089,855
<hr/>		
At 31 December 2018	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	28,909,989	28,909,989
– Trust fund and asset management plan	74,697,756	74,697,756
Financial assets at amortised cost		
– Trust fund and asset management plan	225,399,420	225,399,420

The information of total size of the unconsolidated structured entities listed above is not readily available.

(c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and the beneficial rights in trust and asset management plans over which the Group exercises investment decisions.

The Group did not provide liquidity support to these consolidated structured entities during the period ended 30 June 2019 and the year ended 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Statements

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

44 CASH AND CASH EQUIVALENTS

- (a) For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Cash	1,101,977	1,109,950
Surplus reserve with the central bank	45,640,895	24,754,888
Deposits with banks and other financial institutions	8,083,306	8,204,317
Total	54,826,178	34,069,155

- (b) Changes in liabilities arising from financing activities

	Debt securities issued	Interest payable of debt securities issued	Dividends payable	Lease liabilities
At 1 January 2019	90,875,673	568,252	126,527	958,461
Proceeds from issuance of debt securities	68,630,000	-	-	-
Interest paid on debt issued	-	(448,616)	-	-
Cash paid relating to debt repayments	(36,623,578)	-	-	-
Dividends paid on debt issued	-	-	(12,599)	-
Interest expense	1,353,444	717,892	-	20,443
Dividends declared	-	-	680,668	-
Cash paid relating to lease liabilities	-	-	-	(149,068)
Other changes in lease liabilities	-	-	-	53,331
At 30 June 2019	124,235,539	837,528	794,596	883,167

Notes to the Condensed Consolidated Interim Financial Statements

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

45 CREDIT ASSETS SECURITIZATION TRANSACTIONS

The Group enters into securitization transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group may hold part of its investment in the transfer of such credit assets, thereby retaining some of the risks and rewards for the transferred credit assets, and the Group will analyse and determine whether to terminate the recognition of the assets in accordance with the degree of retention of risk and remuneration.

As at 30 June 2019, loans with an original carrying amount of RMB0.19 billion (31 December 2018: RMB0.22 billion) have been securitized by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2019, the carrying amount of assets that the Group continued to recognise was RMB0.01 billion (31 December 2018: RMB0.01 billion).

46 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below lists the major related legal entities of the Group with a shareholding ratio greater than 5% as at 30 June 2019:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise investment management, merger and acquisition	16.12%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Feifei	4,375,000	Financing and investment management of energy construction	10.89%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Financial Holding Group Co., Ltd.	Major shareholder	Hefei, Anhui	Li Gong	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Yan Chen	18,686,000	Financing guarantee	6.83%

Notes to the Condensed Consolidated Interim Financial Statements

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

46 RELATED PARTY TRANSACTIONS (Continued)

(1) Related parties (Continued)

The table below listed major related legal entities of the Group with a shareholding ratio greater than 5% as at 31 December 2018:

Major related legal entities with the Group	Relationship with the Group	Location of registration	Legal representative	Registered capital	Principal activities	Share percentage (%)
Zhongjing Xinhua asset management Co., Ltd.	Major shareholder	Huangshan, Anhui	GAO YANG	2,875,000	Enterprise investment management, merger and acquisition	16.12%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhang Feifei	4,375,000	Financing and investment management of energy construction	10.89%
China Vanke Co., Ltd.	Major shareholder	Shenzhen, Guangdong	Yu Liang	10,995,210	Real estate development	8.00%
Anhui Guoyuan Financial Holding Group Co., Ltd.	Major shareholder	Hefei, Anhui	Li Gong	3,000,000	Capital operation and asset management	7.19%
Anhui Credit Guaranty Group Co., Ltd.	Major shareholder	Hefei, Anhui	Qian Li	10,766,000	Financing guarantee	6.83%

(2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(a) Transactions with major shareholders and balances

As at balance sheet dates stated below, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers	2,703,500	1,426,000
Financial assets	1,341,008	–
Placements from banks and other financial institutions	586,400	40,482
Deposits from customers	966,377	1,223,105
Bank acceptance	400	1,412
Letters of guarantee issued	1,042	1,042
Letters of credit issued	–	125,000
Total	5,598,727	2,817,041

Notes to the Condensed Consolidated Interim Financial Statements

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

46 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(a) Transactions with major shareholders and balances (Continued)

	As at 30 June 2019	As at 31 December 2018
Loans and advances to customers	3.35%-4.75%	3.63%-4.35%
Placements from banks and other financial institutions	0.3%-3.15%	0.72%-3.5%
Deposits from customers	0.3%-2.1%	0.72%-2.1%

As for the periods stated below, the interest income and expense of loans and deposits and management fee of asset management plans with respect to major shareholders are as follows:

	Six months ended 30 June	
	2019	2018
Interest income	56,920	80,750
Interest expense	3,543	6,981
Management fee of asset management plans	3,214	4,659

(b) Transactions with other related parties and balances

As at the balance sheet date stated below, the balances and interest rate ranges of transactions with other related parties of the Group are as follow:

	As at 30 June 2019	As at 31 December 2018
Placements with and loans to banks and other financial institutions	900,000	400,000
Loans and advances to customers	2,096,882	1,817,082
Financial assets	1,835,090	4,597,530
Placements from banks and other financial institutions	70,119	1,554,714
Deposits from customers	1,640,226	1,240,013
Bank acceptance	69,676	69,292
Letters of guarantee issued	-	21,034
Letters of credit issued	53,598	48,838
Total	6,665,591	9,748,503

Notes to the Condensed Consolidated Interim Financial Statements

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

46 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(b) Transactions with other related parties and balances (Continued)

	As at 30 June 2019	As at 31 December 2018
Placements with and loans to banks and other financial institutions	6.70%	6.70%
Loans and advances to customers	3.63%-5.15%	3.81%-4.55%
Placements from banks and other financial institutions	0.72%-1.08%	0.72%-1.08%
Deposits from customers	0.05%-3.30%	0.3%-5.23%

The interest income and expense of loans and deposits with respect to other related parties are as follows:

	Six months ended 30 June	
	2019	2018
Interest income	51,607	57,649
Interest expense	3,862	1,717

(c) Emoluments for directors, supervisors and senior management

	Six months ended 30 June	
	2019	2018
Emoluments for directors, supervisors and senior management	6,920	5,795

Notes to the Condensed Consolidated Interim Financial Statements

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

47 SEGMENT ANALYSIS

The Group manages the business from both the business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

Conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

Comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in the PRC with its branches open in Anhui Province and the Yangtze River Delta area. When presenting information based on geographic areas, revenue is divided by the location where the branches are located; and assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to the Condensed Consolidated Interim Financial Statements

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

47 SEGMENT ANALYSIS (Continued)

	For the six month period ended 30 June 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	8,479,702	4,071,023	11,165,508	–	23,716,233
Net interest expense to external customers	(3,198,590)	(1,768,711)	(5,923,720)	–	(10,891,021)
Intersegment net interest income/(expense)	1,176,033	95,378	(1,271,411)	–	–
Net interest income	6,457,145	2,397,690	3,970,377	–	12,825,212
Net fee and commission income	860,669	384,091	642,977	–	1,887,737
Net trading gains	–	–	503,550	–	503,550
Net gains from investment securities	–	–	43,633	–	43,633
Dividend income	–	–	1,200	–	1,200
Other operating income	–	–	10,159	38,558	48,717
Operating expenses	(1,396,193)	(1,785,492)	(170,519)	(19,690)	(3,371,894)
– Depreciation and amortization	(170,226)	(172,391)	(16,509)	(397)	(359,523)
Impairment losses on assets	(2,522,848)	(308,679)	(3,062,561)	–	(5,894,088)
Share of profits of associates	–	–	–	67,248	67,248
Profit before income tax	3,398,773	687,610	1,938,816	86,116	6,111,315
Capital expenditure	79,945	100,265	9,602	231	190,043

	As at 30 June 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	327,352,011	198,995,848	563,612,147	1,326,827	1,091,286,833
<i>Including: investments in associates</i>	–	–	–	1,167,256	1,167,256
Deferred tax assets					6,920,682
Total assets					1,098,207,515
Segment liabilities	(405,174,563)	(220,590,387)	(397,260,492)	(794,596)	(1,023,820,038)
Off-balance sheet credit commitments	72,360,838	22,223,693	–	–	94,584,531

