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Huishang Bank Corporation Limited*

徽商銀行股份有限公司*

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

(Stock Code : 3698 and 4608 (Preference shares))

2020 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Huishang Bank Corporation Limited (the “**Bank**”) is pleased to announce the unaudited interim results of the Bank and its subsidiaries for the six months ended June 30, 2020. This announcement, containing the full text of the 2020 Interim Report of the Bank, complies with the relevant content requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of interim results. The printed version of the Bank’s 2020 Interim Report will be delivered to the holders of H Shares of the Bank and available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Bank at www.hsbank.com.cn in September 2020.

By order of the Board
Huishang Bank Corporation Limited*
Wu Xuemin
Chairman

Hefei, Anhui Province, the PRC
August 27, 2020

As at the date of this announcement, the Board comprises Wu Xuemin and Zhang Renfu as executive directors; Zhu Yicun, Yan Chen, Wu Tian, Qian Dongsheng, Gao Yang, Wang Wenjin and Zhao Zongren as non-executive directors; Dai Peikun, Zhou Yana, Liu Zhiqiang, Yin Jianfeng and Huang Aiming as independent non-executive directors.

* *Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Hong Kong 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.*

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2020 INTERIM REPORT



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
“China” or “PRC”	the People’s Republic of China
“CBIRC”	the China Banking and Insurance Regulatory Commission
“CBRC”	the former China Banking 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
“PBOC”	the People’s Bank of China
“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
“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
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“H Share Listing”	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange on 12 November 2013
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Corporate Governance Code”	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Latest Practicable Date”	the latest practicable date for the purpose of ascertaining certain information contained in this report, i.e. 27 August 2020
“Non-green Industries”	heavily-polluting, highly energy-consuming and over-capacity industries
“Reporting Period”	the first half of 2020 (1 January 2020 to 30 June 2020)
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers

Definitions

“Yuan” or “RMB”	Renminbi, the lawful currency of China. Unless otherwise specified herein, the currency used in this report shall be Renminbi
“US\$” or “U.S. Dollars”	U.S. dollars, the lawful currency of the United States
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“MLF”	Medium-term Lending Facility
“IFRS”	International Financial Reporting Standards
“PMI”	Purchasing Managers’ Index
“GDP”	Gross Domestic Product
“PPP”	Public-Private Partnership
“FVTPL”	Fair Value through Profit and Loss

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Registered Chinese name : 徽商银行股份有限公司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: Clifford Chance
- 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 former 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, H Shares of the Bank were listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 from the former CBRC Anhui Office and the unified social credit code numbered 913400001489746613 from the former Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As at the end of June 2020, the registered capital of the Bank was RMB12,154,801,211. The Bank successfully issued the USD888,000,000 Offshore Preference Shares in November 2016 and such shares were listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal activities in the PRC include the taking of deposits from corporate and retail customers, the granting of loans using the deposits received, and the conducting of capital business including money market business, investment and trading business and transactions on behalf of customers. As at the end of June 2020, the Bank had 9,452¹ on-the-job employees. Apart from its headquarter, the Bank has 21 branches, 485 front offices and 680 self-service areas (points). The Bank also has four subsidiaries, namely Huishang Bank Financial Leasing Co., Ltd., Huishang Bank Wealth Management Co., Ltd., Wuwei Huiyin Rural Bank Co., Ltd. and Jinzhai Huiyin Rural Bank Co., Ltd. and owns equity interest in Chery Huiyin Motor Finance Service Co., Ltd. and Mengshang Bank Co., Ltd.

By maintaining its market position as a bank "serving the local economy, serving small and medium enterprises ("SME(s)") and serving the general public", the Bank has continuously experienced a relatively fast growth in its business development, has gradually strengthened its comprehensive strength, has steadily improved its operational management standards, and has achieved a synergic development of scale, quality and efficiency. With the full recognition and widespread praise from all sectors of society, the Bank was named one of the top 200 in the "Top 1000 World Banks" by The Banker, a UK magazine, with the ranking at No. 126, 16 places up from that in the last year.

Note : 1. For details of the on-the-job employees of the Bank, please refer to the section 5.4 headed "EMPLOYEES" in this report.

Chapter II Summary of Accounting Data and Business Data

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

Operational results	January to June 2020	January to June 2019	Changes over the corresponding
			period of last year +/-)%
Operating income ⁽¹⁾	16,399	15,310	7.11
Profit before tax	6,440	6,111	5.38
Net profit attributable to shareholders of the Bank	5,250	4,920	6.71

Unit: RMB yuan, except for percentages

Per ordinary share	January to June 2020	January to June 2019	Changes over the corresponding
			period of last year +/-)%
Basic earnings attributable to shareholders of the Bank	0.43	0.40	7.50
Diluted earnings attributable to shareholders of the Bank	0.43	0.40	7.50
Closing net assets attributable to shareholders of the Bank	6.16	5.45	13.03

Unit: RMB million, except for percentages

Scale indicators	30 June 2020	31 December 2019	Changes over the end of
			last year +/-)%
Total assets	1,194,179	1,131,721	5.52
Including: Total loans and advances to customers ⁽²⁾	526,351	463,985	13.44
Total liabilities	1,100,917	1,042,228	5.63
Including: Total customer deposits ⁽³⁾	689,344	593,834	16.08
Equity attributable to shareholders of the Bank	90,901	87,209	4.23

Notes : (1) 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 2020	January to December 2019	January to June 2019	Unit: % Changes over the corresponding period of last year +/-(-)
Profitability indicators⁽¹⁾				
Return on average total assets	0.92	0.92	0.93	(0.01)
Return on average net assets	14.14	14.60	15.11	(0.97)
Net interest spread	2.25	2.32	2.37	(0.12)
Net interest margin	2.47	2.51	2.56	(0.09)

	January to June 2020	January to December 2019	January to June 2019	Unit: % Changes over the corresponding period of last year +/-(-)
Proportion of operating income				
– Net interest income	76.38	79.35	83.77	(7.39)
– Net non-interest income	23.62	20.65	16.23	7.39
Cost-to-income ratio (including tax and surcharges) ⁽²⁾	20.91	22.76	22.02	(1.11)

	30 June 2020	31 December 2019	30 June 2019	Unit: % Changes over the corresponding period of last year +/-(-)
Asset quality indicators				
Non-performing loan ratio	1.13	1.04	1.03	0.10
Allowance to non-performing loan ratio	290.45	303.86	301.37	(10.92)
Allowance to loans ratio	3.29	3.15	3.11	0.18

	30 June 2020	31 December 2019	30 June 2019	Unit: % Changes over the corresponding period of last year +/-(-)
Capital adequacy indicators				
Core Tier I capital adequacy ratio	8.75	8.85	8.44	0.31
Capital adequacy ratio	12.98	13.21	11.59	1.39
Equity to total assets ⁽³⁾	7.81	7.91	6.77	1.04

Notes : (1) The ratios are annualized.

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

(3) Equity includes minority interests.

Chapter III Management Discussion and Analysis

3.1 OVERALL BUSINESS REVIEW

During the first half of 2020, confronted by the complex and severe operation environment at home and abroad, the Bank implemented consistently its macro control and monetary credit policies, and put regulatory requirements into practice, adhered to “returning to the fundamental purposes and serving the real economy”, effectively supporting the COVID-19 pandemic control and the resumption of work and production. Meanwhile, the Bank comprehensively implemented the general development framework of “One Body, Two Wings (一體兩翼)” in the constant belief that innovation spurs transformation while management enhances quality and efficiency, realizing steady growth in various business and continuous improvement in operating and management level.

As at the end of June 2020, the total assets of the Bank were RMB1,194,179 million, representing an increase of RMB62,458 million or 5.52% as compared with the end of last year. Total loans and advances were RMB526,351 million, representing an increase of RMB62,366 million or 13.44% as compared with the end of last year. Total liabilities were RMB1,100,917 million, representing an increase of RMB58,689 million or 5.63% as compared with the end of last year. Among them, total customer deposits were RMB689,344 million, representing an increase of RMB95,510 million or 16.08% as compared with the end of last year.

As at the end of June 2020, the operating income of the Bank was approximately RMB16,399 million, representing an increase of RMB1,089 million, or 7.11%, as compared with the same period last year; net profit was RMB5,331 million, representing an increase of RMB320 million, or 6.39%, as compared with the same period last year.

As at the end of June 2020, the Bank’s non-performing loan balance was RMB5,966 million, representing an increase of RMB1,152 million as compared with the end of last year. Non-performing loan ratio was 1.13%, representing an increase of 0.09 percentage point as compared with the end of last year. Non-performing loan provision coverage ratio was 290.45%, representing a decrease of 13.41 percentage points as compared with the end of last year.

3.2 ANALYSIS OF INCOME STATEMENT

3.2.1 Particulars of financial performance

From January to June 2020, the Bank realized profit before tax of RMB6,440 million, representing an increase of RMB329 million or 5.38% as compared with the same period last year. The effective income tax rate was 17.22%, representing a decrease of 0.78 percentage point as compared with the same period of last year.

	January to June 2020	Unit: RMB million January to June 2019
Net interest income	12,526	12,825
Net fee and commission income	2,257	1,888
Other net income	1,616	597
Operating expenses	3,429	3,372
Impairment losses on assets	6,609	5,894
Share of profits in associates	79	67
Profit before tax	6,440	6,111
Income tax expense	1,109	1,100
Net profit	5,331	5,011
Net profit attributable to shareholders of the Bank	5,250	4,920

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.2 Net interest income

From January to June 2020, the Bank's net interest income amounted to RMB12,526 million, and net interest income from financial instruments at fair value through profit or loss amounted to RMB1,502 million, which totalled RMB14,028 million, representing an increase of RMB339 million or 2.48% as compared with the same period of last year, and accounted for 85.54% of net operating income, among which expansion of the scale resulted in an increase of RMB1,055 million in net interest income and changes in interest rates resulted in a decrease of RMB716 million in net interest income.

From January to June 2020, each of the net interest spread and net interest yield of the Bank was 2.25% and 2.47%, representing a decrease of 12 basic points and 9 basic points, compared with the same period of last year respectively.

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

Unit: RMB million, except for percentages

	January to June 2020			January to June 2019		
	Average Balance ⁽¹⁾	Interest Income	Annualized Average Yield (%)	Average Balance ⁽¹⁾	Interest Income	Annualized Average Yield (%)
Interest-earning assets						
Loans and advances to customers	493,079	13,149	5.33	409,187	10,754	5.26
Securities investments	471,451	10,723	4.55	501,210	12,589	5.02
Cash and balances with the central bank	70,546	501	1.42	73,670	533	1.45
Deposits and placements with banks and other financial institutions	54,005	433	1.60	47,714	572	2.40
Financial leasing	48,284	1,488	6.16	38,914	1,264	6.49
Total interest-earning assets and interest income (including interest income from FVTPL assets)	1,137,365	26,294	4.62	1,070,695	25,712	4.80

Note: (1) Average balance represents the daily average balance.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.2 Net interest income (Continued)

Unit: RMB million, except for percentages

	January to June 2020			January to June 2019		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from the central bank	43,172	631	2.92	29,354	442	3.01
Customer deposits	622,559	6,039	1.94	568,056	4,967	1.75
Deposits and placements from banks and other financial institutions ⁽¹⁾	187,203	2,686	2.87	212,220	3,410	3.21
Debt securities issued	181,337	2,910	3.21	179,708	3,204	3.57
Total interest-bearing liabilities and interest expenses (including interest expenses from FVTPL liabilities)	1,034,271	12,266	2.37	989,338	12,023	2.43
Net interest income and net interest income from FVTPL financial instruments	/	14,028	/	/	13,689	/
Net interest spread	/	/	2.25	/	/	2.37
Net interest margin	/	/	2.47	/	/	2.56

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

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.2 Net interest income (Continued)

The following table sets forth the changes in interest income and expenses of the Bank caused by the changes in scale and interest rates for the period indicated.

Unit: RMB million

	January to June 2020		Net increase/ (decrease)
	vs. January to June 2019		
	Increase (decrease) factors		
	Scale ⁽¹⁾	Interest rate	
Assets			
Loans and advances to customers	2,205	190	2,395
Securities investments	(747)	(1,119)	(1,866)
Balances with the central bank	(23)	(9)	(32)
Deposits and placements with banks and other financial institutions	75	(214)	(139)
Financial leasing	304	(80)	224
Changes in interest income	1,601	(1,019)	582
Liabilities			
Borrowings from the central bank	208	(19)	189
Customer deposits	477	595	1,072
Deposits and placements from banks and other financial institutions	(402)	(322)	(724)
Debt securities issued	29	(323)	(294)
Changes in interest expenses	546	(303)	243
Changes in net interest income	1,055	(716)	339

Note: (1) The changes in scale were measured by the changes in average balances; while changes in interest rates were measured by changes in average interest rates. The changes caused by a combination of scale changes and interest rate changes were included in scale changes.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.3 Interest income

From January to June 2020, the Bank's interest income and interest income from financial assets at fair value through profit or loss recognized in net trading income/(loss) totaled RMB26,294 million, representing an increase of RMB582 million or 2.26% as compared with the same period of last year.

Interest income from loans and advances

From January to June 2020, the interest income from loans and advances to customers of the Bank was RMB13,149 million, representing an increase of RMB2,395 million or 22.27% as compared with the same period of last year, among which expansion of the scale resulted in an increase of RMB2,205 million in interest income from loans and advances to customers and changes in interest rates resulted in an increase of RMB190 million in interest income from loans and advances to customers.

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 2020			January to June 2019		
	Average Balance	Interest Income	Annualized Average Yields (%)	Average Balance	Interest Income	Annualized Average Yields (%)
Corporate loans	296,298	7,664	5.17	250,872	6,576	5.24
Retail loans ⁽¹⁾	173,796	5,167	5.95	144,271	3,931	5.45
Discounted bills	22,985	318	2.77	14,043	247	3.51
Loans and advances to customers	493,079	13,149	5.33	409,187	10,754	5.26

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

Interest income from securities investments

From January to June 2020, the Bank's interest income from securities investments was RMB10,723 million, representing a decrease of RMB1,866 million or 14.82% as compared with the same period of last year, among which reduction of the scale resulted in a decrease of RMB747 million in interest income from securities investments and changes in interest rates resulted in a decrease of RMB1,119 million in interest income from securities investments.

Interest income from deposits and placements with banks and other financial institutions

From January to June 2020, the Bank's interest income from deposits and placements with banks and other financial institutions was RMB433 million, representing a decrease of RMB139 million or 24.30% as compared with the same period of last year, among which expansion of the scale resulted in an increase of RMB75 million in interest income from deposits and placements with banks and other financial institutions while changes in interest rates resulted in a decrease of RMB214 million in interest income from deposits and placements with banks and other financial institutions.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.4 Interest expenses

From January to June 2020, 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 RMB12,266 million, representing an increase of RMB243 million or 2.02% as compared with the same period of last year, among which expansion of the scale resulted in an increase of RMB546 million in interest expenses while changes in interest rates resulted in a decrease of RMB303 million in interest expenses.

Interest expense on customer deposits

From January to June 2020, the Bank's interest expense on customer deposits was RMB6,039 million, representing an increase of RMB1,072 million or 21.58% as compared with the same period of last year, among which expansion of the scale resulted in an increase of RMB477 million in interest expense on customer deposits and changes in interest rates resulted in an increase of RMB595 million in interest expense on customer deposits.

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 2020			January to June 2019		
	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)	Average Balance	Interest Expense	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	250,144	1,164	0.93	250,202	1,130	0.90
Time deposits	138,240	2,122	3.07	132,611	1,904	2.87
Sub-total	388,384	3,286	1.69	382,812	3,034	1.59
Retail customer deposits						
Demand deposits	64,715	213	0.66	59,865	168	0.56
Time deposits	131,860	2,301	3.49	96,734	1,600	3.31
Sub-total	196,575	2,514	2.56	156,599	1,769	2.26
Others ⁽¹⁾	37,600	239	1.27	28,644	164	1.15
Total customer deposits	622,559	6,039	1.94	568,056	4,967	1.75

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

Interest expense on bonds issued

From January to June 2020, interest expense on bonds issued was RMB2,910 million, representing a decrease of RMB294 million or 9.18% as compared with the same period of last year, among which expansion of the scale resulted in an increase of RMB29 million in interest expense on bonds issued while changes in interest rates resulted in a decrease of RMB323 million in interest expense on bonds issued.