Notes to the Condensed Consolidated Interim Financial Statements

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

47 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	14,242,126	6,074,740	17,506,704	1,844,537	39,668,107
Net interest expense to external customers	(5,486,037)	(2,954,020)	(13,020,779)	(240,406)	(21,701,242)
Intersegment net interest income/(expense)	3,105,364	658,750	(3,764,114)	–	–
Net interest income	11,861,453	3,779,470	721,811	1,604,131	17,966,865
Net fee and commission income	947,903	621,842	2,043,375	93,343	3,706,463
Net trading gains	–	–	4,973,467	–	4,973,467
Net gains from investment securities	–	–	105,685	–	105,685
Dividend income	–	–	880	–	880
Other operating income	–	–	(1,788)	199,037	197,249
Operating expenses	(2,748,462)	(2,650,430)	(198,101)	(607,921)	(6,204,914)
– Depreciation and amortization	(192,058)	(190,999)	(9,833)	(42,554)	(435,444)
Impairment losses on assets	(4,522,066)	(595,924)	(4,122,290)	(824,087)	(10,064,367)
Share of profits of associates	–	–	–	139,577	139,577
Profit before income tax	5,538,828	1,154,958	3,523,039	604,080	10,820,905
Capital expenditure	334,282	332,439	17,114	74,065	757,900

	As at 31 December 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	285,269,524	170,945,107	587,046,841	1,495,400	1,044,756,872
<i>Including: investments in associates</i>	–	–	–	1,100,008	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(431,131,521)	(150,355,272)	(398,017,492)	(724,565)	(980,228,850)
Off-balance sheet credit commitments	63,308,476	21,128,064	–	–	84,436,540

Notes to the Condensed Consolidated Interim Financial Statements

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

47 SEGMENT ANALYSIS (Continued)

	For the six month period ended 30 June 2019				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	11,057,518	1,493,207	11,165,508	–	23,716,233
Net interest expense to external customers	(5,077,859)	(685,714)	(5,127,448)	–	(10,891,021)
Intersegment net interest income/(expense)	1,120,145	151,265	(1,271,410)	–	–
Net interest income	7,099,804	958,758	4,766,650	–	12,825,212
Net fee and commission income	880,143	118,855	888,739	–	1,887,737
Net trading gains	234,777	31,704	237,069	–	503,550
Net gains from investment securities	20,344	2,747	20,542	–	43,633
Dividend income	559	76	565	–	1,200
Other operating income	22,715	3,067	22,935	–	48,717
Operating expenses	(1,572,121)	(212,299)	(1,587,474)	–	(3,371,894)
– Depreciation and amortization	(250,076)	(2,874)	(106,573)	–	(359,523)
Impairment losses on assets	(2,748,075)	(371,100)	(2,774,913)	–	(5,894,088)
Share of profits of associates	–	–	67,248	–	67,248
Profit before income tax	3,938,146	531,808	1,641,361	–	6,111,315
Capital expenditure	88,607	11,965	89,471	–	190,043

	As at 30 June 2019				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	650,298,365	43,694,779	400,094,520	(2,800,831)	1,091,286,833
<i>Including: investments in associates</i>	–	–	1,167,256	–	1,167,256
Deferred tax assets					6,920,682
Total assets					1,098,207,515
Segment liabilities	(636,573,774)	(42,916,577)	(345,321,385)	991,698	(1,023,820,038)
Off-balance sheet credit commitments	64,021,583	3,155,013	27,407,935	–	94,584,531

Notes to the Condensed Consolidated Interim Financial Statements

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

47 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	13,883,838	1,586,724	24,197,545	–	39,668,107
Net interest expense to external customers	(7,595,435)	(868,050)	(13,237,757)	–	(21,701,242)
Intersegment net interest income/(expense)	3,500,626	263,488	(3,764,114)	–	–
Net interest income	9,789,029	982,162	7,195,674	–	17,966,865
Net fee and commission income	1,297,262	148,259	2,260,942	–	3,706,463
Net trading gains	1,740,713	198,939	3,033,815	–	4,973,467
Net gains from investment securities	36,990	4,227	64,468	–	105,685
Dividend income	308	35	537	–	880
Other operating income	69,037	7,890	120,322	–	197,249
Operating expenses	(2,171,721)	(248,196)	(3,784,997)	–	(6,204,914)
– Depreciation and amortization	(152,405)	(17,418)	(265,621)	–	(435,444)
Impairment losses on assets	(3,522,528)	(402,575)	(6,139,264)	–	(10,064,367)
Share of profits of associates	–	–	139,577	–	139,577
Profit before income tax	7,239,090	690,741	2,891,074	–	10,820,905
Capital expenditure	265,265	30,317	462,318	–	757,900

	As at 31 December 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	607,003,744	40,745,520	438,832,730	(41,825,122)	1,044,756,872
<i>Including: investments in associates</i>	–	–	1,100,008	–	1,100,008
Deferred tax assets					5,749,437
Total assets					1,050,506,309
Segment liabilities	(572,096,235)	(38,228,925)	(411,728,812)	41,825,122	(980,228,850)
Off-balance sheet credit commitments	50,387,253	8,053,016	25,996,271	–	84,436,540

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT

Overview

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

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

The most important types of risks of the Group are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is the responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

48.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office and reported to management regularly.

48.1.1 Credit risk measurement

(i) Loans and advances and off-balance sheet commitments

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification (the "Guideline" issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined by the Guideline as follows:

Pass: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.1 Credit risk measurement (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: the borrower is unable to repay the loan principal and interest in full, and even if the guarantee is executed, it will certainly cause a great loss.

Loss: after all possible measures or all necessary legal proceedings have been taken, the principal and interest remain uncollectible or can only be recovered in very few parts.

(ii) Debt securities and other bills

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) Deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

(iv) Other financial assets classified as measured at amortized costs

Other financial assets classified as measured at amortized cost include interbank financial products, fund trust schemes and asset management schemes issued by bank financial institutions. The group implements a rating access system for cooperating trust companies, securities companies and fund companies, and conducts regular follow-up risk management.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified in particular of individual counterparties and groups, and of industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authorities to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these taken by the Group include the taking of physical or cash collateral, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts, etc.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.2 Risk limit control and mitigation policies (Continued)

(i) Credit risk mitigation policies (Continued)

The fair value of collateral should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collateral. The principal collateral types and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipts	60%

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

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, the Group carries the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2019	As at 31 December 2018
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	109,152,855	87,034,374
Deposits with banks and other financial institutions	11,513,103	7,964,464
Placements with banks and other financial institutions	3,852,607	5,022,470
Derivative financial assets	1,901,923	208,979
Financial assets held under resale agreements	10,292,070	26,286,656
Loans and advances to customers	422,026,905	370,661,381
Investment securities – financial assets at fair value through profit or loss	81,163,753	106,479,561
Investment securities – financial assets at fair value through other comprehensive income	99,629,117	105,805,594
Investment securities – financial assets at amortised cost	300,863,736	292,359,948
Finance lease receivables	42,202,670	35,624,476
Other financial assets	2,180,284	1,768,444
Total	1,084,779,023	1,039,216,347
Credit risk exposures in relation to off-balance sheet items are as follows:		
Bank acceptance	38,704,685	29,745,001
Letters of credit	9,054,295	9,079,553
Letters of guarantee	18,851,516	18,896,430
Loan commitments	5,741,892	5,571,942
Unused credit card lines	22,232,143	21,143,614
Total	94,584,531	84,436,540

The above table represents the worst-case scenario of credit risk exposure to the Group at 30 June 2019 and 31 December 2018, without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As mentioned above, 38.90% of on-balance-sheet exposure is attributable to loans and advances to customers (31 December 2018: 35.68%).

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Management is confident in its ability to continue to control and sustain the Group's minimal exposure to credit risk from its loans and advances portfolio based on the following:

- 97.63% of the loans and advances are categorized as Pass in the five-category system (31 December 2018: 97.43%);
- Collateralized loans and mortgage loans, which represent the largest group in the corporate and retail portfolio respectively, are secured by collateral; and
- 98.46% of the loans and advances are considered to be neither past due nor impaired (31 December 2018: 98.48%).