Interest expense on placements from banks and other financial institutions

From January to June 2020, interest expense on placements from banks and other financial institutions was RMB2,686 million, representing a decrease of RMB724 million or 21.23% as compared with the same period of last year, among which reduction of the scale resulted in a decrease of RMB402 million in interest expense on placements from banks and other financial institutions while changes in interest rates resulted in a decrease of RMB322 million in interest expense on placements from banks and other financial institutions.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.5 Net non-interest income

From January to June 2020, the Bank realized net non-interest income of RMB3,873 million, representing an increase of RMB1,388 million or 55.86% as compared with the same period of last year, which was primarily attributable to the increase in other net non-interest income.

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

	January to June 2020	January to June 2019
	<i>Unit: RMB million</i>	
Fee and commission income	2,342	1,992
Settlement fee income	55	40
Guarantee and commitment fee income	166	165
Investment banking fee income	378	439
Custodian service fee income	341	231
Bank card fee income	359	375
Settlement fees	7	8
Agency service fees	655	407
Financial leasing fee income	316	284
Other fee income	65	43
Fee and commission expenses	(85)	(104)
Net fee and commission income	2,257	1,888
Other net non-interest income	1,616	597
Net trading income/(loss)	1,268	504
Net income/(loss) from financial investments	229	44
Dividend income	-	1
other operating income	119	48
Net non-interest income	3,873	2,485

Net fee and commission income

From January to June 2020, net fee and commission income of the Bank was RMB2,257 million, representing an increase of RMB369 million or 19.54% as compared with the same period of last year, which was primarily attributable to increases in agency service fees, custodian service fee income and financial leasing fee income.

Net trading income/(loss)

From January to June 2020, net trading income of the Bank was RMB1,268 million, representing an increase of RMB764 million or 151.59%, which was primarily attributable to the increase in net interest income from financial instruments at fair value through profit or loss.

Net income/(loss) from financial investments

From January to June 2020, net income from financial investments of the Bank was RMB229 million, representing an increase of RMB185 million or 420.45%, which was mainly due to the increase in the spread income from debt securities investments at fair value through other comprehensive income.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (CONTINUED)

3.2.6 Operating expenses

From January to June 2020, operating expenses of the Bank were RMB3,429 million, representing an increase of RMB57 million or 1.69% 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 2020	January to June 2019
Staff costs	(2,178)	(1,990)
Tax and surcharges	(149)	(128)
Depreciation and amortization	(397)	(360)
Lease expenses	(20)	(33)
Other general and administrative expenses	(685)	(861)
Total operating expenses	(3,429)	(3,372)

3.2.7 Asset impairment losses

From January to June 2020, the Bank's allowance to asset impairment losses was RMB6,609 million, representing an increase of RMB715 million or 12.13% as compared with the same period of last year.

	<i>Unit: RMB million</i>	
	January to June 2020	January to June 2019
Loans and advances to customers ⁽¹⁾	(3,788)	(2,339)
Financial investments	(2,229)	(2,402)
Credit commitments	(2)	(103)
Deposits with banks and other financial institutions	(130)	(676)
Placements with banks and other financial institutions	9	16
Financial assets held under resale agreements	(35)	50
Finance lease receivables	(578)	(368)
Other assets	144	(72)
Total	(6,609)	(5,894)

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 2020, the Bank's total assets amounted to RMB1,194,179 million, representing an increase of 5.52% as compared with the end of 2019. 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 2020		31 December 2019	
	Amount	% of the total	Amount	% of the total
Total loans and advances to customers	526,351	44.08	463,985	41.00
Accrued interest of loans and advances	998	0.08	956	0.08
Provision for impairment on loans				
at amortised cost	17,294	1.45	14,521	1.28
Net loans and advances to customers	510,054	42.71	450,420	39.8
Financial Investments	485,769	40.68	477,254	42.17
Cash and balances with central bank	83,170	6.96	91,971	8.13
Deposits with banks and				
other financial institutions	14,905	1.25	14,254	1.26
Placements with banks and				
other financial institutions	5,009	0.42	4,738	0.42
Derivative financial assets	134	0.01	235	0.02
Financial assets held under resale agreements	23,819	1.99	28,651	2.53
Investments in associates	4,921	0.41	1,242	0.11
Fixed assets	2,121	0.18	2,059	0.18
Right-of-use assets	1,028	0.09	1,058	0.09
Deferred tax assets	9,547	0.80	8,162	0.72
Finance lease receivables	50,021	4.19	43,949	3.88
Other assets	3,679	0.31	7,727	0.68
Total assets	1,194,179	100	1,131,721	100

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 2020, the Bank's total loans and advances to customers amounted to RMB526,351 million, representing an increase of 13.44% as compared with the end of last year, and the total loans and advances to customers accounted for 44.08% of the Bank's total assets, up by 3.08 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 2020		31 December 2019	
	Amount	% of the total	Amount	% of the total
Corporate loans	313,992	59.65	263,783	56.86
Discounted bills	17,933	3.41	21,870	4.71
Retail loans	194,426	36.94	178,332	38.43
Total loans and advances to customers	526,351	100	463,985	100

Corporate loans

As of 30 June 2020, the Bank's total corporate loans amounted to RMB313,992 million, representing an increase of 19.03% as compared with the end of last year, and accounted for 59.65% of the total loans and advances to customers of the Bank, representing an increase of 2.79 percentage points from the end of last year. During the first half of 2020, 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 2020, the Bank's total discounted bills amounted to RMB17,933 million, of which the balance of direct discounted bills amounted to RMB10,907 million, representing an increase of 141.57% as compared with the same period of last year, and the balance of transferred discounted bills amounted to RMB7,026 million, representing an increase of 277.34% as compared with the same period 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 market yield, liquidity management and various risks as a whole.

Retail loans

As of 30 June 2020, the Bank's total retail loans amounted to RMB194,426 million, representing an increase of 9.02% as compared with the end of last year, and accounted for 36.94% of total loans and advances to customers, representing a decrease of 1.49 percentage points from the end of last year, of which personal residential mortgage loans amounted to RMB100,177 million, accounting for 51.52% of the total retail loans.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (CONTINUED)

3.3.1 Assets (Continued)

3.3.1.2 Financial 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 by accounting classification:

Unit: RMB million, except for percentages

Items	30 June 2020		31 December 2019	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	102,524	21.11	95,225	19.95
Financial assets at fair value through other comprehensive income	114,921	23.66	103,176	21.62
Financial assets at amortised cost	268,325	55.24	278,853	58.43
Investments	485,769	100	477,254	100

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:

Unit: RMB million

	30 June 2020	31 December 2019
Debt securities	16,460	2,534
Inter-bank certificates of deposits	1,182	50
Beneficial rights in asset management plans, trust plans and others	83,852	70,974
Non-guaranteed wealth management products managed by other banks	–	20,221
Interest receivable	1,030	1,446
Net financial assets at fair value through profit or loss	102,524	95,225

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (CONTINUED)

3.3.1 Assets (Continued)

3.3.1.2 Financial investments (Continued)

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:

	30 June 2020	31 December 2019
		<i>Unit: RMB million</i>
Debt securities	105,736	95,906
Inter-bank certificates of deposits	7,094	5,511
Equity securities	205	181
Interest receivable	1,886	1,578
Net financial assets at fair value through other comprehensive income	114,921	103,176

Financial assets at amortised cost

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

	30 June 2020	31 December 2019
		<i>Unit: RMB million</i>
Debt securities	87,338	75,095
Inter-bank certificates of deposits	198	–
Beneficial rights in asset management plans, trust plans and others	189,928	210,290
Interest receivable	4,360	4,882
Less: provision for impairment	(13,499)	(11,414)
Net financial assets at amortised cost	268,325	278,853

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 investment portfolio as of the dates indicated:

	30 June 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost	268,325	269,197	278,853	279,504

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 thousand 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
Huishang Bank Wealth Management Co., Ltd.	2,000,000	100	2,000,000	2,000,000	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	1,320,706	Promotion, participation in capital increase	Company in which the Bank has shareholdings
Mengshang Bank Co., Ltd.	3,600,000	15	3,000,000	3,600,000	Promotion	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 of the Bank 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 report.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (CONTINUED)

3.3.2 Liabilities

As of 30 June 2020, the total liabilities of the Bank amounted to RMB1,100,917 million, representing an increase of 5.63% as compared with the end of last year, which was mainly due to steady growth of customer deposits.

Unit: RMB million, except for percentages

Liabilities	30 June 2020		31 December 2019	
	Amount	% of the total	Amount	% of the total
Loans from the central bank	47,318	4.30	40,689	3.90
Deposits from banks and other financial institutions	70,354	6.39	111,336	10.68
Placements from banks and other financial institutions	39,577	3.59	36,303	3.48
Derivative financial liabilities	259	0.02	281	0.03
Financial assets sold under repurchase agreements	56,406	5.12	50,365	4.83
Total customer deposits	689,344	62.62	593,834	56.98
Interests payable on customer deposits	10,549	0.96	9,621	0.92
Taxes payable	2,784	0.25	3,223	0.31
Debt securities issued	168,009	15.26	183,243	17.58
Other liabilities	16,317	1.48	13,334	1.28
Total liabilities	1,100,917	100.00	1,042,228	100.00

Customer deposits

The Bank has always been focusing on actively expanding its deposit business. In 2020, 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 2020, the Bank's total customer deposits amounted to RMB689,344 million, representing an increase of 16.08% from the end of 2019, and accounted for 62.62% of the total liabilities of the Bank.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (CONTINUED)

3.3.2 Liabilities (Continued)

Customer deposits (Continued)

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 2020		31 December 2019	
	Balance	% of the total	Balance	% of the total
Corporate deposits				
Demand deposits	272,607	39.55	249,096	41.95
Time deposits	164,665	23.89	135,546	22.83
Subtotal	437,272	63.43	384,642	64.77
Retail customer deposits				
Demand deposits	66,233	9.61	59,252	9.98
Time deposits	148,577	21.55	117,714	19.82
Subtotal	214,810	31.16	176,966	29.80
Other deposits	37,262	5.41	32,226	5.43
Including: pledged deposits	36,486	5.29	32,007	5.39
Total customer deposits	689,344	100.00	593,834	100.00

As of 30 June 2020, retail deposits of the Bank accounted for 31.16% of total customer deposits, representing an increase of 1.36 percentage points from the end of 2019.

The Bank's time deposits from customers to total deposits ratio has remained steady uplift since 2020. As of 30 June 2020, the Bank's time deposits to total customer deposits ratio was 45.44%, representing an increase of 2.79 percentage points from the end of 2019. Among them, retail time deposits accounted for 21.55% of the total customer deposits, representing an increase of 1.73 percentage points from the end of 2019; while corporate time deposits accounted for 23.89% of the total customer deposits, representing an increase of 1.06 percentage points from the end of 2019.

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3.3 BALANCE SHEET ANALYSIS (CONTINUED)

3.3.3 Equity

Items	Unit: RMB million	
	30 June 2020	31 December 2019
Share capital	12,155	12,155
Other equity instruments	15,990	15,990
Capital reserve	6,760	6,760
Surplus reserve	12,319	11,365
General risk reserve	12,295	11,115
Other comprehensive income	2,176	1,825
Retained earnings	29,206	27,998
Total equity attributable to shareholders of the Bank	90,901	87,209
Non-controlling interest	2,361	2,285
Total equity	93,262	89,494

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 2020		31 December 2019	
	Amount	% of the total (%)	Amount	% of the total (%)
Pass	5,133.86	97.54	4,521.74	97.45
Special mention	69.99	1.33	69.96	1.51
Substandard	31.31	0.59	22.30	0.48
Doubtful	16.89	0.32	18.94	0.41
Loss	11.46	0.22	6.91	0.15
Gross loans and advances to customers	5,263.51	100.00	4,639.85	100.00
Total non-performing loans	59.66	1.13	48.15	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 2020, affected by the COVID-19 pandemic and changes in the external business environment, the Bank's asset quality faced severe 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 1.13%, representing an increase of 0.09 percentage point as compared with the end of 2019.

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 2020				31 December 2019			
	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)
Corporate loans	3,139.92	59.65	45.56	1.45	2,637.83	56.86	38.37	1.45
Discounted bills ⁽¹⁾	179.33	3.41	-	-	218.70	4.71	-	-
Retail loans	1,944.26	36.94	14.10	0.73	1,783.32	38.43	9.78	0.55
Total loans and advances to customers	5,263.51	100.00	59.66	1.13	4,639.85	100.00	48.15	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 2020				31 December 2019			
	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	515.70	9.80	13.47	2.61	500.86	10.79	10.67	2.13
Manufacturing	483.47	9.19	22.53	4.66	448.41	9.66	14.65	3.27
Public utilities	1,268.81	24.11	0.31	0.02	964.87	20.8	0.24	0.02
Real estate	264.96	5.03	2.48	0.94	189.43	4.08	2.67	1.41
Construction	298.06	5.66	4.33	1.45	276.5	5.96	4.8	1.74
Transportation	70.17	1.33	0.24	0.34	63.55	1.37	0.25	0.39
Energy and chemical	136.08	2.59	0.22	0.16	102.31	2.21	4.11	4.02
Catering and travelling	11.08	0.21	1.31	11.82	10.51	0.23	0.51	4.85
Education and media	15.20	0.29	0.15	0.99	13.8	0.3	0.15	1.09
Financial	55.70	1.06	-	-	53.16	1.15	-	-
Others ⁽¹⁾	20.69	0.38	0.52	2.51	14.43	0.31	0.32	2.22
Discounted bills	179.33	3.41	-	-	218.7	4.71	-	-
Retail loans	1,944.26	36.94	14.10	0.73	1,783.32	38.43	9.78	0.55
Total loans and advances to customers	5,263.51	100.00	59.66	1.13	4,639.85	100.00	48.15	1.04

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

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (CONTINUED)

3.4.3 Distribution of loans and NPLs by industry (Continued)

In the first half of 2020, the Bank's overall credit strategy was to "improve the assessment of the economic situation, insist on returning to the origin, serve the real economy, adhere to the risk bottom line, take the initiative to respond to the national development strategy, and accurately allocate credit resources to achieve high quality development". The Bank guided credit resources to better serve the real economy, actively allocated credit resources to "small and micro" enterprises and private 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.

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 2020				31 December 2019			
	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)
Anhui province	4,731.11	89.89	53.63	1.13	4,224.57	91.05	45.09	1.07
Jiangsu province	532.40	10.11	6.03	1.13	415.28	8.95	3.06	0.74
Total loans and advances to customers	5,263.51	100.00	59.66	1.13	4,639.85	100.00	48.15	1.04

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (CONTINUED)

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 2020				31 December 2019			
	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total (%)	Amount of NPLs	NPL ratio (%)
Collateralized loans	1,845.18	35.05	24.06	1.30	1,673.89	36.08	24.97	1.49
Pledged loans	1,254.64	23.84	0.79	0.06	1,177.10	25.37	0.44	0.04
Guaranteed loans	973.41	18.49	26.85	2.76	678.68	14.63	18.38	2.71
Unsecured loans	1,010.95	19.21	7.96	0.79	891.48	19.21	4.36	0.49
Discounted bills	179.33	3.41	-	-	218.7	4.71	-	-
Total loans and advances to customers	5,263.51	100.00	59.66	1.13	4,639.85	100.00	48.15	1.04

The Bank laid the focus 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 amount and NPL ratio of the Bank's guaranteed and unsecured loans recorded increases compared with the end of 2019, 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

		30 June 2020	
Top 10 borrowers	Industry that borrower belongs to	Amount of loans	Percentage of net capital (%)
A	Manufacturing	4,912	4.55
B	Mining	3,052	2.83
C	Mining	2,117	1.96
D	Water resources, environment and public utility management	2,035	1.89
E	Financial services	1,965	1.82
F	Mining	1,810	1.68
G	Water resources, environment and public utility management	1,726	1.60
H	Water resources, environment and public utility management	1,600	1.48
I	Mining	1,530	1.42
J	Water resources, environment and public utility management	1,483	1.38
Total		22,230	20.61

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3.4 LOAN QUALITY ANALYSIS (CONTINUED)

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:

	30 June 2020	31 December 2019
Total overdue customer loans and advances listed by duration (in RMB million)		
Less than 3 months	3,350	2,598
3 to 6 months (inclusive)	1,387	987
6 to 12 months	1,513	1,216
Over 12 months	1,652	1,646
Total	7,902	6,447
Percentage (%)		
Less than 3 months	42.39	40.30
3 to 6 months (inclusive)	17.55	15.31
6 to 12 months	19.15	18.86
Over 12 months	20.91	25.53
Total	100.00	100.00

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (CONTINUED)

3.4.8 Restructuring loans

During the Reporting Period, the Bank's restructuring NPLs amounted to RMB154.2874 million, representing an increase of RMB43.476 million as compared with the corresponding period of last year, which included 14 corporate loans amounting to RMB125.5874 million, 4 small corporate loans amounting to RMB18.9 million and 2 retail loans amounting to RMB9.8 million.

3.4.9 Changes in allowances for loan impairment

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 in the Bank's allowances for impairment on loans and advances to customers:

	30 June 2020	<i>Unit: RMB million</i> 31 December 2019
Balance at the beginning of the period	14,630	12,026
Allowances for the period	3,788	4,581
Reversal/unwinding of allowances for impairment caused by the write-down of interest on impaired loans and advances to customers	(36)	(41)
Write-offs and transfer out for the period	(1,392)	(2,519)
Reversal caused by recovery of loans and advances to customers written off	339	583
Balance at the end of the period	17,329	14,630

Chapter III Management Discussion and Analysis

3.5 CAPITAL ADEQUACY RATIO ANALYSIS

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

In the first half of 2020, 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 2020, the Bank’s capital adequacy ratio was 12.98%, Tier 1 capital adequacy ratio was 10.70%, and core Tier 1 capital adequacy ratio was 8.75%.

Unit: RMB million, except for percentages

	30 June 2020	31 December 2019
Core Tier 1 capital	76,647	72,786
Including: Valid portion of paid-up capital	12,155	12,155
Valid portion of capital reserve	8,936	8,586
Surplus reserve and general reserve	24,614	22,480
Retained earnings	29,206	27,998
Valid portion of minority interests	1,736	1,567
Regulatory deductions for core Tier 1 Capital	(3,967)	(1,343)
Core Tier 1 capital, net of deductions	72,680	71,443
Other Tier 1 capital, net of deductions	16,221	16,199
Tier 1 capital, net of deductions	88,901	87,641
Tier 2 capital	18,942	19,067
Including: Valid portion of tier 2 capital instruments and premium	8,800	9,200
Surplus loan loss provisions	9,688	9,449
Valid portion of minority interests	454	418
Total capital, net of deductions	107,843	106,708
Risk-weighted assets	830,681	807,542
Capital adequacy ratio	12.98%	13.21%
Tier 1 capital adequacy ratio	10.70%	10.85%
Core Tier 1 capital adequacy ratio	8.75%	8.85%

Chapter III Management Discussion and Analysis

3.6 SEGMENT PERFORMANCES

Operating segments

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below sets forth the segment performance of the Bank by business line as at the periods indicated:

Unit: RMB million, except for percentages

Items	January to June 2020		January to June 2019	
	Segment profit before tax	Percentage (%)	Segment profit before tax	Percentage (%)
Corporate banking	3,537	54.92	3,399	55.62
Retail banking	1,112	17.27	687	11.24
Treasury	1,679	26.07	1,939	31.73
Others	112	1.74	86	1.41
Total	6,440	100.00	6,111	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 bank acceptance, letters of credit, letters of guarantee, credit commitments, capital commitment, and certificate government bond honor commitments. Financial guarantees and credit commitments, other commitments and contingent liabilities can be found in Note 39 to the financial statements of this interim report.

3.7.2 Overdue outstanding debt

As of 30 June 2020, 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. China firstly achieved economic recovery

China's economy suffered the worst shock since the reform and opening-up as a result of the impacts of the COVID-19 pandemic in the first half of 2020. However, thanks to the prevention and control of the COVID-19 pandemic and driven by the policies on "ensuring stability on the six fronts" and "security in the six areas", China's economy trended full recovery in the second quarter of 2020. Industrial production generally resumed normal and the PMI index has been above 50% for four consecutive months. The decline of investment growth significantly narrowed; infrastructure investment rebounded rapidly; property development investment turned negative growth into positive growth; manufacturing investment remained at the trough; but investment in high-tech industries achieved positive growth. Consumption recovered mildly. Driven by policies on promoting consumption, automobile consumption resumed positive growth; housing-related consumption rebounded remarkably and online consumption achieved rapid increase. The growth in imports and exports outperformed the expectation. Supported by the export of anti-pandemic materials, the decrease in export growth slowed down. The import growth declined due to the weak demand and price decline. The price declined after surging and the unemployment rate jumped as a result of the COVID-19 pandemic. With the resumption of work and production and the implementation of policies on "ensuring stability on the six fronts" and "security in the six areas", China's economy will maintain continuous recovery.

2. Money and credit maintained rapid growth

In the first half of 2020, the central bank lowered the deposit reserve ratio three times to respond to the impacts of the COVID-19 pandemic. It offered RMB1.8 trillion of re-lending and rediscounting facilities, cut the MLF interest rate many times to lower the LPR interest rate and introduced new instruments such as purchase of credit loans and deferred loans from small and micro enterprises to serve the real economy, maintaining reasonable and sufficient market liquidity. The size of broad money (M2) and social financing achieved rapid growth, creating a favorable monetary and credit environment for responding to the impacts of the COVID-19 pandemic. As at the end of June 2020, the size of M2 and stock social financing increased 11.1% and 12.8%, representing an increase of 2.6 and 1.6 percentage points as compared with the corresponding period of last year, respectively. Under the background of the continuous overseas spread of the COVID-19 pandemic and heavy pressures on economic downturn, it is expected that money and credit will maintain rapid growth in the future.

3. Interest margin of banks faced narrowing pressures

To reduce the impacts of the COVID-19 pandemic on real economy, the executive meeting of the State Council of China held in late June 2020 proposed that the financial system should make a reasonable profit of RMB1.5 trillion for various enterprises throughout the whole year and encouraged banks to lower the financing cost of enterprises by lowering the interest rate of loans and cutting fees. In the post-pandemic period, monetary policies will not shift before the turning point of the economy and credit. Monetary policies will focus on providing liquidity, lowering cost and stabilizing the financial system. MLF and LPR are predicted to be lowered correspondingly this year and will drive the lowering of the overall interest rate of loans in the market. As a result of intensified competition in the deposit business, the acceleration of wealth management business and the rigid interest rate, the net interest margin of banks is under further narrowing pressures.

Chapter III Management Discussion and Analysis

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

4. Prospects and measures

Looking forward to the second half of 2020, with the accelerated implementation of policies on “ensuring stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations” and “ensuring security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments”, the expansion of special bonds will drive the rapid growth of investment in infrastructure construction. Coupled with the introduction of various policies to boost consumption, the consumption is likely to continue the recovery trend. The advancing of work and production resumption of the industrial chain will promote the rapid recovery of industrial production. Despite that the export is still under pressure due to the impact of the COVID-19 pandemic, it will not reverse the trend of China’s economy towards sustained recovery and China is expected to be the major economy to maintain positive growth in 2020 around the world.

By maintaining its market positioning as a city commercial bank “serving the local economy, serving small and medium enterprises and serving urban residents”, the Bank will focus on digital transformation as the main line with the institutional business as the body and corporate light-asset business and digital retail business as two wings to develop into a dominant bank serving local economies, a preferred bank for regional customers, a value bank rewarding shareholders and a quality bank being proud by employees as well as a first-class digital city commercial bank with intelligent, considerate, professional and prompt services.

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 2020, 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 outside Anhui Province 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. In the first half of 2020, the Bank continued to maintain its leading position in corporate deposits within Anhui Province. Transformation-based business lines including investment banking and transaction banking 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 2020. 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 with legal operation. 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 2020, 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 2020, the balance of the Bank's corporate loans (including discounted bills) was RMB331,925 million, representing an increase of RMB46,272 million from the end of 2019.

Discounted bills

In the first half of 2020, 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 2020, the Bank's balance of discounted bills amounted to RMB17,933 million, including the balance of direct discounted bills amounting to RMB10,907 million and the balance of transferred discounted bills amounting to RMB7,026 million.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (CONTINUED)

3.9.1 Wholesale banking business (Continued)

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 from 2008 to the end of the Reporting Period.

Transaction banking

In the first half of 2020, in terms of the transaction banking business, the Bank firmly focused on the development ideas with “one center, two balances and driven by three pillars” and strove to make the fundamental customer group bigger and stronger, achieve the balanced development of the local currency business and foreign currency business, traditional businesses and innovative businesses as well as the operation target of simultaneous and rapid growth of settlement assets, settlement liabilities and settlement products.

In terms of settlement assets, following the principle of “lowering financing thresholds, reducing financing costs and serving micro, small and medium enterprises and real economy”, the Bank actively provided various supply chain financing and trade financing products such as factoring, trade financing and asset pool financing based on customers’ demands. In the first half of 2020, the Bank’s supply chain financing amounted to RMB13.390 billion, representing a year-on-year increase of 86.49%; in-balance financing with domestic letters of credit amounted to RMB9.987 billion, representing a year-on-year increase of 13.53%; international trade financing and various foreign exchange loans were equivalent to RMB4.61 billion, representing a year-on-year increase of 49.34%; and the balance of off-balance trade financing was equivalent to approximately RMB33.888 billion.

In terms of settlement liabilities, in the first half of 2020, the Bank introduced “Housing Management Express” (房管通), “Tender Express” (招標通), “Ideal Account” (如意賬戶) and other products to meet capital regulation and wealth management demands for various industries under various transaction scenarios. As at the end of June 2020, the transaction amount of cash management business of the Bank amounted to RMB2,500 billion, representing an increase of 66.7% over the same period of last year; the accumulated daily average of corporate deposits reached RMB58.92 billion, meeting the changing asset management demands of enterprises. Meanwhile, the Bank actively developed bank acceptance, letters of credit, letters of guarantee and other off-balance businesses with lower occupation of economic capitals. In the first half of 2020, the Bank directly derived deposits of RMB37 billion from off-balance businesses, representing a year-on-year increase of 69.72%.

As at the end of June 2020, the Bank’s total domestic and foreign currency receipts and payments amounted to US\$3.277 billion (excluding other provinces outside Anhui Province) and international settlement amounted to US\$3.726 billion, representing a year-on-year increase of 12.03%; the cumulative transaction volume of foreign exchange funds amounted to US\$13.018 billion, representing a year-on-year increase of 274.5%; the cumulative transaction volume of the derivatives business amounted to US\$9.737 billion, including the transaction volume of the foreign exchange swap of US\$9.61 billion, representing a year-on-year increase of 430%; the lending volume of foreign exchange funds was equivalent to US\$11.045 billion. The Bank’s foreign exchange fund counterparties totaled 86, with a full coverage of foreign exchange fund counterparties in Singapore, Hong Kong, Macao and Taiwan.

The Bank actively participated in the national strategy of the “Belt and Road Initiative” and the progress of RMB internationalization, continuously improved the construction of its overseas agency networks and fully diversified the cooperation scope of agency banks. As at the end of June 2020, the Bank had established agency partnership with 671 banks in 76 countries and regions. In respect of cross-border clearing channel construction, the Bank provides clearing services in 8 major currencies, including U.S. dollars, euro and Japanese yen, and has 14 overseas clearing accounts, striving to provide more convenient and faster cross-border financial service experience to domestic enterprises for “going out”.

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. In 2020, 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.

In the first half of 2020, the Bank vigorously promoted the underwriting business of debt financing instruments. The Bank completed the registration of 23 debt financing instruments, with a total registered amount of RMB53.55 billion; and completed the issuance of 22 debt financing instruments with an underwriting amount of RMB10.234 billion.

3.9.2 Retail banking business

Business overview

In the first half of 2020, the Bank strengthened market expansion, innovated in financial products and services, and strengthened team building. It continued to promote the transformation and development of the retail business, vigorously promoted brand marketing activities in the retail market and online customer acquisition and actively carried out the construction of wealth management system and private banking 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 2020, 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. The wealth management business maintained a rapid growth. The penetration of wealth management products (WMPs) continued to grow, and the sales of funds, insurance, precious metals and other commission sale businesses achieved substantial growth. 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 2020, facing changes in the external business environment such as financial technology and stringent regulation, the Bank will broaden the wealth management product line, improve online service capabilities and strengthen data analysis capacity building. By adhering to the "customer-oriented" philosophy and following the demands in the digital transformation work, the Bank will advance the building of the retail product system in various dimensions with the target of "expanding the scale of retail customers" based on the construction of ecosystem of scenarios. 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 the Reporting Period, the Bank's wealth management business (excluding direct banking business) amounted to RMB179.473 billion, representing an increase of RMB14.696 billion or 8.92% from the beginning of the year. The intermediary business income from the personal wealth management business amounted to RMB181.41 million, representing a year-on-year increase of 55.54%.

Bank card business

One card

In the first half of 2020, based on the existing debit card products, the Bank actively adapted to the transformation and upgrading of the retail business, 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; and continuously improving customer stickiness to boost the rapid growth of the debit card business across the Bank. As at the end of June 2020, 19.48 million debit cards were issued in total, of which 14.99 million were valid cards, accounting for 76.95%. The deposit balances on debit cards were RMB123.9 billion, and the average deposit on debit cards was RMB8,300. A total of 73 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. Focusing on "online, virtual and scenario-based businesses", the Bank fully implemented Internet, digitalization and intelligent service. Driven by themed cards and installments for scenario-based consumption, the Bank strengthened the linkage of the head office, branches and sub-branches, 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 1,545,380 valid credit cards in total. The number of credit cards newly issued during the Reporting Period was 113,881. In the first half of 2020, the transaction amount of credit cards was RMB17.77 billion in aggregate. The credit card overdraft amount was RMB12.425 billion. Income from the credit card business amounted to RMB392 million. As at the end of the Reporting Period, credit cards NPL ratio was 2.18%, representing a decrease of 0.49 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 2020, 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 2020, the balance of personal housing loans of the Bank under the headquarters was RMB99.652 billion, representing an increase of RMB9.906 billion or 11.04% from the beginning of the year.

In the first half of 2020, the Bank strengthened the planning of its personal business loans, micro loans and personal consumption loan business with customer demands as the center, thereby steadily scaling up its personal consumption loan business. As at the end of June 2020, the balance of personal loans (excluding housing loans) of the Bank amounted to RMB43.848 billion, representing an increase of RMB3.384 billion or 8.36% from the beginning of the year. Among them, the balance of personal business loans was RMB30.774 billion, representing an increase of RMB1.282 billion from the beginning of the year; the balance of micro loans was RMB3.185 billion, representing an increase of RMB554 million from the beginning of the year; the balance of personal consumption loans was RMB9.890 billion, representing an increase of RMB1.548 billion from the beginning of the year.

Retail deposits

Facing the outbreak of the COVID-19 pandemic in the first half of 2020, the Bank made rapid adjustment and response, innovated online marketing and closely focused on customers' contextual needs for services such as value adding and preservation of funds, payment settlement and work and production resumption, continuously innovated in products, mechanisms and technology and enhanced customer service driving by strengthening refined management in retail business, thus achieving rapid growth in retail customer deposits. As at the end of June 2020, the Bank's total retail deposits amounted to RMB214.809 billion, representing an increase of RMB37.842 billion or 21.38% from the end of 2019.

In the first half of 2020, the Bank extended service channels in key townships, administrative villages, urban communities and small and micro enterprises zones to continuously enhance the service awareness and capabilities and meet various financial demands of urban and rural residents, customers relevant to "Three Dimensional Rural Issues" and other customer groups. As at the end of June 2020, the balance of various deposits of the Bank's inclusive financial outlets (including Huinong, Huimin, Community and Micro loan sub-branches) was RMB44.847 billion, representing an increase of RMB9.187 billion or 25.76% from the beginning of the year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (CONTINUED)

3.9.3 Financial market business

Facing the adverse impact of the COVID-19 pandemic at the beginning of 2020, the PBOC guided the market interest rates downward by lowering reserve requirement ratio and interest rates on the open market and maintained reasonable and adequate liquidity in the market through MLF, open market operations, etc. Since the second quarter of 2020, with the COVID-19 pandemic contained effectively and positive fiscal policies further implemented, the monetary policies gradually come back to normal, but the situation of the COVID-19 pandemic across the world is still not positive, and thus the economic development in the future is rather uncertain. The Bank continued to adopt a positive and steady strategy, and formulated corresponding investment plans for the Bank's bond investment. Firstly, the Bank increased the allocation of bonds, adjusted the portfolio structure and appropriately increased the allocation of treasury bonds, anti-pandemic treasury bonds, policy financial bonds and local government bonds. Secondly, the Bank actively participated in secondary market transactions, increasing spread income. At the same time, the Bank actively fulfilled its obligation as a market maker to maintain active trading related to market-making quotations. Thirdly, the Bank strengthened the customer development and 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.