48.1.4 Deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions and financial assets held under resale agreements

The credit risk can be evaluated based on the credibility of the counterparties.

	As at 30 June 2019	As at 31 December 2018
Commercial banks in Chinese mainland	16,299,025	31,901,047
Other financial institutions in Chinese mainland	8,737,529	4,665,438
Commercial banks outside Chinese mainland	621,225	2,707,105
Total	25,657,779	39,273,590

48.1.5 Loans and advances to customers

Loans and advances three-staging exposure

Loans and advances to customers by five-category loan classification and three-staging analysed as follows:

	As at 30 June 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
Pass	417,194,286	7,061,398	-	424,255,684
Special-mention	-	5,821,800	-	5,821,800
Loss	-	-	4,479,519	4,479,519
Total	417,194,286	12,883,198	4,479,519	434,557,003

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follows:

	As at 30 June 2019		As at 31 December 2018	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	54,525,722	12	52,020,203	13
Manufacturing	44,301,312	9	44,886,121	11
Public utilities	90,559,262	20	67,223,479	17
Real estate	18,770,647	4	16,427,847	4
Construction	27,767,184	6	19,306,663	5
Transportation	6,622,795	2	6,434,281	2
Energy and chemistry	12,697,696	3	10,076,064	3
Catering and travelling	1,185,319	1	1,292,070	1
Education and media	1,420,187	1	803,723	1
Financial services	4,285,729	1	3,773,490	1
Others	1,816,540	1	919,263	1
Discounted bills	6,377,034	1	13,356,764	3
Subtotal	270,329,427	61	236,519,968	62
Personal loans and advances				
Mortgages	90,863,715	22	84,977,150	22
Revolving loans for private business	6,738,920	2	6,363,990	2
Others	66,624,941	15	53,904,546	14
Subtotal	164,227,576	39	145,245,686	38
Total loans and advances to customers, before impairment allowance	434,557,003	100	381,765,654	100

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type as follows:

	As at 30 June 2019	As at 31 December 2018
Unsecured	79,136,981	64,924,944
Guaranteed	65,116,389	60,224,033
Collateralized	171,067,639	162,818,536
Pledged	119,235,994	93,798,141
Total loans and advances to customers	434,557,003	381,765,654

(c) Analysis of loans and advances to customers by geographical area

	As at 30 June 2019			As at 31 December 2018		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	390,470,866	89.85%	1.11%	341,429,935	89.43%	1.13%
Pan Yangtze River Delta	44,086,137	10.15%	0.29%	40,335,719	10.57%	0.32%
Total loans and advances to customers	434,557,003	100.00%	1.03%	381,765,654	100%	1.04%

(d) Analysis of loans and advances to customers by overdue and impaired status

	As at 30 June 2019		As at 31 December 2018	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	265,549,039	162,316,776	232,177,556	143,795,478
Overdue but not impaired (f)	1,067,033	1,144,636	1,098,424	714,672
Impaired (g)	3,713,355	766,164	3,243,988	735,536
Total	270,329,427	164,227,576	236,519,968	145,245,686
Less: impairment allowance	(11,028,141)	(2,421,102)	(9,608,716)	(2,298,717)
Total impairment allowance	(11,028,141)	(2,421,102)	(9,608,716)	(2,298,717)
Net	259,301,286	161,806,474	226,911,252	142,946,969

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(e) Loans and advances neither past due nor impaired

As at 30 June 2019

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	254,456,203	4,715,802	259,172,005
– Discounted bills	6,377,034	–	6,377,034
Subtotal	260,833,237	4,715,802	265,549,039
Personal loans and advances	162,279,032	37,744	162,316,776
Total	423,112,269	4,753,546	427,865,815

As at 31 December 2018

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	213,980,307	4,840,485	218,820,792
– Discounted bills	13,356,764	–	13,356,764
Subtotal	227,337,071	4,840,485	232,177,556
Personal loans and advances	143,741,308	54,170	143,795,478
Total	371,078,379	4,894,655	375,973,034

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(f) Loans and advances overdue but not impaired

Analysis of loans and advances overdue but not impaired by number of overdue days:

As at 30 June 2019	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	472,250	212,009	150,094	232,680	1,067,033
Personal loans and advances	841,105	182,844	110,520	10,167	1,144,636
Total	1,313,355	394,853	260,614	242,847	2,211,669

As at 31 December 2018	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	598,039	383,589	64,796	52,000	1,098,424
Personal loans and advances	431,023	206,305	76,454	890	714,672
Total	1,029,062	589,894	141,250	52,890	1,813,096

The Group is of the view that these past due loans can be recovered by the operating income from borrowers, the payment from guarantors or disposal of collateral and are therefore not impaired.

As at 30 June 2019 and 31 December 2018, the fair values of collateral for corporate loans that were past due but not impaired amounted to RMB535,443 thousand and RMB470,910 thousand. The fair values of collateral for retail loans that were past due but not impaired amounted to RMB719,465 thousand and RMB722,863 thousand.

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

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of the related collateral held by the Group as security, is as follows:

	As at 30 June 2019	As at 31 December 2018
Corporate loans	3,713,355	3,243,988
Personal loans and advances	766,164	735,536
Total	4,479,519	3,979,524
Fair value of collateral		
Corporate loans	3,745,381	3,269,315
Personal loans and advances	512,003	562,163
Total	4,257,384	3,831,478

The fair values of collateral are estimated based on the latest external valuations available, considering the liquidity of the current collateral and the market conditions.

(h) Restructured loans and advances

Restructured loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As at 30 June 2019, the carrying value of the restructured loans held by the Group amounted to RMB333 million (31 December 2018: RMB254 million).

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.5 Loans and advances to customers (Continued)

(i) Overdue loans and advances by number of overdue days and by collateral type

As at 30 June 2019					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	510,227	221,323	91,406	176	823,132
Guaranteed	948,249	1,121,913	366,249	49,632	2,486,043
Collateralized	954,995	1,060,732	1,128,875	69,905	3,214,507
Pledged	5,300	24,306	–	–	29,606
Total	2,418,771	2,428,274	1,586,530	119,713	6,553,288

As at 31 December 2018					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	157,515	157,041	83,525	97	398,178
Guaranteed	771,255	930,433	109,934	50,086	1,861,708
Collateralized	1,046,667	1,822,606	268,685	232,189	3,370,147
Pledged	20,000	4,697	–	–	24,697
Total	1,995,437	2,914,777	462,144	282,372	5,654,730

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.6 Financial investments

The table below presents an analysis of financial assets at amortised cost (excluding interest receivable) by independent credit rating agencies:

	As at 30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
AAA	38,729,282	159,959	–	38,889,241
AA- to AA+	2,123,960	–	–	2,123,960
Unrated (a)	252,820,542	8,926,715	1,969,449	263,716,706
Total	293,673,784	9,086,674	1,969,449	304,729,907
Less: allowance for impairment losses	(3,162,869)	(3,683,799)	(1,589,086)	(8,435,754)
Net balance	290,510,915	5,402,875	380,363	296,294,153

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	30,792,285	159,915	–	30,952,200
AA- to AA+	2,242,103	–	–	2,242,103
Unrated (a)	253,210,725	8,115,925	1,625,401	262,952,051
Total	286,245,113	8,275,840	1,625,401	296,146,354
Less: allowance for impairment losses	(2,820,801)	(3,551,717)	(1,506,330)	(7,878,848)
Net balance	283,424,312	4,724,123	119,071	288,267,506

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.6 Financial investments (Continued)

The movements of financial assets at amortised cost are as follows:

	Six month period ended 30 June 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2019	2,820,801	3,551,717	1,506,330	7,878,848
Addition	351,691	122,459	2,032,364	2,506,514
Stage conversion	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(9,623)	9,623	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	(1,949,608)	(1,949,608)
Recovery of loans and advances written off	–	–	–	–
At 30 June 2019	3,162,869	3,683,799	1,589,086	8,435,754