In the first half of 2020, the Bank adhered to the principle of serving the real economy and promoted a continued steady growth of its business in financial markets through the optimization of investment portfolio structure and enrichment of business categories. Meanwhile, the Bank took active part in innovation business, was approved to enter the standard bond forward market, and opened real-time undertaking of interest rate swap business, which marked the further enrichment of the Bank's financial derivatives and further enhancement of interest rate risk management capability.

3.9.4 Asset management business

In the first half of 2020, the Bank continued to advance the product transformation for its asset management business and the net-worth products achieved stable growth. Huishang Bank Wealth Management Co., Ltd. (徽銀理財有限責任公司) was approved to commence business. In respect of business scale, the balance of the Bank's wealth management products at the end of the Reporting Period amounted to RMB189.595 billion, representing an increase of 0.94% as compared to the end of last year, among which, the balance of net-worth products was RMB141.672 billion, and the proportion of net-worth wealth management products reached 74.72%. In terms of customer system, as at the end of June 2020, the structure of the Bank's wealth management customers has been further optimized, the balance of personal wealth management products reached RMB174.008 billion, accounting for 91.78%. Its capital stability was continuously enhanced.

3.9.5 Custody business

In the first half of 2020, the Bank's asset custody business strove to overcome the impacts of the COVID-19 pandemic, actively occupied the custody market, enhanced risk management, optimized business procedures, promoted brand building and focus on improving the core competitiveness, effectively achieving the integration of risk control with business growth and coordinately advancing the business transformation and the improvement of the core competitiveness. As at the end of June 2020, the Bank achieved sustainable and steady growth in custody volume and intermediate business income, among which the year-on-year increase of custody fee income ranked the first in the industry.

As at 30 June 2020, the balance of assets under custody was RMB834.697 billion, representing a year-on-year increase of RMB54.303 billion or 6.96%; the Bank achieved a custody fee income of RMB232.7805 million, representing an increase of RMB86.5932 million or 59.23% as compared with the corresponding period of the last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (CONTINUED)

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 2020, the Bank had built a total of 680 self-service banking outlets and put into operation a total of 2,023 sets of self-service equipment, including 56 automatic teller machines, 1,228 cash recycling machines, 324 self-service terminals and 415 intelligent self-service terminals (including self-service card issuing machines).

Electronic banking channels

The Bank places great emphasis on developing and improving the construction of personal mobile financial channels, including personal online banking, mobile banking and WeChat banking, focused on mobile Internet and strengthened channel services and operation management, which can effectively relieve the pressure on service outlets and continuously increase trading activity of customers. In the first half of 2020, the number of trading account transactions via personal mobile financial channels reached 131,168,200, representing an increase of 16.38% over the same period of last year and accounting for 95.38% of the number of personal alternative trading account transactions of the Bank.

As at the end of the Reporting Period, the total number of contracted mobile banking customers of the Bank reached 5.2287 million. The number of mobile banking transactions reached 77.528 million, representing a year-on-year increase of 32.31%. The transaction amount accumulated to RMB585.988 billion, representing a year-on-year increase of 82.96%.

Online banking

In the first half of 2020, the Bank's personal online banking business continued to grow steadily, with a stable increase in customer base and growing activeness in customer transactions. As at the end of the Reporting Period, the Bank's total number of personal online banking customers amounted to 5,280,100; the number of personal online banking transactions amounted to 210,410,500, representing a year-on-year increase of 9.53%; among that, the number of online payment transactions was 106,611,600, representing a year-on-year increase of 17.61%; the amount of online payment transactions totaled RMB78.775 billion, representing a year-on-year increase of 13.12%.

In the first half of 2020, the "Transaction Platform" (交易家平台), the Bank's service portal to corporate business, focused on user experience, product innovation, coordinated operation, application of new technology and other aspects and its service capability continued to be improved. As at the end of the Reporting Period, the Bank's total number of enterprise online banking customers reached 259,300 with 103 million enterprise online banking transactions, among which, the number of transactions with capital changes reached 5.1296 million with a transaction amount of RMB1,154.016 billion.

Direct banking

As at the end of June 2020, the total number of the Bank's direct banking customers reached over 20.83 million, the balance of various loans and the daily average balance of deposits were RMB23.860 billion and RMB1.334 billion, respectively. In the first half of 2020, the Bank's direct banking realized a total revenue of RMB390 million, representing an increase of 28.71% over the same period of last year. In 2020, the direct banking actively leveraged on its own capabilities and gave full play to the characteristics of "Internet +". With the target of digital transformation, it continuously developed first-mover advantages in Internet wealth, Internet loans, Internet account and payment, Internet asset management and other business segments and continued to enhance the capability output to facilitate the development of the Bank's Internet financial business and strive to build an Internet bank with light assets and low costs. After five years of development, "Hui Chang You Cai (徽常有财)" of the Bank recorded outstanding performance and was awarded authoritative prizes in the industry, significantly improving the brand value.

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”) 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 increased its registered capital to RMB3 billion, RMB1.62 billion or 54% of which is contributed by the Bank. As at the end of June 2020, the balance of leased assets of Huishang Bank Financial Leasing reached RMB51.894 billion with an NPL ratio of 0.50%.

Huishang Bank Wealth Management Co., Ltd.

Huishang Bank Wealth Management Co., Ltd. (徽銀理財有限責任公司) (“Huishang Bank Wealth Management”) officially commenced business on 28 April 2020. Incorporated in Hefei with a registered capital of RMB2 billion, Huishang Bank Wealth Management was wholly funded by the Bank. As the first wealth management subsidiary in central areas and the third subsidiary among city commercial banks, Huishang Bank Wealth Management will adhere to the principle of “serving the growth of real economy and residents’ wealth”, give full play to the advantages of the first-level legal person in systems and mechanisms and leverage on outstanding products and services to build itself into a professional asset management agency with its own characteristics and certain national influence and make active contributions to local social and economic 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. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of the total. As at the end of June 2020, the total assets of Jinzhai Huiyin amounted to RMB2.33 billion and the balances of various loans and deposits were RMB1.21 billion and RMB2.07 billion, respectively.

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. As at the end of June 2020, the total assets of Wuwei Huiyin amounted to RMB2.36 billion and the balances of various loans and deposits were RMB1.85 billion and RMB2.16 billion, respectively.

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 incorporated in Wuhu City. It was jointly invested and established by the Bank and Chery Automobile Co., Ltd. (“Chery Automobile”) with a current 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).

Mengshang Bank Co., Ltd.

Mengshang Bank Co., Ltd. (“Mengshang Bank”) was established on 30 April 2020 in Baotou City. Mengshang Bank was jointly established by Deposit Insurance Fund Management Co., Ltd. (存款保險基金管理有限責任公司) with 8 promoters in the region, including the Bank and the Financial Department of Inner Mongolia, with a registered capital of RMB20 billion and the Bank owns a shareholding proportion of 15%. Mengshang Bank is a city commercial bank with the operation scope within the Inner Mongolia Autonomous Region. Its operation purpose is to take root in Inner Mongolia, conduct stable operation and build it into a regional commercial bank with sufficient capitals, strict internal control, safe operation and outstanding services and efficiency.

3.10 RISK MANAGEMENT

Facing the severe situation caused by the COVID-19 pandemic in the first half of 2020, the Bank took digital transformation as the lead, held onto the bottom line of maintaining asset quality and strove to enhance the risk management ability. The Bank practiced 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 strove 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.

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 2020, based on comprehensive risk management, the Bank developed its risk appetite, risk limits, credit policy 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 and formulated an annual credit rating plan; strictly implemented national industrial policies for industries with overcapacity and environmental protection policies; and studied and formulated action plans on the control of key institutes and key projects for the year to improve the quality and efficiency of collection and resolution.

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.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (CONTINUED)

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.

In the first half of 2020, 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 intensifies its efforts on the refined management of its assets and liabilities with emphasis on risk prevention and mitigation while promoting business development and profit growth. The Bank stresses the importance of "ensuring adequate liquidity" and flexibly manages and controls the percentage of liquidity asset portfolio with the highest efficiency. According to its own characteristics and external market environment, the Bank has formulated contingency plans to prevent potential liquidity crisis and takes effective emergency measures to control the spread of risks under liquidity crisis scenarios.

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 and the RMB loan prime rate (LPR) is released by the National Interbank Funding Center upon the authorization of 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 2020, 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.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (CONTINUED)

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, etc.

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.

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.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (CONTINUED)

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.

During the Reporting Period, with the focus on its business development strategies, the Bank strove to put internal control as its priority, and established the philosophy of "facilitating development through compliance", with an aim to enhance the foresight and pertinence of compliance management. The Bank constantly implemented various requirements of external regulatory authorities, and strengthened the establishment of internal control system. Hence, the compliance risk management mechanism operated effectively, with favorable comments coming from external regulatory authorities. By carrying out special campaigns such as "review" on rectification of irregularities, "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, and mobilized each operation department to integrate resources and engage themselves in it 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.

Currently, under the increasingly complex international economic and financial situation, 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 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 prioritized on strategic tasks in revitalizing the Bank with science and technology, focused on technology services and the building of guarantee capabilities on the stable operation of key infrastructure and continuously improved the supporting capability to the business continuity, maintaining continuous and effective services of the information system of the whole Bank. Firstly, actively promoting the construction of digital banking system and promoting the development of the data empowerment business. The Bank has set up the Data Governance Committee to coordinate and promote the implementation of various data governance work of the Bank. It formulated assessment rules and identification models on suspicious de facto controllers, adopted the alarming model on the loss of quality retail customers to facilitate the improvement of retail financial assets and initiated the construction of the labeling system on corporate customers to boost the data service capabilities. Secondly, advancing technology empowerment business and speeding up in product and service innovation. With the target of promoting the deep integration of finance and technology and supporting business development and product innovation, the Bank strengthened digital transformation and technology-supported services. It focused on the implementation of the transformation of the credit system, the upgrading of the second-generation payment system, the expansion of functions of WeChat Bank and other projects, providing technical drivers to the business development and product innovation of the Bank. Thirdly, carrying out the relocation of the data center in an orderly way and further consolidating the fundamental supporting system. The data center at the headquarters base with the national A-class computer room certification has been officially put into operation. The Bank stably carried out the relocation of the network and information system of the data center in different stages, implemented the improvement of relevant network systems and the disaster backup system and initiated the construction of the network threat and analysis platform, further consolidating the technology-based supporting system.

Chapter III Management Discussion and Analysis

3.12 PROFIT DISTRIBUTION OF ORDINARY SHARES

Profit distribution plan for 2019

The profit distribution plan of the Bank for 2019 was considered and approved at the 2019 annual general meeting of the Bank held on 30 June 2020.

Audited net profit of the Bank under the headquarters for 2019 was RMB9,540.14 million. Pursuant to the Articles of Association of the Bank, the profit distribution plan of the Bank for 2019 is as follows:

- (1) RMB954.014 million, RMB1,085.917 million and RMB954.014 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 RMB6,546.195 million;
- (2) A total cash dividend of approximately RMB1,908.304 million (inclusive of tax), i.e. RMB1.57 for every 10 shares (inclusive of tax), will be declared and distributed to all shareholders.

The final dividend for 2019 was paid on 26 August 2020 to the shareholders whose names appear on the register of members of the Bank as at 12 July 2020. 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. 19, 22, 23, 24 and 29 June 2020) immediately prior to the date on which the dividend was declared at the 2019 annual general meeting of the Bank.

The special dividend proposed at the 2018 annual general meeting as set out in the circular of the Bank dated 15 May 2019 will not be distributed.

Interim profit distribution for 2020

The Bank has no interim profit distribution plan for 2020.

Chapter III Management Discussion and Analysis

3.13 SOCIAL RESPONSIBILITY

During the Reporting Period, the Bank honored the mission of “achieving dreams for customers, creating value for shareholders, promoting employee development and assuming responsibility of citizenship”, actively performed social responsibilities, coordinated shareholders, customers, employees and other stakeholders, achieving the full improvement of economic, environmental and social benefits. The Bank 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 “Three Dimensional Rural Issues” and contribute to poverty alleviation. In order to firmly guard against systemic risks, the Bank continuously developed a “secure Huishang Bank”, focused on building a comprehensive, full-process risk management system covering all employees to enhance its risk management capabilities. The Bank advocated green office, energy saving and environmental protection to reduce the negative effects of its daily operation on the environment as much as possible. It vigorously advocated public spirit, continuously promoted concepts and activities on people’s livelihood, environmental protection and charities and called on employees to practice environmental protection and charities as volunteers, fully displaying the image of the Bank as an excellent corporate resident. 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 focused on digital transformation as the main line with the institutional business as the body and corporate light-asset business and digital retail business as two wings to develop into a dominant bank serving local economies, a preferred bank for regional customers, a value bank returning shareholders and a quality bank being proud by employees as well as a first-class digital city commercial bank with intelligent, considerate, professional and prompt services.

In the face of the outbreak of the COVID-19 pandemic, the Bank implemented policies on “ensuring stability on the six fronts” and “security in the six areas”. Firmly focusing on the requirements on financial services to support the work and production resumption of enterprises, the Bank actively performed social responsibilities: Firstly, the Bank innovatively introduced emergency loan products on the prevention and control of the pandemic and prioritized support to public services and infrastructure construction; Secondly, it actively implemented the policies of the PBOC on special re-lending and provided credit capitals with low costs to manufacturers of materials for the prevention and control of the COVID-19 pandemic in the province; Thirdly, it fully implemented policies on finance to support micro, small and medium enterprises and fully served small and micro enterprises in work and production resumption. In addition, the Bank donated over RMB10 million in total, providing strong support to the prevention and control of the COVID-19 pandemic and the rescue work.

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 2020		Changes during the Reporting Period	31 December 2019	
	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: 1. As at 30 June 2020, the Bank had a total of 17,769 shareholders of ordinary shares, including 1,523 shareholders of H Shares and 16,246 shareholders of Domestic Shares.

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

As at 30 June 2020, 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 99.90% 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⁾	3,475,377,378	28.59	H Share	732,100	– ⁽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	0	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	506,102,476	4.16	Domestic Share	0	368,540,000
7	Hefei Xingtai Financial Holding (Group) Co., Ltd.	State-owned legal person	378,395,999	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.	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⁽¹⁾

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 substantial shareholder	Number of shares held	Individual shareholding ratio (%)	Joint shareholding ratio (%)
1	Zhongjing Xinhua Asset Investment Management Company Ltd.	224,781,227	1.85	12.10
	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	11.08
	Anhui Wenergy Company Limited	150,814,726	1.24	
	Xing An Holding Limited	329,973,600	2.71	
	Anhui Natural Gas Development Co., Ltd.	22,729,899	0.19	
3	Wkland Finance Holding Company Limited	562,254,000	4.63	8.00
	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 Guaranteed Asset Management Co., Ltd.	2,524,326	0.02	
6	Hefei Xingtai Financial Holding Group Co., Ltd.	378,395,999	3.11	5.15
	CCB Trust Co., Ltd.	248,102,994	2.04	
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	Zhongjing Sihai Co., Ltd.	506,102,476	4.16	4.16
10	Wuhu Construction Investment Co., Ltd.	294,012,833	2.42	2.42
11	Anhui Publishing Group Co., Ltd.	103,693,815	0.85	0.85

Note: (1) For the definition of substantial shareholders, please refer to the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks of CBIRC, and the shareholding ratio of shareholders and its related parties, persons acting in concert was calculated on a consolidated basis.