	As at 31 December 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2018				4,281,414
Impact of adopting IFRS 9				(148,856)
Opening balance under IFRS 9	1,435,076	895,882	1,801,600	4,132,558
Addition	1,398,174	2,643,386	514,799	4,556,359
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(12,449)	12,449	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	(810,069)	(810,069)
Recovery of loans and advances written off	–	–	–	–
At 31 December 2018	2,820,801	3,551,717	1,506,330	7,878,848

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.6 Financial investments (Continued)

The table below presents an analysis of debt instruments of financial assets at fair value through other comprehensive income (excluding interest receivable) by independent credit rating agencies:

	As at 30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
AAA	27,648,395	–	–	27,648,395
AA- to AA+	5,597,785	–	–	5,597,785
A- to A+	49,642	39,783	–	89,425
Unrated (b)	63,903,502	442,903	60,000	64,406,405
Total	97,199,324	482,686	60,000	97,742,010
Allowance for impairment losses	(286,939)	(165,392)	(56,748)	(509,079)

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	23,370,352	497,384	–	23,867,736
AA- to AA+	5,000,916	402,283	–	5,403,199
Unrated (b)	74,991,066	–	60,000	75,051,066
Total	103,362,334	899,667	60,000	104,322,001
Allowance for impairment losses	(269,824)	(288,721)	(54,714)	(613,259)

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.6 Financial investments (Continued)

The movements of debt instruments of financial assets at fair value through other comprehensive income are as follows:

	Six month period ended 30 June 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2019	269,824	288,721	54,714	613,259
Addition	(271,606)	165,392	2,034	(104,180)
Stage conversion				
Transfers to Stage 1	288,721	(288,721)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
At 30 June 2019	286,939	165,392	56,748	509,079

	As at 31 December 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2018				304,067
Impact of adopting IFRS 9				(42,414)
Opening balance under IFRS 9	128,514	133,139	–	261,653
Addition	141,538	155,354	54,714	351,606
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(228)	228	–	–
Transfers to Stage 3	–	–	–	–
At 31 December 2018	269,824	288,721	54,714	613,259

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.6 Financial investments (Continued)

The table below presents an analysis of debt instruments of financial assets at fair value through profit or loss (excluding interest receivable) by independent credit rating agencies:

	As at 30 June 2019	As at 31 December 2018
AAA	699,586	246,953
AA- to AA+	49,546	149,515
A- to A+	-	-
Unrated (c)	78,838,288	104,738,548
Total	79,587,420	105,135,016

- (a) The unrated financial assets at amortised cost held by the Group mainly represent investments issued by the Ministry of Finance of the PRC ("MOF"), policy banks and creditworthy issuers in the market, etc., as well as investments of asset management schemes, trusts and principal-guaranteed wealth management products issued by other financial institutions.
- (b) The unrated debt instruments of financial assets at fair value through other comprehensive income held by the Group mainly represent investments issued by the MOF, policy banks, other financial institutions.
- (c) The unrated debt instruments of financial assets at fair value through profit or loss held by the Group mainly represent investments and trading securities issued by the MOF, policy banks and creditworthy issuers in the market, etc., as well as investments of asset management schemes, trusts and wealth management products issued by other financial institutions.

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.7 Foreclosed collateral

	As at 30 June 2019	As at 31 December 2018
Property and land use rights	358,509	278,270
Others	163,601	163,602
Total	522,110	441,872
Allowance for impairment losses (Note 26)	(199,949)	(177,125)
Net balance	322,161	264,747

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified within other assets at the end of reporting period.

48.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 30 June 2019	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	109,152,855	–	–	109,152,855
Deposits with banks and other financial institutions	10,891,877	15,403	605,823	11,513,103
Placements with banks and other financial institutions	3,852,607	–	–	3,852,607
Derivative financial assets	1,901,923	–	–	1,901,923
Financial assets held under resale agreements	10,292,070	–	–	10,292,070
Loans and advances to customers	422,026,905	–	–	422,026,905
Financial investments				
– financial assets at fair value through profit or loss	81,163,753	–	–	81,163,753
Financial investments				
– financial assets at fair value through other comprehensive income	99,629,117	–	–	99,629,117
Financial investments				
– financial assets at amortised cost	300,863,736	–	–	300,863,736
Finance lease receivables	42,202,670	–	–	42,202,670
Other financial assets	2,180,284	–	–	2,180,284
Total	1,084,157,797	15,403	605,823	1,084,779,023

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.1 Credit risk (Continued)

48.1.8 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2018	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	87,034,374	–	–	87,034,374
Deposits with banks and other financial institutions	5,258,603	664,104	2,041,757	7,964,464
Placements with banks and other financial institutions	4,922,470	–	100,000	5,022,470
Derivative financial assets	208,979	–	–	208,979
Financial assets held under resale agreements	26,286,656	–	–	26,286,656
Loans and advances to customers	370,661,381	–	–	370,661,381
Financial investments				
– financial assets at fair value through profit or loss	106,479,561	–	–	106,479,561
Financial investments				
– financial assets at fair value through other comprehensive income	105,805,594	–	–	105,805,594
Financial investments				
– financial assets at amortised cost	287,634,169	4,725,779	–	292,359,948
Finance lease receivables	35,624,476	–	–	35,624,476
Other financial assets	1,768,444	–	–	1,768,444
Total	1,031,684,707	5,389,883	2,141,757	1,039,216,347

48.2 Market risk

48.2.1 Overview

The Group has exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Group's market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.1 Overview (Continued)

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management and is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Within the authorization of the board of directors, the management is fully responsible for implementing the market risk management strategy, policies and decisions that are adopted by the board of directors. The Risk Management Department of the Head Office is the unified management department of market risk, institutionally manages the market risks of the whole bank and supervises the implementation of relevant departments.

48.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

48.2.3 Interest rate risk

The interest rate risk refers to the risk of the adverse fluctuation which has negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to interest rate risk through its lending, deposits and funding activities.

The Group conducts its business in Chinese mainland in accordance with the interest rate system set up by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-bearing loans and deposits in the same direction but not in parallel.

The PBOC established the RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.3 Interest rate risk (Continued)

The table below summarizes the Group's exposure to interest rate risk. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

As at 30 June 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Assets							
Cash and balances with the central bank	109,152,855	-	-	-	-	1,101,977	110,254,832
Deposits with banks and other financial institutions	6,201,156	947,217	4,364,730	-	-	-	11,513,103
Placements with banks and other financial institutions	414,313	515,374	2,922,920	-	-	-	3,852,607
Derivative financial assets	-	-	-	-	-	1,901,923	1,901,923
Financial assets held under resale agreements	10,292,070	-	-	-	-	-	10,292,070
Loans and advances to customers	145,898,236	232,132,277	21,523,363	21,721,794	152,139	599,096	422,026,905
Financial Investments							
- financial assets at fair value through profit or loss	30,992,671	18,720,779	21,433,811	6,966,318	525,019	2,525,155	81,163,753
- financial assets at fair value through other comprehensive income	5,096,761	4,076,696	12,328,591	54,035,279	23,932,219	159,571	99,629,117
- financial assets at amortised cost	12,841,371	9,297,067	25,685,677	161,758,964	91,244,342	36,315	300,863,736
Finance lease receivables	1,890,751	1,238,740	36,910,477	1,713,673	13,529	435,500	42,202,670
Other financial assets	-	-	-	-	-	2,180,284	2,180,284
Total assets	322,780,184	266,928,150	125,169,569	246,196,028	115,867,248	8,939,821	1,085,881,000
Liabilities							
Borrowings from the central bank	(12,843,351)	(7,581,171)	(15,890,676)	-	-	-	(36,315,198)
Deposits from banks and other financial institutions	(24,167,668)	(36,315,479)	(29,677,355)	(24,007,788)	-	-	(114,168,290)
Financial liabilities at fair value through profit or loss	(4,565,895)	(20,831,427)	(28,936,802)	-	-	-	(54,334,124)
Placements from banks and other financial institutions	(3,122,964)	(5,295,723)	(24,927,463)	-	-	-	(33,346,150)
Derivative financial liabilities	-	-	-	-	-	(191,840)	(191,840)
Financial assets sold under repurchase agreements	(30,975,172)	-	-	-	-	-	(30,975,172)
Deposits from customers	(433,018,754)	(22,142,456)	(70,343,852)	(90,172,510)	(509,290)	-	(616,186,862)
Debt securities issued	(1,088,569)	(36,938,529)	(55,108,606)	(19,586,245)	(12,351,118)	-	(125,073,067)
Other financial liabilities	-	-	(5,430)	(409,755)	(467,982)	(529,179)	(1,412,346)
Total liabilities	(509,782,373)	(129,104,785)	(224,890,184)	(134,176,298)	(13,328,390)	(721,019)	(1,012,003,049)
Total interest rate sensitivity gap	(187,002,189)	137,823,365	(99,720,615)	112,019,730	102,538,858	8,218,802	73,877,951

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.3 Interest rate risk (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Assets							
Cash and balances with the central bank	87,034,374	-	-	-	-	1,109,950	88,144,324
Deposits with banks and other financial institutions	7,140,278	110,000	714,186	-	-	-	7,964,464
Placements with banks and other financial institutions	1,410,794	1,597,653	2,014,023	-	-	-	5,022,470
Derivative financial assets	-	-	-	-	-	208,979	208,979
Financial assets held under resale agreements	26,286,656	-	-	-	-	-	26,286,656
Loans and advances to customers	132,356,187	200,178,306	21,390,225	16,283,181	453,482	-	370,661,381
Financial Investments							
- financial assets at fair value through profit or loss	22,441,813	31,370,831	42,602,885	9,307,648	756,384	-	106,479,561
- financial assets at fair value through other comprehensive income	1,808,211	2,374,438	18,352,096	54,142,632	28,985,198	143,019	105,805,594
- financial assets at amortised cost	6,750,653	4,833,614	38,030,177	181,234,150	61,511,354	-	292,359,948
Finance lease receivables	29,514,881	1,422,043	2,750,434	1,909,681	27,437	-	35,624,476
Other financial assets	-	-	-	-	-	1,768,444	1,768,444
Total assets	314,743,847	241,886,885	125,854,026	262,877,292	91,733,855	3,230,392	1,040,326,297

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.3 Interest rate risk (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest- bearing	Total
Liabilities							
Borrowings from the central bank	(16,546,805)	(4,203,236)	(19,970,478)	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(17,831,836)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	-	(117,696,068)
Financial liabilities at fair value through profit or loss	(1,422,039)	(29,605,230)	(56,571,522)	-	-	-	(87,598,791)
Placements from banks and other financial institutions	(718,583)	(8,486,682)	(19,573,319)	-	-	-	(28,778,584)
Derivative financial liabilities	-	-	-	-	-	(137,938)	(137,938)
Financial assets sold under repurchase agreements	(23,992,854)	(543,900)	(3,307,930)	-	-	-	(27,844,684)
Deposits from customers	(362,683,518)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	-	(573,798,311)
Debt securities issued	(7,732,386)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	-	(91,443,925)
Other financial liabilities	-	-	-	-	-	(1,116,081)	(1,116,081)
Total liabilities	(430,928,021)	(107,461,985)	(312,871,446)	(99,700,456)	(16,918,974)	(1,254,019)	(969,134,901)
Total interest rate sensitivity gap	(116,184,174)	134,424,900	(187,017,420)	163,176,836	74,814,881	1,976,373	71,191,396

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the majority of Group's interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the end of reporting period with 100 basis points changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 30 June 2019	As at 31 December 2018
100 bps up along the yield curve	1,558,964	1,737,089
100 bps down along the yield curve	(1,558,964)	(1,737,089)

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.3 Interest rate risk (Continued)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as Other Comprehensive Income, whose fair values changes are recorded as an element of other comprehensive income. The potential impacts are as follows:

	Six months ended 30 June 2019	Year ended 31 December 2018
100 bps up	(2,836,819)	(2,751,254)
100 bps down	3,002,064	2,913,496

During the interest rate sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes; and
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

48.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for controlling the currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and trader's limit of authority.

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.4 Currency risk (Continued)

Tables below summarize the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in tables below are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 30 June 2019					
Assets					
Cash and balances with the central bank	110,038,189	215,906	25	712	110,254,832
Deposits with banks and other financial institutions	9,899,569	1,040,583	38,805	534,146	11,513,103
Placements with banks and other financial institutions	2,998,164	805,939	-	48,504	3,852,607
Derivative financial assets	991,311	908,604	-	2,008	1,901,923
Financial assets held under resale agreements	10,292,070	-	-	-	10,292,070
Loans and advances to customers	420,195,834	1,816,946	14,125	-	422,026,905
Financial investments					
– financial assets at fair value through profit or loss	81,163,753	-	-	-	81,163,753
– financial assets at fair value through other comprehensive income	99,629,117	-	-	-	99,629,117
– financial assets at amortised cost	295,723,981	5,139,755	-	-	300,863,736
Finance lease receivables	42,202,670	-	-	-	42,202,670
Other financial assets	2,110,951	66,970	-	2,363	2,180,284
Total assets	1,075,245,609	9,994,703	52,955	587,733	1,085,881,000
Liabilities					
Borrowings from the central bank	(36,315,198)	-	-	-	(36,315,198)
Deposits from banks and other financial institutions	(113,913,107)	(255,130)	-	(53)	(114,168,290)
Financial liabilities at fair value through profit or loss	(44,274,552)	(10,059,572)	-	-	(54,334,124)
Placements from banks and other financial institutions	(33,246,121)	(100,029)	-	-	(33,346,150)
Derivative financial liabilities	(126,824)	(63,729)	-	(1,287)	(191,840)
Financial assets sold under repurchase agreements	(30,975,172)	-	-	-	(30,975,172)
Deposits from customers	(612,618,659)	(3,001,992)	(4,491)	(561,720)	(616,186,862)
Debt securities issued	(125,073,067)	-	-	-	(125,073,067)
Other financial liabilities	(1,412,149)	(194)	-	(3)	(1,412,346)
Total liabilities	(997,954,849)	(13,480,646)	(4,491)	(563,063)	(1,012,003,049)
Net on-balance sheet financial position	77,290,760	(3,485,943)	48,464	24,670	73,877,951
Financial guarantees and credit commitments	75,663,813	15,802,866	595,137	2,522,715	94,584,531

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2018					
Assets					
Cash and balances with the central bank	87,778,426	353,559	57	12,282	88,144,324
Deposits with banks and other financial institutions	4,891,579	1,343,256	86,787	1,642,842	7,964,464
Placements with banks and other financial institutions	2,650,361	2,336,272	20,384	15,453	5,022,470
Derivative financial assets	48,915	157,862	228	1,974	208,979
Financial assets held under resale agreements	26,286,656	-	-	-	26,286,656
Loans and advances to customers	369,460,563	1,189,344	11,474	-	370,661,381
Financial investments					
– financial assets at fair value through profit or loss	106,479,561	-	-	-	106,479,561
– financial assets at fair value through other comprehensive income	105,805,594	-	-	-	105,805,594
– financial assets at amortised cost	287,366,006	4,993,942	-	-	292,359,948
Finance lease receivables	35,624,476	-	-	-	35,624,476
Other financial assets	1,768,444	-	-	-	1,768,444
Total assets	1,028,160,581	10,374,235	118,930	1,672,551	1,040,326,297
Liabilities					
Borrowings from the central bank	(40,720,519)	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(117,426,175)	(28,585)	-	(241,308)	(117,696,068)
Financial liabilities at fair value through profit or loss	(87,598,791)	-	-	-	(87,598,791)
Placements from banks and other financial institutions	(28,463,173)	(315,411)	-	-	(28,778,584)
Derivative financial liabilities	(69,555)	(51,650)	(67)	(16,666)	(137,938)
Financial assets sold under repurchase agreements	(27,844,684)	-	-	-	(27,844,684)
Deposits from customers	(565,774,117)	(6,366,296)	(16,752)	(1,641,146)	(573,798,311)
Debt securities issued	(91,443,925)	-	-	-	(91,443,925)
Other financial liabilities	(1,115,884)	(194)	(3)	-	(1,116,081)
Total liabilities	(960,456,823)	(6,762,136)	(16,822)	(1,899,120)	(969,134,901)
Net on-balance sheet financial position	67,703,758	3,612,099	102,108	(226,569)	71,191,396
Financial guarantees and credit commitments	63,475,642	14,721,349	389,295	5,850,254	84,436,540