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 2020, 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 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	173,544,625	2.00	1.43	1
Xing An Holdings Limited	Domestic Share	Long	Beneficial owner	843,363,819	9.72	6.94	1
	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
	H Share	Long	Beneficial owner	562,254,000	16.16	4.63	5
Wkland Finance Holding 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	8, 9, 10, 12
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 12
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7
Modern Innovation Holdings Co., Limited	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 12
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7
Jing'An Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 12
	Domestic Share	Long	Interest of controlled corporation	224,781,227	2.59	1.85	7
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	1,245,864,400	35.81	10.25	8, 9, 10, 12
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	7

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 Position	Capacity	Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	972,415,400	27.95	8.00	9, 10, 12
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	8
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10, 12
	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	9
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10, 12
Qingdao State-owned Assets Supervision & Administration Commission	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Qingdao City Construction Investment (Group) Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Qingdao City Construction Financial Holding Group Co., Ltd.	H Share	Long	Security interest	440,000,000	12.65	3.62	10
China Golden Harbour (Holdings) Group Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Golden Harbour Global Holdings Limited	H Share	Long	Security interest	440,000,000	12.65	3.62	10
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	440,000,000	12.65	3.62	10
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	10
Zheng Yonggang	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	7, 11
Zhou Jiqing	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	7, 11
Ningbo Qinggang Investment Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	730,883,703	8.42	6.01	7, 11

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 Position	Capacity	Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Shanshan Holdings Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	506,102,476	5.83	4.16	11
	Domestic Share	Long	Beneficial owner	224,781,227	2.59	1.85	7
	H Share	Long	Interest of acting in concert	1,245,864,400	35.81	10.25	13
Shanshan Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	506,102,476	5.83	4.16	11
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	506,102,476	5.83	4.16	11
DRAGON SOUND INVESTMENT LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	13
	H Share	Long	Beneficial owner	273,449,000	7.86	2.25	12
JOY GLORY HOLDINGS LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	13
	H Share	Long	Beneficial owner	532,415,400	15.30	4.38	12
SUPERIOR LOGIC INVESTMENTS LIMITED	Domestic Share	Long	Interest of acting in concert	730,883,703	8.42	6.01	13
	H Share	Long	Beneficial owner	440,000,000	12.65	3.62	12
CITIC Securities Company Limited	H Share	Long	Interest of controlled corporation	256,410,675	7.37	2.11	14
	H Share	Short	Interest of controlled corporation	245,523,750	7.06	2.02	14

Note:

- (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. 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. Anhui Energy Group Co., Ltd. also effectively controls 150,814,726 Domestic Shares and 22,729,899 Domestic Shares of the Bank that were held by its controlling subsidiaries, Anhui Wenergy Company Limited (安徽省皖能股份有限公司) and Anhui Natural Gas Development Co., Ltd. (安徽省天然氣開發股份有限公司), respectively.

- (2) The 2,524,326 Domestic Shares (long position) of the Bank are held by Anhui Guaranteed Asset Management Co., Ltd., a wholly-owned subsidiary of Anhui Credit Guaranty Group Co., Ltd. Anhui Credit Guaranty Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Guarantee Asset Management Co., Ltd. Meanwhile, 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. was formerly known as Anhui Guoyuan Holding (Group) Co., Ltd. The shareholdings of Anhui Guoyuan Financial Holding Group Co., Ltd. in the Bank include the Domestic Shares of the Bank held by its controlling subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽省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).

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)

- (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. 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 be interested in a total of 972,384,600 H Shares (long position) of the Bank by virtue of its control over the following corporations which directly hold 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.
- (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. 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"). The 97.5% shares of Zhongjing Industry are held by Shanghai Soong Ching Ling Foundation ("Shanghai Soong Ching Ling Foundation"). Shanghai Soong Ching Ling Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.
- Shanshan Holdings Co., Ltd. ("Shanshan Holdings") entered into an agreement with Zhongjing Xinhua on 20 August 2019, pursuant to which Shanshan Holdings acquired 224,781,227 Domestic Shares of Huishang Bank held by Zhongjing Xinhua, which have not been transferred. Pursuant to relevant requirements of the SFO, during the period from the signing of the agreement to prior to the completion of the transfer of shares, both Shanshan Holdings and Zhongjing Xinhua shall be deemed to be interested in such shares acquired or disposed and both of them are beneficial owners. Zheng Yonggang, Zhou Jiqing and Ningbo Qinggang are deemed to be interested in the above shares of the Bank held by Shanshan Holdings.
- (8) 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. Shanghai Soong Ching Ling 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.
- (9) 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, which in turn is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Shanghai Soong Ching Ling 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)

- (10) Golden Harbour Investments Management Limited ("Golden Harbour") holds 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. Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (9) above. Shanghai Soong Ching Ling 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 are deemed to be interested in the shares of the Bank held by Golden Harbour.

- (11) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 506,102,476 Domestic Shares of the Bank. According to the relevant shareholding table from the Hong Kong Stock Exchange and business registration information publicly disclosed by Zhongjing Sihai:

In August 2019, Zhongjing Xinhua transferred its equity interests of 51.6524% in Zhongjing Sihai to Shanshan Group Co., Ltd. ("Shanshan Group"), upon which Shanshan Group owned 100% equity interests in Zhongjing Sihai. Shanshan Group is the subsidiary of Shanshan Holdings which owns its equity interests of 73.46%, which in turn is the subsidiary of Ningbo Qinggang Investment Co., Ltd. ("Ningbo Qinggang") which holds its equity interests of 61.81%. Zheng Yonggang and Zhou Jiqing hold the equity interests of 51% and 49% in Ningbo Qinggang, respectively. As such, Zheng Yonggang, Zhou Jiqing, Ningbo Qinggang, Shanshan Holdings and Shanshan Group are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.

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)

- (12) According to the disclosure of interests forms submitted by DRAGON SOUND INVESTMENT LIMITED, JOY GLORY HOLDINGS LIMITED, and SUPERIOR LOGIC INVESTMENTS LIMITED to the Hong Kong Stock Exchange, related parties acquired 273,449,000, 532,415,400 and 440,000,000 H Shares of the Bank. According to the form of disclosure interest submitted by Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour to the Hong Kong Stock Exchange, related parties entered into an agreement in relation to the disposal of shares in which they were interested. The transfer of such share interests has not been completed. Pursuant to relevant requirements of the SFO, during the period from the entering of the agreement to prior to the completion of the transfer of shares, related purchasers and vendors shall be deemed to be interested in such shares they have purchased or disposed and all of them are beneficial owners.

According to the disclosure of interests forms submitted by Zhongjing Xinhua Hong Kong, Wealth Honest and Golden Harbour to the Hong Kong Stock Exchange, Zhongjing Xinhua issued a written notice to Shanshan Holdings on behalf of all the vendors on 1 June 2020, announcing the termination of the "Framework Agreement" signed by the parties on 20 August 2019. In this regard, the relevant vendors are not required to transfer the underlying H shares to Shanshan Holdings.

According to the "Announcement on Zhongjing Xinhua Asset Investment Management Company Ltd. Regarding the Company's Material Litigations" issued by Zhongjing Xinhua on the Shanghai Stock Exchange (the "SSE") on 9 July 2020, "..... On 1 June 2020, the Company issued to Shanshan Holdings the "Notice on the Termination of the Framework Agreement between Shanshan Holdings Co., Ltd. and Zhongjing Xinhua Asset Investment Management Company Ltd. on the transfer of shares of Huishang Bank Corporation Limited and Zhongjing Sihai Co., Ltd. The Company has recently filed a lawsuit with the Intermediate People's Court of Huangshan City, Anhui Province and has been accepted. The filing for the case has now been completed." For details, please refer to the announcement issued by Zhongjing Xinhua on the SSE.

According to the "Announcement on Shanshan Group Co., Ltd. Regarding the Company's Material Litigations" issued by Shanshan Group on the SSE on 10 July 2020, "..... This lawsuit is a case involving Zhongjing Xinhua sued Shanshan Holdings, Shanshan Group, and Zhongjing Sihai for the equity transfer dispute. Shanshan Holdings filed a lawsuit with the Shanghai Financial Court on 2 June 2020 and completed the filing." For details, please refer to the announcement issued by Shanshan Group on the SSE.

- (13) According to the disclosure of interests forms submitted by companies including Shanshan Holdings to the Hong Kong Stock Exchange, Shanshan Holdings entered into an acting-in-concert agreement with SUPERIOR LOGIC INVESTMENTS LIMITED, DRAGON SOUND INVESTMENT LIMITED, JOY GLORY HOLDINGS LIMITED, respectively.
- (14) CITIC Securities Company Limited is interested in a total of 256,410,675 H Shares (long position) and 245,523,750 H Shares (short position) of the Bank. These equity interests are all interests of derivatives.

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 2020 as recorded in the register required to be kept by the Bank pursuant to section 336 of the SFO.

4.5 OFFSHORE PREFERENCE SHARES

4.5.1 Issuance and listing of Offshore Preference Shares

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.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.5 OFFSHORE PREFERENCE SHARES (CONTINUED)

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 (0'000 shares)	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	4,440	-	Unknown

Notes : 1. Particulars of shareholding of the offshore preference shareholders are based on the information in the Bank's register of offshore preference shareholders.

2. 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.

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
Zhu Yicun	Male	Non-executive Director
Yan Chen	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
He Jiehua	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
Sun Zhen	Male	Employee Representative Supervisor, General Manager of Compliance Department
Chen Rui	Male	Shareholder Supervisor
Li Ruifeng	Male	Shareholder Supervisor
Hu Jing	Female	Shareholder Supervisor
Yang Mianzhi	Male	External Supervisor
Dong Xiaolin	Female	External Supervisor
Zhai Shengbao	Male	External Supervisor
Zhou Zejiang	Male	External Supervisor
Gao Guangcheng	Male	Standing Vice President
Yi Feng	Male	Vice 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
Gao Chunming	Female	Director of Corporate Banking
Lian Baohua	Male	Secretary of the Board of Directors

Notes: For details of the position changes of the abovementioned directors, supervisors and senior management, please refer to Section 5.2 "Appointment and Resignation during the Reporting Period" of this report.

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

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

1. The Bank announced on 21 April 2020 that, Mr. Zhang Youqi, due to work adjustment, resigned from the positions as an employee supervisor, chairman of the Board of Supervisors, member of the Nomination Committee under the Board of Supervisors and member of the Supervisory Committee under the Board of Supervisors of the Bank, with effect from 21 April 2020.
2. The Bank convened the 2019 annual general meeting on 30 June 2020, at which the elections of Mr. Zhai Shengbao and Mr. Zhou Zejiang as external supervisors of the fourth session of the Board of Supervisors of the Bank have been considered and approved. Their terms of office as Supervisors will be the same as the term of the fourth session of the Board of Supervisors of the Bank.
3. The Bank announced on 14 October 2019 that, Ms. Pan Shujuan, an external supervisor, resigned as an external supervisor of the Bank, the chairman and a member of the Nomination Committee under the Board of Supervisors because she had served as an external supervisor of the Bank for six years. Her resignation as an external supervisor and a member of the Nomination Committee under the Board of Supervisors would take effect on the date upon the formal appointment of her successor of external supervisor by the Bank. As at 30 June 2020, her successor of external supervisor was elected at the 2019 annual general meeting of the Bank. Ms. Pan Shujuan's resignation took effect on the same date.
4. The Bank announced on 10 July 2020 that, Mr. He Jiehua tendered his resignation to the Bank as an executive director and chairman of the Risk Management Committee of the Bank due to internal job rearrangement. His resignation took effect on the same date.
5. The Bank announced on 15 July 2020 that Mr. He Jiehua and Mr. Sun Zhen have been elected to be employee representative supervisors of the Bank through the employees' democratic election procedures of the Bank on 13 July 2020; the Board of Supervisors of the Bank convened the 18th meeting of the fourth session of the Board of Supervisors on 15 July 2020, at which Mr. He Jiehua was elected to be the chairman of the Board of Supervisors. The terms of office for the abovementioned employee representative supervisors and the chairman of the Board of Supervisors will be the same as the term of the fourth session of the Board of Supervisors of the Bank.
6. The Bank announced on 27 August 2020 that the Board of the Bank passed a resolution on 27 August 2020 to appoint Mr. Qian Dongsheng, a non-executive Director, as a new member to the Audit Committee of the fourth session of the Board. His term of office commences from the same day and ends at the date of re-election of members of the fourth session of the Board of the Bank.

5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

1. Mr. Zhu Yicun, a non-executive director of the Bank, ceased to be a general manager of Anhui Energy Group Co., Ltd.
2. Mr. Wang Wenjin, a non-executive director of the Bank, ceased to be a director of China Vanke Co., Ltd.
3. Ms. Zhou Yana, an independent non-executive director of the Bank, ceased to be a professor at School of Business of Anhui University and acted as an independent director of Anhui Transport Consulting & Design Institute Co., Ltd.
4. Mr. Zhong Qiushi, an employee representative supervisor of the Bank, acted as a director of Huishang Bank Wealth Management Co., Ltd.
5. Mr. Yang Mianzhi, an external supervisor of the Bank, ceased to be an independent director of GuoYuan Securities Co., Ltd. and acted as an independent director of QuantumCTek Co., Ltd.
6. Ms. Dong Xiaolin, an external supervisor of the Bank, acted as an independent director of Nanjing Securities Co., Ltd.
7. Mr. Zhou Zejiang, an external supervisor of the Bank, ceased to be an independent director of Anhui Ankai Automobile Co., Ltd.

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.

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

5.4 EMPLOYEES¹

1. Number of Employees

As of 30 June 2020, the Bank had a total of 9,452 employees in service.

2. Professional Structure

As of 30 June 2020, the professional structure of the Bank is as follows:

Categories	As of 30 June 2020	
	Number of employees	Percentage of the total
Management Personnel	2,247	23.77
Business Personnel	5,236	55.40
Supporting Personnel	1,969	20.83
Total	9,452	100.00

3. Educational Structure

	As of 30 June 2020	
	Number of employees	Percentage of the total
Master's degrees or above	1,702	18.01
Full-time bachelor's degrees	4,680	49.51
Part-time bachelor's degrees	2,265	23.96
Junior college degrees or below	805	8.52
Total	9,452	100.00

4. Age Structure

	As of 30 June 2020	
	Number of employees	Percentage of the total
Aged below 30 (inclusive)	4,214	44.58
Aged 31-40	3,056	32.33
Aged 41-50	1,675	17.72
Aged above 50	507	5.36
Total	9,452	100.00

Note: 1. Apart from the employees disclosed in the above, as at the end of the Reporting Period, the number of employees in service amounted to approximately 1,237 in the four branches of the Bank in Beijing, Shenzhen, Chengdu and Ningbo. As we are in the process of finalizing the information of the admission, professional structure, educational structure and age structure of the employees of the abovementioned four branches, the statistics of the employees in the foregoing four branches are not included in this report.

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

5.4 EMPLOYEES (CONTINUED)

Staff Remuneration Policy

The Bank's remuneration policy aims to establish a well-developed, scientific and efficient incentive and control mechanisms to give full play to the orientation of the remuneration in operation and management and risk control, and stimulate stable operation and sustainable development. The Bank sticks to the management strategy which is conducive to the achievement of strategic goals, the enhancement of competitiveness, talent cultivation and risk control, and regards the efficiency as the paramount role while following the principle of fairness. Within the unified framework, the Bank takes advantages of its initiatives and creativity.

The Bank manages remuneration through three levels, namely the Board of Directors, senior management, and head office and branches. The Board of Directors manages the total amount of remuneration and senior management's remuneration. Under the Board's request, the senior management allocates the total amount of remuneration and drafts policy management of all branches according to the requirements of the Board of Directors. All branches manage employee salary within the scope of unified rules and framework.

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 the 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 2020, the Bank effectively responded to the COVID-19 pandemic, actively carried out online training, recorded 115 courses, held 38 live training sessions, and approximately 35,000 participants participated in the training. Huiyin Internet School launched 96 courses and 83,294 participants took the courses; Zhiniaohuiyin School (知鳥徽銀學堂) launched 221 online courses and 323,125 participants took the courses, and the Bank has set up an special column for pandemic prevention to update COVID-19 pandemic data in real time.