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.2 Market risk (Continued)

48.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact of 1% fluctuation of foreign currency against RMB on net profits resulted from foreign currency translation gain or loss is as follows:

	Estimated change in net profit/(loss)	
	As at 30 June 2019	As at 31 December 2018
1% of appreciation of foreign exchange against RMB	30,503	26,157
1% of depreciation of foreign exchange against RMB	(30,503)	(26,157)

During the sensitivity analysis, the Group adopts the following assumptions when determining the business conditions and financial index, regardless of:

- Analysis is based on static gap on the balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes; and
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

48.3 Liquidity risk

48.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatches are of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between the maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are both key factors when evaluating its exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and other calls on cash-settled derivatives. According to previous experience, a large portion of matured deposits were not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.2 Cash flow of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturity at the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 30 June 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from the central bank	(12,853,791)	(7,614,928)	(16,180,125)	-	-	(36,648,844)
Deposits from banks and other financial institutions	(24,190,997)	(36,510,187)	(30,117,028)	(28,101,557)	-	(118,919,769)
Financial liabilities at fair value through profit or loss	(4,573,859)	(20,926,146)	(29,146,654)	-	-	(54,646,659)
Placements from banks and other financial institutions	(3,236,102)	(5,336,129)	(25,299,412)	-	-	(33,871,643)
Financial assets sold under repurchase agreements	(30,979,080)	-	-	-	-	(30,979,080)
Deposits from customers	(432,981,649)	(22,206,041)	(71,345,338)	(95,479,008)	(509,513)	(622,521,549)
Debt securities issued	(1,090,000)	(37,210,850)	(58,099,050)	(21,540,150)	(13,423,200)	(131,363,250)
Other financial liabilities	(569,378)	(37,746)	(174,329)	(585,067)	(160,670)	(1,527,190)
Total liabilities (contractual maturity)	(510,474,856)	(129,842,027)	(230,361,936)	(145,705,782)	(14,093,383)	(1,030,477,984)
Assets						
Cash and balances with the central bank	110,254,832	-	-	-	-	110,254,832
Deposits with banks and other financial institutions	6,202,873	947,547	4,365,757	-	-	11,516,177
Placements with banks and other financial institutions	432,499	550,017	3,012,997	-	-	3,995,513
Financial assets held under resale agreements	10,293,234	-	-	-	-	10,293,234
Loans and advances to customers	36,992,249	23,943,335	111,014,269	99,343,098	239,658,966	510,951,917
Financial investments						
- financial assets at fair value through profit or loss	33,735,407	19,063,802	22,045,905	7,396,208	614,527	82,855,849
- financial assets at fair value through other comprehensive income	5,047,386	3,715,612	14,937,266	65,290,350	26,541,643	115,532,257
- financial assets at amortised cost	14,498,631	12,120,265	37,076,392	202,679,498	100,663,885	367,038,671
Finance lease receivables	1,884,779	2,591,384	11,569,458	31,264,600	145,116	47,455,337
Other financial assets	2,180,284	-	-	-	-	2,180,284
Financial assets held for managing liquidity risk (contractual maturity)	221,522,174	62,931,962	204,022,044	405,973,754	367,624,137	1,262,074,071
Net liquidity	(288,952,682)	(66,910,065)	(26,339,892)	260,267,972	353,530,754	231,596,087

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings from the central bank	(16,626,142)	(4,337,440)	(20,583,187)	-	-	(41,546,769)
Deposits from banks and other financial institutions	(18,051,814)	(36,580,330)	(46,658,180)	(19,751,080)	(1,631,939)	(122,673,343)
Financial liabilities at fair value through profit or loss	(1,422,593)	(29,798,250)	(57,737,532)	-	-	(88,958,375)
Placements from banks and other financial institutions	(1,218,583)	(8,693,364)	(19,574,304)	-	-	(29,486,251)
Financial assets sold under repurchase agreements	(23,998,325)	(545,173)	(3,331,220)	-	-	(27,874,718)
Deposits from customers	(355,099,401)	(28,842,022)	(116,167,205)	(83,576,624)	(4,450,014)	(588,135,266)
Debt securities issued	(7,748,338)	(10,565,271)	(56,861,085)	(18,098,800)	(14,548,800)	(107,822,294)
Other financial liabilities	(1,116,081)	-	-	-	-	(1,116,081)
Total liabilities (contractual maturity)	(425,281,277)	(119,361,850)	(320,912,713)	(121,426,504)	(20,630,753)	(1,007,613,097)
Assets						
Cash and balances with the central bank	88,144,324	-	-	-	-	88,144,324
Deposits with banks and other financial institutions	7,150,132	110,048	727,193	-	-	7,987,373
Placements with banks and other financial institutions	1,412,273	1,622,373	2,055,495	-	-	5,090,141
Financial assets held under resale agreements	26,296,450	-	-	-	-	26,296,450
Loans and advances to customers	23,817,890	24,808,731	115,052,761	82,938,789	238,575,703	485,193,874
Financial investments						
- financial assets at fair value through profit or loss	27,008,903	37,011,058	46,859,148	19,251,583	8,383,690	138,514,382
- financial assets at fair value through other comprehensive income	8,517,148	2,464,288	19,271,804	61,063,136	29,574,931	120,891,307
- financial assets at amortised cost	10,890,241	7,468,937	48,947,837	210,849,734	68,624,973	346,781,722
Finance lease receivables	150,746	1,150,182	2,393,477	9,890,097	26,861,764	40,446,266
Other financial assets	1,768,444	-	-	-	-	1,768,444
Financial assets held for managing liquidity risk (contractual maturity)	195,156,551	74,635,617	235,307,715	383,993,339	372,021,061	1,261,114,283
Net liquidity	(230,124,726)	(44,726,233)	(85,604,998)	262,566,835	351,390,308	253,501,186

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.3 Cash flow of derivative financial instruments

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts and commodity derivatives. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining periods from 30 June 2019 and 31 December 2018 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 30 June 2019						
Foreign exchange derivatives						
– Outflow	(1,447,064)	(1,634,713)	(10,410,916)	–	–	(13,492,693)
– Inflow	1,456,972	1,633,267	10,496,526	–	–	13,586,765
Total	9,908	(1,446)	85,610	–	–	94,072

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2018						
Foreign exchange derivatives						
– Outflow	(851,660)	(63,633)	(6,211,844)	–	–	(7,127,137)
– Inflow	838,047	63,691	6,330,980	–	–	7,232,718
Total	(13,613)	58	119,136	–	–	105,581

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.3 Cash flow of derivative financial instruments (Continued)

Derivatives settled on a gross basis (Continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 30 June 2019						
Commodity derivatives						
– Outflow	(698,755)	(1,520,068)	(17,154,342)	–	–	(19,373,165)
– Inflow	783,162	1,740,271	18,582,177	–	–	21,105,610
Total	84,407	220,203	1,427,835	–	–	1,732,445

Derivative financial instruments with net delivery

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 30 June 2019						
Interest rate derivatives	(7,863)	(15,078)	(50,730)	(12,270)	–	(85,941)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2018						
Interest rate derivatives	(889)	(1,326)	(16,289)	(5,287)	3,489	(20,302)

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining periods from the balance sheet date to the contractual maturity date.