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

5.5 COMPOSITION OF BRANCHES

Set out below are details of the branches of the Bank in the PRC as of 30 June 2020:

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	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	29
	Huaibei Branch	No. 253, Renmin Middle Road, Xiangshan District, Huaibei	235000	21
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	29
	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	15
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	28
	Huangshan Branch	No. 2, Tunguang Road, Tunxi District, Huangshan	245000	11
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	13
	Chuzhou Branch	No. 95, Longpan Road, Chuzhou	239000	14
	Suzhou Branch	No. 123, Yinhe Yi Road, Suzhou	234000	16
	Xuancheng Branch	No.109, Meiyuan Road, Xuanzhou District, Xuancheng	242000	17
Bozhou Branch	Xiangzhang Mansion, No. 277, West Shaohua Road, Bozhou	236000	12	
Jiangsu Province	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	12
Beijing	Beijing Branch	No. 115 Beisihuan East Road, Chaoyang District, Beijing	100020	16
Guangdong Province	Shenzhen Branch	1-3/F, Modern International Building, 3038 Jintian Road, Futian District, Shenzhen	518000	12
Sichuan Province	Chengdu Branch	Libo Building, No. 57, Jinxing Road, Jinjiang District, Chengdu	610000	21
Zhejiang Province	Ningbo Branch	No.676, Zhongxing Road, No. 787, No. 799 and No.809 Baizhang East Road, Yinzhou District, Ningbo	315100	23
Total				502

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 consisted of two general meetings, six Board meetings, fifteen Board of Directors committees meetings, six Board of Supervisors meetings, six 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 two general meetings.

On 22 February 2020, the Bank held the 2020 first extraordinary general meeting in Hefei, Anhui Province. The notification, convening, holding and voting procedures of the meeting 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 2020 first extraordinary general meeting dated 22 February 2020, which was published on the websites of the Hong Kong Stock Exchange and the Bank, respectively.

On 30 June 2020, the Bank held the 2019 annual general meeting in Hefei, Anhui Province. The notification, convening, holding and voting procedures of the meeting 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 2019 annual general meeting dated 30 June 2020, 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 meetings, at which 52 resolutions were considered and approved. The Bank held fifteen Board of Directors committees meetings (which consists of three Nomination and Remuneration Committee meetings, four Strategic Development and Consumer Rights Protection Committee meetings, two Risk Management Committee meetings, four Related Party Transaction Control Committee meetings and two Audit Committee meetings) at which 67 resolutions were studied and considered.

6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held six Board of Supervisors meetings, at which 19 resolutions were considered.

The Bank held six meetings of the Supervisory Committee under the Board of Supervisors, at which 9 resolutions were considered. The Bank held one meeting of the Nomination Committee under the Board of Supervisors, at which 11 resolutions were considered.

6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank has adopted the Model Code 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, they confirmed that they had complied with the Model Code during the Reporting Period.

Chapter VI Corporate Governance

6.6 INTERNAL CONTROL

Following the operation philosophy of compliant and steady development, the Bank has established a sound internal control system 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 the operation and management of the Bank, and 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 2019 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.

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. Except for the Code Provision A.5.1, the Bank strictly complied with all the code provisions as well as most of the recommended best practices of the Corporate Governance Code.

Given that Mr. Hu Jun, a former independent non-executive director of the Bank, ceased to serve as an independent non-executive director, a member of the Nomination and Remuneration Committee, a member of the Risk Management Committee and the chairman of the Related Party Transaction Control Committee of the Bank since 25 October 2019 as he would like to devote more time to other business commitments, the current composition of the Nomination and Remuneration Committee of eight members, including four independent non-executive directors, does not comply with Rule 3.25 of the Hong Kong Listing Rules and Code Provision A.5.1 of the Corporate Governance Code which require the committee comprising a majority of independent non-executive directors. The Bank is trying its best to identify a suitable candidate to fill the relevant vacancy as soon as possible to comply with the Hong Kong Listing Rules and Code Provision A.5.1 of the Corporate Governance Code as soon as practicable. For details of the position changes of Mr. Hu Jun, please refer to the announcement of the Bank dated 25 October 2019.

6.8 CORPORATE GOVERNANCE PRACTICES

Mr. He Jiehua, a former executive director of the Bank, ceased to serve as an executive director and a chairman of Risk Management Committee of the Bank since 10 July 2020 due to the internal job rearrangement. Therefore, the current composition of the Board of Directors of fourteen members does not comply with the requirement of “The Board of Directors shall be composed of fifteen (15) to nineteen (19) directors” as set out in the Article 162 of the Articles of Association of the Bank. The Bank is trying its best to identify a suitable candidate to fill the relevant vacancy of directorship to comply with the Articles of Association of the Bank as soon as practicable. For details of the position changes of Mr. He Jiehua, please refer to Section 5.2 “Appointment and Resignation during the Reporting Period” of this report.

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 2020, the following 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. The table below reflects the number of shares, any interests or short positions in underlying shares and debentures held by the directors, supervisors or chief executives of the Bank:

Name	Position	Type of shares	Capacity	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued ordinary shares (%)
Dai Peikun	Independent Non-executive Director	Domestic Shares	Interest of the Spouse	3,079	0.0000	0.0000
He Jiehua ⁽¹⁾	Chairman of the Board of Supervisors, Employee Supervisor	Domestic Shares	Interest of the Spouse	8,928	0.0001	0.0001
Tang Chuan	Employee Supervisor	Domestic Shares	Beneficial Owner	56,009	0.0006	0.0005
Zhong Qiushi	Employee Supervisor	Domestic Shares	Beneficial Owner	32,133	0.0004	0.0003
Sun Zhen ⁽¹⁾	Employee Supervisor	Domestic Shares	Beneficial Owner	38,085	0.0004	0.0003
Yang Mianzhi	External Supervisor	Domestic Shares	Beneficial Owner	6,613	0.0001	0.0001
Zhang Youqi ⁽¹⁾	Former Employee Supervisor, Former Chairman of the Board of Supervisors	Domestic Shares	Beneficial Owner	25,252	0.0003	0.0002

Note: (1) For details of the position changes of Mr. He Jiehua, Mr. Sun Zhen and Mr. Zhang Youqi, 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 2020, 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 MATERIAL LITIGATIONS AND ARBITRATIONS

To the knowledge of the Bank, as of the end of June 2020, the Bank was involved in the following litigation cases in its ordinary course of business: 76 significant litigation and arbitration cases pending final judgment, with a total subject matter amount of RMB5,055 million, including 67 cases prosecuted by the Bank with a total subject matter amount of RMB4,658 million and 9 litigations and arbitrations cases against the Bank (as the defendant) pending final judgment with a subject matter amount of over RMB500,000 each, totalling RMB397 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.

7.6 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

Upon consideration and approval at the meeting of the Board held on 7 January 2020 and the 2020 first extraordinary general meeting held on 22 February 2020 respectively, the Bank proposes to acquire part of assets and liabilities of Baoshang Bank Co., Ltd. ("Baoshang Bank") and establish or acquire directly four branches of Baoshang Bank. For details, please refer to the Bank's announcements dated 7 January 2020 and 22 February 2020 and the circular dated 7 February 2020. According to the Announcement on the Transfer of Related Business, Assets and Liabilities by Baoshang Bank Co., Ltd. issued by the Takeover Group of Baoshang Bank on 30 April 2020, the Bank established the Beijing Branch, Shenzhen Branch, Chengdu Branch and Ningbo Branch of Huishang Bank and opened on 25 May 2020 officially. At present, the acquisition of relevant assets and liabilities is still in progress. The Bank will make further disclosure as and when appropriate pursuant to the relevant requirements of the Listing Rules.

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 above, the Bank has no other asset acquisition, disposal or reorganization outside the normal scope of business. Please refer to Note 40 to the financial statements of this interim report for details of the asset pledge of the Bank.

7.7 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 Resolution on the extension of the validity period of the A Share Offering of the Bank and Resolution on the extension of the validity period of the authorization of the Board to deal with specific matters in respect of the A Share Offering was considered and approved at the 2019 annual general meeting held on 30 June 2020. The Bank will extend the validity period of A Share Offering Plan and the Authorization Resolution for twelve months from the next day immediately after the expiration of original validity period (namely, the extended period will be from 30 June 2020 to 29 June 2021). Other contents as set forth under the A Share Offering Plan and the Authorization Resolution remain unchanged. Please refer to the circulars of the Bank dated 15 May 2019 and 15 May 2020 for the details of the resolution on the aforesaid A Share Offering

The Bank will publish announcements, in due course, to give the shareholders and potential investors the updates on the A Share Offering. 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.

Chapter VII Significant Events

7.8 NON-PUBLIC OFFERING

A Board meeting was convened by the Bank on 20 August 2020, at which, the proposal for non-public offering of shares (“Non-public Offering”) under the general mandate was considered and approved. The Bank intends to issue a total of not more than 1.735 billion Domestic Shares to Deposit Insurance Fund Management Co., Ltd. (“DIFM”) and Anhui Transportation Holding Group Co., Ltd. (“Anhui Transportation Holding”) under a general mandate. The Bank entered into the relevant subscription agreement with DIFM and Anhui Transportation Holding after the Board meeting on 20 August 2020. For details of the aforementioned proposal for Non-public Offering and the subscription agreement, please refer to the Bank’s announcement dated 20 August 2020. The Bank will publish an announcement as and when appropriate in accordance with the relevant requirements of the Listing Rules to disclose the latest progress of the Non-public Offering.

7.9 THE PUBLIC FLOAT OF H SHARES

Based on the public information available to the Bank and to the knowledge of the Board of Directors, the Bank’s H share public float was below 25%, the minimum level as required in Rule 8.08(1)(a) of the Hong Kong Listing Rules. As at the Latest Practicable Date, the Bank’s H share public float was approximately 15.66%.

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) proactively promoting the A Share Offering. For details on the public float of the Bank’s H Shares, please refer to the announcements published by the Bank since 11 May 2016 in relation to the public float of the Bank’s H shares.

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 2020.

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 report, the financial data for the six months ended 30 June 2019 and 2020 have not been audited; and the financial data for the year ended 31 December 2019 have been audited.

Chapter VIII

Interim Financial Report



Chapter VIII Interim Financial Report

Report on Review of Interim Financial Information



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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 72 to 184, 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 2020 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
27 August 2020

Condensed Consolidated Income Statement

For the six month period ended 30 June 2020

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

	Notes	For the six month period ended 30 June	
		2020 Unaudited	2019 Unaudited
Interest income	4	24,792,162	23,716,233
Interest expense	4	(12,265,921)	(10,891,021)
Net interest income		12,526,241	12,825,212
Fee and commission income	5	2,341,688	1,991,978
Fee and commission expense	5	(84,605)	(104,241)
Net fee and commission income		2,257,083	1,887,737
Net trading gains	6	1,267,863	503,550
Net gains on financial investments	7	228,679	43,633
Dividend income		–	1,200
Other operating income net	8	119,011	48,717
Operating income		16,398,877	15,310,049
Operating expenses	9	(3,428,890)	(3,371,894)
Impairment losses on assets	11	(6,608,738)	(5,894,088)
Operating profit		6,361,249	6,044,067
Share of profits of associates		78,368	67,248
Profit before income tax		6,439,617	6,111,315
Income tax expense	12	(1,109,020)	(1,100,700)
Profit for the period		5,330,597	5,010,615
Net profit attributable to:			
Shareholders of the Bank		5,249,817	4,919,697
Non-controlling interests		80,780	90,918
Earnings per share attributable to the ordinary shareholders of the Bank (expressed in RMB per share)			
Basic/Diluted	13	0.43	0.40

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 2020

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

	Notes	For the six month period ended 30 June	
		2020 Unaudited	2019 Unaudited
Profit for the period		5,330,597	5,010,615
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	37	23,964	16,552
Less: associated impact of income tax	37	(5,990)	(4,138)
Subtotal		17,974	12,414
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	37	443,314	(278,964)
Less: associated impact of income tax	37	(110,829)	69,741
Subtotal		332,485	(209,223)
Other comprehensive income for the year, net of tax		350,459	(196,809)
Total comprehensive income for the period		5,681,056	4,813,806
Total comprehensive income attributable to:			
Equity holders of the Bank		5,600,276	4,722,888
Non-controlling interests		80,780	90,918
		5,681,056	4,813,806

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

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

	Notes	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Assets			
Cash and balances with the central bank	14	83,170,011	91,971,254
Deposits with banks and other financial institutions	15	14,905,385	14,254,228
Placements with banks and other financial institutions	16	5,008,855	4,737,805
Derivative financial assets	17	134,439	235,406
Financial assets held under resale agreements	18	23,819,178	28,651,227
Loans and advances to customers, net	19	510,054,306	450,419,777
Financial Investments			
– Financial assets at fair value through profit or loss	20	102,523,522	95,225,453
– Financial assets at fair value through other comprehensive income	20	114,920,820	103,176,393
– Financial assets at amortised cost	20	268,324,669	278,852,511
Investment in associates	21	4,920,706	1,242,338
Property, plant and equipment	22	2,120,883	2,059,114
Right-of-use assets	23	1,028,149	1,058,243
Deferred income tax assets	33	9,547,402	8,161,629
Finance lease receivables	24	50,021,436	43,949,191
Other assets	25	3,678,882	7,726,669
Total assets		1,194,178,643	1,131,721,238
Liabilities			
Borrowings from the central bank		47,318,152	40,688,546
Deposits from banks and other financial institutions	27	70,353,553	111,335,636
Placements from banks and other financial institutions	28	39,577,201	36,303,061
Derivative financial liabilities	17	259,329	281,329
Financial assets sold under repurchase agreements	29	56,406,265	50,364,962
Deposits from customers	30	699,893,125	603,454,819
Taxes payable	31	2,783,530	3,222,545
Debt securities issued	34	168,008,979	183,242,708
Other liabilities	32	16,316,848	13,334,003
Total liabilities		1,100,916,982	1,042,227,609

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

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

	Notes	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Equity			
Share capital	35	12,154,801	12,154,801
Other equity instruments	35	15,989,901	15,989,901
Capital reserve	35	6,760,445	6,760,445
Surplus reserves	36	12,319,297	11,365,283
General reserves	36	12,294,890	11,115,027
Other comprehensive income	37	2,175,586	1,825,127
Retained earnings		29,206,049	27,998,413
Equity attributable to shareholders of the Bank		90,900,969	87,208,997
Non-controlling interests		2,360,692	2,284,632
Total equity		93,261,661	89,493,629
Total equity and liabilities		1,194,178,643	1,131,721,238

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

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

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Financial Controller

Fang Lixin

Head of Finance Department

Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2020

(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 35	Note 35	Note 35	Note 36	Note 36	Note 37			
As at 1 January 2020	12,154,801	15,989,901	6,760,445	11,365,283	11,115,027	1,825,127	27,998,413	2,284,632	89,493,629
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	5,249,817	80,780	5,330,597
Other comprehensive income, net of tax	-	-	-	-	-	297,014	-	-	297,014
Asset impairment through other comprehensive benefits	-	-	-	-	-	53,445	-	-	53,445
Total comprehensive income for the period	-	-	-	-	-	350,459	5,249,817	80,780	5,681,056
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(1,908,304)	(4,720)	(1,913,024)
Appropriation to surplus reserve	-	-	-	954,014	-	-	(954,014)	-	-
Appropriation to general reserve	-	-	-	-	1,179,863	-	(1,179,863)	-	-
As at 30 June 2020	12,154,801	15,989,901	6,760,445	12,319,297	12,294,890	2,175,586	29,206,049	2,360,692	93,261,661
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)
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

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 2020
 (All amounts expressed in thousands of RMB unless otherwise stated)

	For the six month period ended 30 June	
	2020	2019
	Unaudited	Unaudited
Cash flows from operating activities:		
Profit before income tax	6,439,617	6,111,315
Adjustments:		
Impairment losses on assets	6,608,738	5,894,088
Recovery of written-off loans	339,494	234,301
Depreciation and amortization	396,529	359,523
Net losses/(gains) on disposals of property, plant and equipment	605	(204)
Net losses on financial investment	(228,679)	(43,633)
Fair value changes in financial assets at fair value through profit or loss and derivatives	291,557	491,632
Dividend income	-	(1,200)
Share of results of associates ventures	(78,368)	(67,248)
Interest income from financial investments	(9,221,498)	(10,593,513)
Interest expense from lease liabilities	44,805	20,443
Interest expense from debt securities issued	2,909,761	2,071,336
Subtotal	7,502,561	4,476,840
Net changes in operating assets:		
Net increase in balances with the central bank	(1,767,254)	(1,231,609)
Net decrease/(increase) in deposits and placements with banks and other financial institutions	1,915,251	(3,125,253)
Net (increase)/decrease in financial assets at fair value through profit or loss	(19,479,238)	122,224
Net decrease in financial assets held under resale agreements	4,791,685	16,033,971
Net increase in loans and advances to customers	(63,418,191)	(53,639,690)
Net increase in finance lease receivables	(6,521,446)	(6,842,657)
Net decrease/(increase) in other assets	2,936,904	(3,268,721)
Net changes in operating liabilities:		
Net (decrease)/increase in deposits and placements from banks and other financial institutions	(37,936,864)	1,004,008
Net increase/(decrease) in borrowings from the central bank	6,376,262	(4,730,460)
Net decrease in financial liabilities at fair value through profit or loss	-	(35,490,530)
Net increase in financial assets sold under repurchase agreements	6,292,620	3,542,162
Net increase in deposits from customers	95,509,738	42,075,776
Net increase in other liabilities	3,768,595	2,369,176
Income taxes paid	(3,101,906)	(3,708,527)
Net cash inflow from operating activities	(3,131,283)	(42,413,290)

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 2020

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

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Cash flows from investing activities:		
Dividends received	–	1,200
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	(32,815)	23,491
Purchase of property, plant and equipment, intangible assets and other long-term assets	(242,394)	(190,043)
Interest income received from financial investments	9,255,820	10,597,146
Proceeds from disposal and maturity of financial investments	78,348,734	146,692,876
Investment in associates	(3,600,000)	–
Purchase of financial investments	(73,307,537)	(125,333,650)
Net cash outflow from investing activities	14,021,808	31,791,020
Cash flows from financing activities:		
Proceeds from issuance of bonds	68,270,000	68,630,000
Dividends and interest paid on debts issued	(3,003,714)	(484,335)
Cash paid relating to lease liabilities	(141,580)	(149,068)
Cash paid relating to debt repayments	(83,422,674)	(36,623,578)
Net cash (inflow)/outflow from financing activities	(18,297,968)	31,373,019
Impact on cash and cash equivalents resulted from exchange rate changes	(98,408)	6,274
Net (decrease)/increase in cash and cash equivalents	(7,505,851)	20,757,023
Cash and cash equivalents at beginning of the period	45,696,182	34,069,155
Cash and cash equivalents at end of the period (Note 43)	38,190,331	54,826,178

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

Notes to 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 2020 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 2019.

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 2019.

1.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following revised standards.

IFRS 3 Amendments	<i>Definition of a Business</i>
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>
IFRS 9, IAS 39 and IFRS 7 Amendments	<i>Interest Rate Benchmark Reform</i>
IFRS 16 Amendment	<i>COVID-19-Related Rent Concessions</i>

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

Amendments to IAS 1 and IAS 8 provide a new definition of 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 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1.1 Standards, amendments and interpretations effective in 2020 (Continued)

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted. The Group has early adopted the amendment from 1 January 2020.

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

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 3 Amendments	<i>Reference to the Conceptual Framework</i>	1 January 2022
IAS 16 Amendments	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
IAS 37 Amendments	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
IAS 1 Amendments	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
Annual Improvements to HKFRSs 2018-2020 (issued in May 2020)		1 January 2022

The Group is considering the impact of IFRS 17 on the consolidated financial statements. Except for IFRS 17, the adoption of the above standards and amendments will have no material impact on the financial statements.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 2019.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

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

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Assets		
Cash and balances with the central bank	82,748,251	91,561,272
Deposits with banks and other financial institutions	11,746,222	10,657,970
Placements with banks and other financial institutions	8,796,695	6,469,648
Derivative financial assets	134,439	235,406
Financial assets held under resale agreements	23,819,178	28,651,227
Loans and advances to customers	507,450,875	448,006,168
Financial Investments		
– Financial assets at fair value through profit or loss	102,523,522	95,225,453
– Financial assets at fair value through other comprehensive income	114,920,820	103,176,393
– Financial assets at amortised cost	268,324,669	278,852,511
Investments in subsidiaries	3,809,133	1,809,133
Investments in associates	4,920,706	1,242,338
Property, plant and equipment	2,082,964	2,018,990
Right-of-use assets	1,002,368	1,051,405
Deferred tax assets	8,935,823	7,655,355
Other assets	3,472,447	7,545,675
Total assets	1,144,688,112	1,084,158,944
Liabilities		
Borrowings from the central bank	47,268,152	40,658,530
Deposits from banks and other financial institutions	72,410,263	111,445,482
Placements from banks and other financial institutions	5,064,414	2,642,868
Derivative financial liabilities	259,329	281,329
Financial assets sold under repurchase agreements	56,406,265	50,364,962
Deposits from customers	695,594,688	599,699,128
Taxes payable	2,602,585	3,045,070
Debt securities issued	166,008,979	183,242,708
Other liabilities	9,120,544	6,388,240
Total liabilities	1,054,735,219	997,768,317
Equity		
Share capital	12,154,801	12,154,801
Other equity instruments	15,989,901	15,989,901
Capital reserve	6,751,041	6,751,041
Surplus reserve	12,319,297	11,365,283
General reserve	11,877,308	10,791,391
Other comprehensive Income	2,175,586	1,825,127
Retained earnings	28,684,959	27,513,083
Total equity	89,952,893	86,390,627
Total equity and liabilities	1,144,688,112	1,084,158,944

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Financial Controller

Fang Lixin

Head of Finance Department

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(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 2020	12,154,801	15,989,901	6,751,041	11,365,283	10,791,391	1,825,127	27,513,083	86,390,627
(1) Comprehensive income								
Profit for the period	-	-	-	-	-	-	5,120,111	5,120,111
Other comprehensive income, net of tax	-	-	-	-	-	297,014	-	297,014
Asset impairment through other comprehensive benefits	-	-	-	-	-	53,445	-	53,445
Total comprehensive income for the year	-	-	-	-	-	350,459	5,120,111	5,470,570
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,908,304)	(1,908,304)
Appropriation to surplus reserve	-	-	-	954,014	-	-	(954,014)	-
Appropriation to general reserve	-	-	-	-	1,085,917	-	(1,085,917)	-
As at 30 June 2020	12,154,801	15,989,901	6,751,041	12,319,297	11,877,308	2,175,586	28,684,959	89,952,893
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 year	-	-	-	-	-	-	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)
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

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

4 NET INTEREST INCOME

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Interest income		
Balances with the central bank	500,559	533,276
Deposits and placements with banks and other financial institutions	432,995	571,995
Loans and advances to customers	13,148,717	10,753,876
Investment securities	9,221,498	10,593,513
Finance leases	1,488,393	1,263,573
Subtotal	24,792,162	23,716,233
Unwinding of discount on allowance	36,147	17,077
Interest expense		
Borrowings from the central bank ^(a)	(630,841)	(442,350)
Deposits and placements from banks and other financial institutions	(2,686,053)	(3,410,034)
Deposits from customers	(6,039,266)	(4,967,301)
Debt securities issued	(2,909,761)	(2,071,336)
Subtotal	(12,265,921)	(10,891,021)
Net interest income	12,526,241	12,825,212

(a) 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.

5 NET FEE AND COMMISSION INCOME

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Fee and commission income		
Settlement and clearing fees	54,752	40,488
Guarantee and commitment fees	165,580	164,569
Investment banking fees	378,251	439,090
Custody fees	340,787	231,322
Bank card fees	358,523	374,968
Acquiring business fees	7,361	8,259
Agency commissions	655,140	406,688
Finance lease fees	315,896	282,628
Others	65,398	43,966
Subtotal	2,341,688	1,991,978
Fee and commission expense	(84,605)	(104,241)
Net fee and commission income	2,257,083	1,887,737

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

6 NET TRADING GAINS

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Net gains from foreign exchange	80,207	28,294
Net gains from interest rate products ^(a)	1,188,423	867,765
Net losses from commodity products	(767)	(392,509)
Total	1,267,863	503,550

(a) 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.

7 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Net gains from financial assets at fair value through other comprehensive income	237,215	55,521
Net gains/(losses) from financial assets at amortised cost	18	321
Net losses from financial assets at fair value through profit or loss	(22,219)	(14,950)
Other	13,665	2,741
Total	228,679	43,633

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 2020.

8 OTHER OPERATING INCOME, NET

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Net gains on bills	49,063	6,428
Others	69,948	42,289
Total	119,011	48,717

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

9 OPERATING EXPENSES

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Staff cost (Note 10)	(2,177,862)	(1,989,824)
Business tax and surcharges	(148,810)	(128,215)
General operating and administrative expenses	(634,864)	(817,775)
Operating lease rental expenses	(19,614)	(33,494)
Depreciation of property, plant and equipment (Note 22)	(139,017)	(148,989)
Depreciation of right-of-use assets (Note 23)	(153,637)	(129,051)
Amortization expenses for long-term prepaid expenses	(48,725)	(52,029)
Amortization expenses for intangible assets (Note 25(b))	(55,150)	(29,454)
Others	(51,211)	(43,063)
Total	(3,428,890)	(3,371,894)

10 STAFF COST

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Salaries, bonuses, allowances and subsidies	(1,773,436)	(1,456,958)
Pension costs	(130,438)	(220,694)
Labor union fee and staff education fee	(30,926)	(31,083)
Other social insurance and welfare costs	(243,062)	(281,089)
Total	(2,177,862)	(1,989,824)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

11 IMPAIRMENT LOSSES ON ASSETS

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Loans and advances		
– At amortised cost	(3,861,433)	(2,407,229)
– Stage 1	(1,215,111)	(251,872)
– Stage 2	(1,348,714)	(1,275,872)
– Stage 3	(1,297,608)	(879,485)
– At fair value through other comprehensive income	73,040	68,489
– Stage 1	73,040	68,489
Financial investments		
– Financial assets at amortised cost	(2,085,184)	(2,506,514)
– Financial assets at fair value through other comprehensive income	(144,300)	104,180
Credit commitments	(2,401)	(102,905)
Deposits with banks and other financial institutions	(130,024)	(675,754)
Placements with and loans to banks and other financial institutions	8,756	15,527
Financial assets held under resale agreements	(34,966)	50,011
Finance lease receivables (Note 24)	(578,238)	(367,893)
Other assets	146,012	(72,000)
Total	(6,608,738)	(5,894,088)

12 INCOME TAX EXPENSE

	For the six month period ended 30 June	
	2020 Unaudited	2019 Unaudited
Current income tax		
– Chinese mainland income tax	(2,611,612)	(2,206,342)
Deferred tax (Note 33)	1,502,592	1,105,642
Total	(1,109,020)	(1,100,700)

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

12 INCOME TAX EXPENSE (Continued)

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	
	2020 Unaudited	2019 Unaudited
Profit before tax	6,439,617	6,111,315
Tax calculated at the applicable statutory tax rate of 25%	(1,609,904)	(1,527,829)
Tax effect arising from income not subject to tax ^(a)	603,697	499,699
Tax effect of items such as expenses not deductible for tax purposes ^(b)	(58,272)	(53,845)
Tax filing differences from previous years	(12,637)	1,600
Unrecognised deductible temporary differences and deductible losses ^(c)	(31,904)	(20,325)
Income tax expense	(1,109,020)	(1,100,700)

- (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.

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	
	2020 Unaudited	2019 Unaudited
Net profit attributable to shareholders of the Bank (in RMB thousands)	5,249,817	4,919,697
Weighted average number of ordinary shares in issue (in thousands)	12,154,801	12,154,801
Basic earnings per share (in RMB)	0.43	0.40

(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 2020 and ended 30 June 2019.

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 2020.

The preference shares are potentially convertible to ordinary shares available. As of 30 June 2020, 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 2020.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

14 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Cash	1,298,830	1,025,001
Statutory reserves ^(a)	60,075,612	58,308,358
Surplus reserves ^(b)	21,769,152	32,602,248
Subtotal	83,143,594	91,935,607
Interest receivable	26,417	35,647
Total	83,170,011	91,971,254

- (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 2020 Unaudited	As at 31 December 2019 Audited
Statutory reserve rate for RMB deposits	9.0%	9.5%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

As at 30 June 2020, statutory reserve rates for Jinzhai Huiyin Village and Township Bank Co., Ltd. and Wuwei Huiyin Village and Township Bank Co., Ltd. were 5% and 6% (31 December 2019: 6.5% and 7.5%).

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

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Banks in Mainland China	12,932,645	10,942,449
Other financial institutions in Mainland China	50,708	48,538
Banks in other countries and regions	2,399,485	3,496,165
Subtotal	15,382,838	14,487,152
Interest receivable	28,980	143,485
Less: allowances for impairment losses	(506,433)	(376,409)
Total	14,905,385	14,254,228

Deposits with banks and other financial institutions' allowances for impairment losses were RMB506,433 thousand (31 December 2019: RMB376,409 thousand).

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Banks in Chinese mainland	1,274,310	1,348,834
Other financial institutions in Chinese mainland	3,485,160	3,268,157
Other financial institutions in other countries and regions	220,000	120,000
Subtotal	4,979,470	4,736,991
Interest receivable	34,016	14,201
Less: allowances for impairment losses	(4,631)	(13,387)
Total	5,008,855	4,737,805

Placements with banks and other financial institutions were in Stage 1, and allowances for impairment losses were RMB4,631 thousand (31 December 2019: RMB13,387 thousand).

17 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2020 Unaudited		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	609,899	4,202	(3,517)
– Currency swaps	11,832,854	7,805	(26,274)
– Interest rate swaps	32,684,000	122,432	(229,538)
Total	45,126,753	134,439	(259,329)

	As at 31 December 2019 Audited		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	252,999	2,829	(2,032)
– Currency swaps	9,724,597	182,257	(72,022)
– Interest rate swaps	11,830,000	50,320	(172,050)
– Credit risk mitigation tools issued–financial guarantee contracts	650,000	–	(35,225)
Total	22,457,596	235,406	(281,329)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
By collateral type:		
Debt securities	21,486,344	28,725,573
Bills	2,447,544	–
Subtotal	23,933,888	28,725,573
Interest receivable	4,730	10,128
Less: allowances for impairment losses	(119,440)	(84,474)
Total	23,819,178	28,651,227

Financial assets held under resale agreements were in Stage 1, and allowances for impairment losses were RMB119.44 million (31 December 2019: RMB84.47 million).

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Loans and advances measured at amortised cost		
– Corporate loans	313,990,981	263,782,663
– Personal loans	194,426,338	178,332,291
Subtotal	508,417,319	442,114,954
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	17,933,350	21,870,165
Subtotal	17,933,350	21,870,165
Total	526,350,669	463,985,119
Interest receivable	997,676	956,051
Total loans and advances	527,348,345	464,941,170
Less: allowance for loans at amortised cost	(17,294,039)	(14,521,393)
Loans and advances to customers, net	510,054,306	450,419,777
Allowance for loans at fair value through other comprehensive income	(35,415)	(108,455)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(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 2020				
Total loans and advances to customers	510,053,967	10,330,269	5,966,433	526,350,669
Allowance for impairment losses				
– Loans and advances measured at amortised cost	(6,529,606)	(5,734,972)	(5,029,461)	(17,294,039)
As at 31 December 2019				
Total loans and advances to customers	447,337,963	11,832,498	4,814,658	463,985,119
Allowance for impairment losses				
– Loans and advances measured at amortised cost	(5,377,937)	(4,814,007)	(4,329,449)	(14,521,393)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(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 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2020	5,377,937	4,814,007	4,329,449	14,521,393
Impairment losses for the period	1,215,111	1,348,714	1,297,608	3,861,433
Stage conversion				
Transfers to Stage 1	43,309	(15,491)	(27,818)	–
Transfers to Stage 2	(93,204)	99,994	(6,790)	–
Transfers to Stage 3	(13,547)	(512,252)	525,799	–
Write-off and transfer out	–	–	(1,392,135)	(1,392,135)
Recovery of loans and advances written off	–	–	339,494	339,494
Unwinding of discount on allowance	–	–	(36,146)	(36,146)
As at 30 June 2020	6,529,606	5,734,972	5,029,461	17,294,039

For the six months ended 30 June 2020, the domestic branch adjusted the five-level classification and customer rating of customer loans and advances, and the loan principal of stage 1 was transferred to stage 2 and stage 3 of RMB2,100 million, the loan principal from stage 2 to stage 3 is RMB1,700 million, the principal of the loan transferred from stage 2 to stage 1 is RMB200 million. The principal of the loan transferred from stage 3 to stage 1 and stage 2 is not significant.