As at 30 June 2019	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	45,834,723	36,453	-	-	-	-	-	64,383,656	110,254,832
Deposits with banks and other financial institutions	5,780,645	420,511	947,217	4,364,730	-	-	-	-	11,513,103
Placements with banks and other financial institutions	-	414,313	515,374	2,922,920	-	-	-	-	3,852,607
Derivative financial assets	-	107,603	226,649	1,527,479	40,192	-	-	-	1,901,923
Financial assets held under resale agreements	-	10,292,070	-	-	-	-	-	-	10,292,070
Loans and advances to customers	-	34,473,915	21,465,438	102,269,492	69,724,608	192,122,477	1,970,975	-	422,026,905
Financial investments									
- financial assets at fair value through profit or loss	22,851,655	8,141,016	18,720,779	21,433,811	6,966,318	525,019	-	2,525,155	81,163,753
- financial assets at fair value through other comprehensive income	-	4,542,867	2,958,570	12,419,404	55,616,486	23,872,219	60,000	159,571	99,629,117
- financial assets at amortised cost	-	11,627,896	9,238,088	25,744,656	161,758,964	91,244,342	1,249,790	-	300,863,736
Finance lease receivables	-	1,188,203	2,188,068	9,965,213	28,286,529	139,157	435,500	-	42,202,670
Other financial assets	-	2,145,835	-	-	-	-	34,449	-	2,180,284
Total assets	74,467,023	73,390,682	56,260,183	180,647,705	322,393,097	307,903,214	3,750,714	67,068,382	1,085,881,000
Borrowings from the central bank	-	(12,843,351)	(7,581,171)	(15,890,676)	-	-	-	-	(36,315,198)
Deposits from banks and other financial institutions	(13,904,842)	(10,262,826)	(36,315,479)	(29,677,355)	(24,007,788)	-	-	-	(114,168,290)
Financial liabilities at fair value through profit or loss	-	(4,565,895)	(20,831,427)	(28,936,802)	-	-	-	-	(54,334,124)
Placements from banks and other financial institutions	-	(3,122,964)	(5,295,723)	(24,927,463)	-	-	-	-	(33,346,150)
Derivative financial liabilities	-	(21,095)	(22,947)	(97,690)	(50,108)	-	-	-	(191,840)
Financial assets sold under repurchase agreements	-	(30,975,172)	-	-	-	-	-	-	(30,975,172)
Deposits from customers	(409,627,161)	(23,391,593)	(22,142,456)	(70,343,852)	(90,172,510)	(509,290)	-	-	(616,186,862)
Debt securities issued	-	(1,088,569)	(36,938,529)	(55,108,606)	(19,586,245)	(12,351,118)	-	-	(125,073,067)
Other financial liabilities	(529,179)	-	-	(5,430)	(409,755)	(467,982)	-	-	(1,412,346)
Total liabilities	(424,061,182)	(86,271,465)	(129,127,732)	(224,987,874)	(134,226,406)	(13,328,390)	-	-	(1,012,003,049)
Net liquidity gap	(349,594,159)	(12,880,783)	(72,867,549)	(44,340,169)	188,166,691	294,574,824	3,750,714	67,068,382	73,877,951

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.4 Maturity analysis (Continued)

As at 31 December 2018	Repayable on demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	25,284,873	35,588	-	-	-	-	-	62,823,863	88,144,324
Deposits with banks and other financial institutions	5,485,734	1,654,545	109,999	714,186	-	-	-	-	7,964,464
Placements with banks and other financial institutions	-	1,410,794	1,597,653	2,014,023	-	-	-	-	5,022,470
Derivative financial assets	-	3,547	2,056	159,844	43,532	-	-	-	208,979
Financial assets held under resale agreements	-	26,286,656	-	-	-	-	-	-	26,286,656
Loans and advances to customers	-	23,333,088	22,442,827	106,022,905	50,466,747	166,674,294	1,721,520	-	370,661,381
Financial investments									
- financial assets at fair value through profit or loss	-	20,192,253	31,370,831	42,602,885	9,307,648	756,384	2,249,560	-	106,479,561
- financial assets at fair value through other comprehensive income	-	8,297,505	1,600,412	16,355,052	56,913,701	22,495,905	-	143,019	105,805,594
- financial assets at amortised cost	-	8,778,844	4,793,817	37,832,711	179,314,477	61,511,354	128,745	-	292,359,948
Finance lease receivables	-	29,146,735	1,422,043	2,750,434	1,909,681	395,583	-	-	35,624,476
Other financial assets	1,484,880	11,591	16,338	46,005	131,374	77,337	919	-	1,768,444
Total assets	32,255,487	119,151,146	63,355,976	208,498,045	298,087,160	251,910,857	4,100,744	62,966,882	1,040,326,297
Borrowings from the central bank	(16,540,214)	(6,591)	(4,203,236)	(19,970,478)	-	-	-	-	(40,720,519)
Deposits from banks and other financial institutions	(17,032,599)	(798,237)	(35,995,103)	(45,585,017)	(16,984,112)	(1,300,000)	(1,000)	-	(117,696,068)
Financial liabilities at fair value through profit or loss	-	(1,422,039)	(29,605,230)	(56,571,522)	-	-	-	-	(87,598,791)
Placements from banks and other financial institutions	-	(718,583)	(8,486,682)	(19,573,319)	-	-	-	-	(28,778,584)
Derivative financial liabilities	-	(17,806)	(4,434)	(71,697)	(44,001)	-	-	-	(137,938)
Financial assets sold under repurchase agreements	-	(23,992,854)	(543,900)	(3,307,930)	-	-	-	-	(27,844,684)
Deposits from customers	(354,846,131)	(7,837,387)	(20,420,436)	(113,643,023)	(73,416,980)	(3,634,354)	-	-	(573,798,311)
Debt securities issued	-	(7,732,386)	(8,207,398)	(54,220,157)	(9,299,364)	(11,984,620)	-	-	(91,443,925)
Other financial liabilities	-	(1,116,081)	-	-	-	-	-	-	(1,116,081)
Total liabilities	(388,418,944)	(43,641,964)	(107,466,419)	(312,943,143)	(99,744,457)	(16,918,974)	(1,000)	-	(969,134,901)
Net liquidity gap	(356,163,457)	75,509,182	(44,110,443)	(104,445,098)	198,342,703	234,991,883	4,099,744	62,966,882	71,191,396

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.3 Liquidity risk (Continued)

48.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amounts of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds provided for guarantees and letters of credit are commonly lower than other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amounts for credit commitments do not represent the actual funds required.

As at 30 June 2019	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	38,704,685	–	–	38,704,685
Letters of credit	8,822,336	93,152	138,807	9,054,295
Letters of guarantee	9,598,263	8,782,832	470,421	18,851,516
Loan commitments	5,636,892	105,000	–	5,741,892
Unused credit card lines	1,530,910	20,701,233	–	22,232,143
Total	64,293,086	29,682,217	609,228	94,584,531

As at 31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	29,745,001	–	–	29,745,001
Letters of credit	7,672,948	1,406,605	–	9,079,553
Letters of guarantee	13,301,817	5,119,562	475,051	18,896,430
Loan commitments	5,466,942	105,000	–	5,571,942
Unused credit card lines	217,443	20,890,661	35,510	21,143,614
Total	56,404,151	27,521,828	510,561	84,436,540

48.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in the interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.4 Fair value of financial assets and liabilities (Continued)

(a) Fair value hierarchy (Continued)

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable inputs.

(b) Financial instruments not measured at fair value

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair values of all kinds of financial instruments are based on the following methods and assumptions:

- (1) Balances with the central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying values approximate to the fair values.

- (2) Loans and advances to customers at amortised cost

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying values approximate to the fair values.

- (3) Deposits from customers

The fair values of a checking account, a savings account and a short-term money market deposit shall be the amounts currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers approximates to the fair value.

- (4) Finance lease receivables

The balance of finance lease receivables is calculated based on the effective interest rate method. Since the actual interest rate of a financial leasing is timely adjusted to the interest rates that the PBOC stipulates, the carrying value approximates to the fair value.

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(4) Finance lease receivables (Continued)

The table below summarizes the carrying amounts and the fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet date.

	As at 30 June 2019				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	300,863,736	–	301,318,240	–	301,318,240
Financial Liabilities					
Debt securities issued	(125,073,067)	–	(123,637,311)	–	(123,637,311)

	As at 31 December 2018				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	292,359,948	–	292,951,020	–	292,951,020
Financial Liabilities					
Debt securities issued	(91,443,925)	–	(91,727,315)	–	(91,727,315)

(i) Financial assets at amortised cost

Financial assets at amortised cost whose fair values are based on quoted market prices are included in level 1. As for financial assets at amortised cost, when such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics used where applicable, the fair value measurement will be included in level 2 or level 3.

(ii) Debt securities in issued

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt security issued is determined by valuation techniques and all significant inputs required to fair value are observable, they are included in level 2.

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(4) Finance lease receivables (Continued)

(ii) Debt securities in issued (Continued)

The other financial instruments not measured at fair value in the consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets is not significant.

(c) Financial instruments measured at fair value

As at 30 June 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,291,107	–	1,291,107
– Interbank certificates of deposit	–	48,675	–	48,675
– Asset management schemes by securities firms or trust companies	–	51,492,064	–	51,492,064
– Wealth management products	–	26,755,574	–	26,755,574
Derivative financial assets	–	1,901,923	–	1,901,923
Financial assets at fair value through other comprehensive income				
– Debt securities	–	89,091,806	–	89,091,806
– Interbank certificates of deposit	–	8,650,204	–	8,650,204
– Equity securities	–	159,571	–	159,571
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	6,377,034	–	6,377,034
Total assets	–	185,767,958	–	185,767,958
Financial liabilities at fair value through profit or loss	–	(54,334,124)	–	(54,334,124)
Derivative financial liabilities	–	(191,840)	–	(191,840)
Total liabilities	–	(54,525,964)	–	(54,525,964)

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (excluding interest receivable)				
– Debt securities	–	1,368,090	–	1,368,090
– Interbank certificates of deposit	–	159,180	–	159,180
– Asset management schemes by securities firms or trust companies	–	74,697,756	–	74,697,756
– Wealth management products	–	28,909,989	–	28,909,989
Derivative financial assets	–	208,979	–	208,979
Financial assets at fair value through other comprehensive income (excluding interest receivable)				
– Debt securities	–	85,906,546	–	85,906,546
– Interbank certificates of deposit	–	18,415,455	–	18,415,455
– Equity securities	–	143,019	–	143,019
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	13,356,764	–	13,356,764
Total assets	–	223,165,778	–	223,165,778
Financial liabilities at fair value through profit or loss	–	(87,598,791)	–	(87,598,791)
Derivative financial liabilities	–	(137,938)	–	(137,938)
Total liabilities	–	(87,736,729)	–	(87,736,729)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments are stated at fair value with reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair values are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

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48 FINANCIAL RISK MANAGEMENT (Continued)

48.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with the Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management is also aimed to stimulate the expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, limits management for example, to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes the modification of dividend distribution plan, raising new capital and issuance of new bonds.

Started on 1 January 2013, the Group implemented "The Trial Measures for Capital Management of Commercial Banks" which promulgated by the CBRC on 7 June 2012.

The table below summarizes the Capital Adequacy Ratios of the Group as at 30 June 2019:

		As at 30 June 2019	As at 31 December 2018
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.44%	8.37%
Tier-one Capital Adequacy Ratio	(a)	9.21%	9.18%
Capital Adequacy Ratio	(a)	11.59%	11.65%
Common Equity Tier-one Capital	(b)	67,802,977	63,528,664
Common shares		12,154,801	12,154,801
Capital reserve		8,150,711	8,347,521
Surplus reserve and General reserve		21,526,296	18,671,173
Undistributed profits		24,432,846	23,048,940
Eligible portion of minority interests		1,538,323	1,306,229
Deductible Items from Common Equity Tier-one Capital	(c)	(326,402)	(181,089)
Net Common Equity Tier-one Capital		67,476,575	63,347,575
Additional Tier-one Capital	(d)	6,195,199	6,164,254
Net Tier-one Capital		73,671,774	69,511,829
Tier-two capital	(e)	19,050,851	18,683,136
Tier 2 capital instruments issued and related premium		9,200,000	9,600,000
Excess loan loss provisions		9,441,055	8,737,384
Eligible portion of minority interests		409,796	345,752
Net Capital		92,722,625	88,194,965
Risk-weighted Assets	(f)	799,911,280	756,950,968

Notes to the Condensed Consolidated Interim Financial Statements

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

48 FINANCIAL RISK MANAGEMENT (Continued)

48.5 Capital management (Continued)

Pursuant to the “Capital Rules for Commercial Banks (Provisional)”:

- (a) The scope of consolidation related to the calculation of the Group’s Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.
- (b) The Group’s Common Equity Tier-one Capital includes ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation).
- (c) The Group’s Deductible Items from Common Equity Tier-one Capital include other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.
- (d) The Group’s Additional Tier-one Capital includes preference shares and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group’s Tier-two Capital includes Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets Market Risk-weighted Assets and Operational Risk-weighted Assets.

48.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the consolidated financial statements either.

	As at 30 June 2019	As at 31 December 2018
Entrusted loans	74,906,093	88,271,304
Entrusted wealth management products	147,466,710	101,387,710

49 SUBSEQUENT EVENTS

As of the date of this report, the Group has no other significant subsequent events.

Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 30 June 2019	As at 31 December 2018
RMB current assets to RMB current liabilities	43.25%	37.19%
Foreign currency current assets to foreign currency current liabilities	84.06%	92.06%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Others	Total
As at 30 June 2019				
Spot assets	9,994,703	52,955	587,733	10,635,391
Spot liabilities	(13,480,646)	(4,491)	(563,063)	(14,048,200)
Forward purchases	31,892,503	–	202,049	32,094,552
Forward sales	(11,704,135)	–	(192,453)	(11,896,588)
Net long position	16,702,425	48,464	34,266	16,785,155
As at 31 December 2018				
Spot assets	10,374,235	118,930	1,672,551	12,165,716
Spot liabilities	(6,762,136)	(16,822)	(1,899,120)	(8,678,078)
Forward purchases	5,052,082	36,548	438,000	5,526,630
Forward sales	(1,524,257)	(35,729)	(193,262)	(1,753,248)
Net long position	7,139,924	102,927	18,169	7,261,020

Appendix I – Unaudited Supplementary Financial Information

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

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Chinese Mainland, and regards all the claims on third parties outside Chinese Mainland as cross border claims.

International claims include balances with the central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

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

	Banks and other financial institutions	Non-bank private institutions	Total
As at 30 June 2019			
Asia Pacific (excluding Chinese mainland)	27,966	4,719,277	4,747,243
– Hong Kong	15,403	4,719,277	4,734,680
Europe	4,609	–	4,609
North and South America	587,013	–	587,013
Oceania	1,637	–	1,637
Total	621,225	4,719,277	5,340,502
As at 31 December 2018			
Asia Pacific (excluding Chinese mainland)	2,325,297	4,822,580	7,147,877
– Hong Kong	664,104	4,822,580	5,486,684
Europe	2,539	–	2,539
North and South America	376,516	–	376,516
Oceania	1,509	–	1,509
Total	2,705,861	4,822,580	7,528,441

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 30 June 2019	As at 31 December 2018
Total loans and advances to customers which have been overdue:		
Within 3 months	2,418,771	1,995,437
Within 3 to 6 months	1,222,722	1,945,488
Within 6 to 12 months	1,205,552	969,289
Over 12 months	1,706,243	744,516
Total	6,553,288	5,654,730
By percentage:		
Within 3 months	36.90%	35.29%
Within 3 to 6 months	18.66%	34.40%
Within 6 to 12 months	18.40%	17.14%
Over 12 months	26.04%	13.17%
Total	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
As at 30 June 2019			
Overdue loans and advances to customers	6,042,710	510,578	6,553,288
Allowance for impairment losses	(4,282,672)	(290,286)	(4,572,958)
	Anhui Province	Jiangsu Province	Total
As at 31 December 2018			
Overdue loans and advances to customers	5,494,543	160,187	5,654,730
Allowance for impairment losses	(3,758,818)	(150,511)	(3,909,329)

Appendix I – Unaudited Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collateral against overdue loans and advances to customers:

	As at 30 June 2019	As at 31 December 2018
Fair value of collateral		
Corporate loans	4,277,794	3,740,225
Personal loans and advances	1,231,468	1,285,026
Total	5,509,262	5,025,251

4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
As at 30 June 2019			
Identified impaired loans and advances			
for which allowance is:	4,353,273	126,246	4,479,519
Allowance for impairment losses	4,002,353	119,059	4,121,412
As at 31 December 2018			
Identified impaired loans and advances			
for which allowance is:	3,849,680	129,844	3,979,524
Allowance for impairment losses	(3,416,506)	(123,783)	(3,540,289)



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