	Year ended 31 December 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 year	1,271,030	1,018,452	2,301,964	4,591,446
Stage conversion				
Transfers to Stage 1	635,379	(622,129)	(13,250)	–
Transfers to Stage 2	(12,798)	39,637	(26,839)	–
Transfers to Stage 3	(19,970)	(484,801)	504,771	–
Write-off and transfer out	–	–	(2,518,992)	(2,518,992)
Recovery of loans and advances written off	–	–	582,663	582,663
Unwinding of discount on allowance	–	–	(41,157)	(41,157)
As at 31 December 2019	5,377,937	4,814,007	4,329,449	14,521,393

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(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)

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

In this year, the domestic branch adjusted the five-level classification and customer rating of customer loans and advances, and the loan principal of stage 1 was transferred to stage 2 and stage 3 of RMB2,600 million, the loan principal from stage 2 to stage 3 is RMB1,400 million, the principal of the loan transferred from stage 2 to stage 1 is RMB4,000 million. The principal of the loan transferred from stage 3 to stage 1 and stage 2 is not significant.

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

	For the six month period ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2020	108,455	–	–	108,455
Impairment losses for the period	(73,040)	–	–	(73,040)
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 2020	35,415	–	–	35,415

	Year ended 31 December 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2019	119,339	–	–	119,339
Impairment losses for the year	(10,884)	–	–	(10,884)
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 2019	108,455	–	–	108,455

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

20 INVESTMENT SECURITIES

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at fair value through profit or loss		
Listed outside Hong Kong		
– Government bonds	2,065,633	1,146,087
– Other debt securities	14,393,587	1,388,746
– Interbank certificates of deposits	1,182,407	49,676
Subtotal	17,641,627	2,584,509
Unlisted		
– Beneficial rights in trust and asset management plans	83,852,134	70,973,827
– Non-guaranteed wealth management products managed by other banks	–	20,220,583
Subtotal	83,852,134	91,194,410
Interest receivable	1,029,761	1,446,534
Total	102,523,522	95,225,453

As at 30 June 2020 and 31 December 2019, 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 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at fair value through other comprehensive income		
Debt securities		
Listed outside Hong Kong		
– Debt securities	105,735,860	95,905,662
– Interbank certificates of deposits	7,094,086	5,511,326
Subtotal	112,829,946	101,416,988
Equity securities		
Unlisted		
– Equity investment	204,840	180,876
Subtotal	204,840	180,876
Interest receivable	1,886,034	1,578,529
Total	114,920,820	103,176,393

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

20 INVESTMENT SECURITIES (Continued)

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at amortised cost		
Listed outside Hong Kong		
– Debt securities	87,337,970	75,095,015
– Interbank certificates of deposits	198,052	–
Unlisted		
– Beneficial rights in trust and asset management plans	189,927,566	210,290,122
Subtotal	277,463,588	285,385,137
Interest receivable	4,360,542	4,881,651
Less: allowance for impairment losses	(13,499,461)	(11,414,277)
Financial assets at amortised cost, net	268,324,669	278,852,511

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 42.

Investment securities analyzed by issuer are as follows:

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at FVTPL		
By issuers		
– Government	2,065,633	1,146,087
– Banks and other financial institutions	97,872,447	92,596,462
– Legal entities	1,555,681	36,370
Subtotal	101,493,761	93,778,919
Interest receivable	1,029,761	1,446,534
Total	102,523,522	95,225,453

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

20 INVESTMENT SECURITIES (Continued)

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at FVOCI		
Debt instruments		
By issuers		
– Government	66,828,538	59,198,502
– Banks and other financial institutions	29,004,818	26,210,435
– Legal entities	16,996,590	16,008,051
Subtotal	112,829,946	101,416,988
Equity instruments	204,840	180,876
Interest receivable	1,886,034	1,578,529
Total	114,920,820	103,176,393

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Financial assets at AC		
By issuers		
– Government	69,095,080	57,790,899
– Banks and other financial institutions	200,661,519	219,810,470
– Legal entities	7,706,989	7,783,768
Subtotal	277,463,588	285,385,137
Interest receivable	4,360,542	4,881,651
Less: allowance for impairment losses	(13,499,461)	(11,414,277)
Financial assets at AC, net	268,324,669	278,852,511

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

21 INVESTMENTS IN ASSOCIATES

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

As at 30 June 2020

Associates	Principal place of business	Location of registration	Percentage of shares	Registered capital	Principal activities
Chery Huiyin Motor Finance Service Co., Ltd.	Anhui Province	Anhui Province	20%	1,500,000	Auto Financing
MengShang Bank Co., Ltd.	Inner Mongolia Autonomous Region	Inner Mongolia Autonomous Region	15%	20,000,000	Commercial Banking

As at 31 December 2019

Associates	Principal place of business	Location of registration	Percentage of shares	Registered capital	Principal activities
Chery Huiyin Motor Finance Service Co., Ltd.	Anhui Province	Anhui Province	20%	1,500,000	Auto Financing

	Six months ended 30 June 2020 Unaudited	Year ended 31 December 2019 Audited
Balance at beginning of the period/year	1,242,338	1,100,008
Additions	3,600,000	–
Cash dividends received	–	(11,030)
Share of results, net of tax	78,368	153,360
Balance at end of the period/year	4,920,706	1,242,338

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with 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 completed its shareholding reform, and was 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 ratios. 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.

The Group participated in the establishment of MengShang Bank Co., Ltd. in 2020. The registered capital of the invested enterprise was RMB20 billion, and the Group invested RMB3.6 billion (including RMB3 billion included in the share capital and RMB600 million included in the capital reserve), accounting for 15% of the shares. MengShang Bank Co., Ltd. was established in accordance with the law on 30 April 2020. One of the current board members is nominated by the Group and the Group can exert significant influence on the company, so it is accounted as an associated company.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

(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 2020	1,732,975	55,631	1,709,722	709,826	4,208,154
Additions	2,257	–	58,677	144,201	205,135
Transfers in/(out)	–	–	–	(3,042)	(3,042)
Disposals	(23,366)	(2,580)	(14,680)	–	(40,626)
Other transfers out	–	–	–	–	–
As at 30 June 2020	1,711,866	53,051	1,753,719	850,985	4,369,621
Accumulated depreciation					
As at 1 January 2020	(934,799)	(51,228)	(1,163,013)	–	(2,149,040)
Depreciation charge	(38,375)	(592)	(100,050)	–	(139,017)
Disposals	22,447	2,544	14,328	–	39,319
As at 30 June 2020	(950,727)	(49,276)	(1,248,735)	–	(2,248,738)
Net book value	761,139	3,775	504,984	850,985	2,120,883

	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	5,044	582	186,699	187,753	380,078
Transfers in/(out)	92,810	278	172	(349,051)	(255,791)
Disposals	(9,401)	(7,190)	(72,016)	–	(88,607)
Other transfers out	–	–	–	(5,438)	(5,438)
As at 31 December 2019	1,732,975	55,631	1,709,722	709,826	4,208,154
Accumulated depreciation					
As at 1 January 2019	(859,173)	(55,460)	(1,031,563)	–	(1,946,196)
Depreciation charge	(79,274)	(2,743)	(206,281)	–	(288,298)
Disposals	3,648	6,975	74,831	–	85,454
As at 31 December 2019	(934,799)	(51,228)	(1,163,013)	–	(2,149,040)
Net book value	798,176	4,403	546,709	709,826	2,059,114

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

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

23 RIGHT-OF-USE ASSETS

	Buildings	Motor vehicles	Land use rights	Other equipment	Total
Cost					
As at 1 January 2020	1,176,463	5,346	171,785	–	1,353,594
Additions	134,316	3,817	–	2,609	140,742
Disposals and transfers out	(40,743)	(579)	(922)	–	(42,244)
Revaluation of lease liabilities	(7,362)	(5)	–	–	(7,367)
As at 30 June 2020	1,262,674	8,579	170,863	2,609	1,444,725
Accumulated depreciation					
As at 1 January 2020	(262,503)	(2,069)	(30,779)	–	(295,351)
Depreciation charge	(146,834)	(2,149)	(4,378)	(276)	(153,637)
Transfers out	31,931	481	–	–	32,412
As at 30 June 2020	(377,406)	(3,737)	(35,157)	(276)	(416,576)
Net book value	885,268	4,842	135,706	2,333	1,028,149

	Buildings	Motor vehicles	Land use rights	Total
Cost				
As at 1 January 2019	1,009,086	2,965	170,863	1,182,914
Additions	183,534	2,381	922	186,837
Disposals and transfers out	(10,142)	–	–	(10,142)
Revaluation of lease liabilities	(6,015)	–	–	(6,015)
As at 31 December 2019	1,176,463	5,346	171,785	1,353,594
Accumulated depreciation				
As at 1 January 2019	–	–	(22,023)	(22,023)
Depreciation charge	(264,257)	(2,069)	(8,756)	(275,082)
Transfers out	1,754	–	–	1,754
As at 31 December 2019	(262,503)	(2,069)	(30,779)	(295,351)
Net book value	913,960	3,277	141,006	1,058,243

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

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

24 FINANCE LEASE RECEIVABLES

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

As at 30 June 2020	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	10,572,935	30,424,419	17,480,111	58,477,465
Unrealised revenue	(1,644,708)	(4,002,009)	(1,301,127)	(6,947,844)
Allowance	(555,749)	(693,050)	(851,561)	(2,100,360)
Interest receivable of finance leases	592,175	–	–	592,175
Net	8,964,653	25,729,360	15,327,423	50,021,436

As at 31 December 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Finance lease receivables	17,684,384	23,312,041	9,887,093	50,883,518
Unrealised revenue	(3,376,451)	(2,172,150)	(326,742)	(5,875,343)
Allowance	(391,973)	(890,264)	(239,885)	(1,522,122)
Interest receivable of finance leases	463,138	–	–	463,138
Net	14,379,098	20,249,627	9,320,466	43,949,191

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

	Six month period ended 30 June 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
As at 1 January 2020	478,825	20,966	1,022,331	1,522,122
Impairment losses for the period (Note 26)	55,539	513,613	9,086	578,238
Stage conversion				
Transfers to Stage 1	66,278	–	(66,278)	–
Transfers to Stage 2	(19)	737,986	(737,967)	–
Transfers to Stage 3	–	(35)	35	–
As at 30 June 2020	600,623	1,272,530	227,207	2,100,360

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

24 FINANCE LEASE RECEIVABLES (Continued)

	Year ended 31 December 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)	229,627	20,482	504,909	755,018
Stage conversion				
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(2,612)	2,612	-	-
Transfers to Stage 3	(167)	(7,815)	7,982	-
Write-off and transfer out	-	-	(82,841)	(82,841)
As at 31 December 2019	478,825	20,966	1,022,331	1,522,122

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 2020, the principal of the Group's five largest finance lease receivables and the related allowance were RMB1,813,731 thousand and RMB18,735 thousand, respectively, which accounted for 3.52% and 0.89% of the total balance, respectively (31 December 2019: the principal of the Group's five largest finance lease receivables and the related allowance were RMB1,731,020 thousand and RMB15,618 thousand, respectively, which accounted for 3.85% and 1.03% of the total balance, respectively).

25 OTHER ASSETS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Interest receivable	84,543	32,077
Other receivables ^(a)	1,359,362	4,779,171
Less: impairment allowance ^(a)	(310,155)	(451,472)
Funds to be settled	850,591	1,829,125
Long-term prepaid expenses	203,216	242,803
Foreclosed assets	591,299	568,266
Less: impairment allowance	(199,949)	(199,949)
Intangible assets ^(b)	400,976	418,285
Continued involvement in assets	304,024	304,024
Others	396,663	206,939
Less: impairment allowance	(1,688)	(2,600)
Total	3,678,882	7,726,669

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

25 OTHER ASSETS (Continued)

(a) Other receivables

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

As at 30 June 2020	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	646,094	601,101	112,167	1,359,362
Allowance for impairment losses	(5,133)	(212,587)	(92,435)	(310,155)
Net	640,961	388,514	19,732	1,049,207

As at 31 December 2019	Within 1 year	1 to 3 years	Over 3 years	Total
Other receivables	4,018,107	662,350	98,714	4,779,171
Allowance for impairment losses	(47,045)	(311,599)	(92,828)	(451,472)
Net	3,971,062	350,751	5,886	4,327,699

(b) Intangible assets

Intangible assets of the Group are mainly computer software.

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Cost		
Balance at beginning of the period/year	735,493	446,618
Additions	34,799	59,462
Transfers-ins	3,042	255,792
Disposals	(30)	(26,379)
Balance at end of the period/year	773,304	735,493
Accumulated amortisation		
Balance at beginning of the period/year	(317,208)	(265,529)
Additions	(55,150)	(66,704)
Disposals	30	15,025
Balance at end of the period/year	(372,328)	(317,208)
Net book value		
At end of the period/year	400,976	418,285

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

26 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES)

	As at 1 January 2020	Additions/ Deductions	Recovery	Utilised	As at 30 June 2020
Deposits with banks and other financial institutions	(376,409)	(130,024)	-	-	(506,433)
Placements with banks and other financial institutions	(13,387)	8,756	-	-	(4,631)
Financial assets held under resale agreements	(84,474)	(34,966)	-	-	(119,440)
Financial investments measured at fair value and whose changes are included in other comprehensive income	(531,000)	(144,300)	-	-	(675,300)
Financial assets at amortised cost	(11,414,277)	(2,085,184)	-	-	(13,499,461)
Finance lease receivables	(1,522,122)	(578,238)	-	-	(2,100,360)
Foreclosed assets	(199,949)	-	-	-	(199,949)
Other assets – bad debts	(454,072)	146,012	(3,783)	-	(311,843)
Total	(14,595,690)	(2,817,944)	(3,783)	-	(17,417,417)

	As at 1 January 2019	Additions/ Deductions	Recovery	Utilised	As at 31 December 2019
Deposits with banks and other financial institutions	(14,629)	(707,367)	-	345,587	(376,409)
Placements with banks and other financial institutions	(22,251)	8,864	-	-	(13,387)
Financial assets held under resale agreements	(76,952)	(7,522)	-	-	(84,474)
Financial investments measured at fair value and whose changes are included in other comprehensive income	(613,259)	82,259	-	-	(531,000)
Financial assets at amortised cost	(7,878,848)	(5,485,037)	-	1,949,608	(11,414,277)
Finance lease receivables	(849,945)	(755,018)	-	82,841	(1,522,122)
Foreclosed assets	(177,125)	(22,824)	-	-	(199,949)
Other assets – bad debts	(98,172)	(380,629)	-	24,729	(454,072)
Total	(9,731,181)	(7,267,274)	-	2,402,765	(14,595,690)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Banks in Chinese mainland	14,739,697	23,656,487
Other financial institutions in Chinese mainland	54,751,182	87,049,801
Interest payable	862,674	629,348
Total	70,353,553	111,335,636

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Banks in Chinese mainland	39,195,909	35,917,364
Interest payable	381,292	385,697
Total	39,577,201	36,303,061

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Securities sold under repurchase agreements	29,902,988	25,145,563
Bills sold under repurchase agreements	7,879,177	6,147,584
Precious metals sold under repurchase agreements	18,493,854	18,690,252
Interest payable	130,246	381,563
Total	56,406,265	50,364,962

30 DEPOSITS FROM CUSTOMERS

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Demand deposits		
– Corporate deposits	272,606,681	249,095,682
– Personal deposits	66,232,565	59,252,469
Time deposits(including deposits at call)		
– Corporate deposits	164,665,380	135,545,639
– Personal deposits	148,576,758	117,714,469
Pledged deposits held as collateral	36,486,262	32,007,196
Remittances payable	641,639	143,719
Other deposits	134,557	74,930
Interest payable	10,549,283	9,620,715
Total	699,893,125	603,454,819

31 TAXES PAYABLE

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Corporate income tax	2,166,756	2,657,050
Value-added tax	519,152	457,505
Business tax and surcharges	63,375	54,647
Others	34,247	53,343
Total	2,783,530	3,222,545

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

32 OTHER LIABILITIES

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Dividends payable ^(a)	2,037,612	137,486
Unearned rent and deposits under lease arrangements ^(b)	3,827,060	3,548,920
Funds to be settled	1,525,814	475,480
Continued involvement in liabilities	304,024	304,024
Asset securitisation	332,743	512,236
Salary and welfare payable ^(c)	2,759,704	2,399,451
Entrusted services	29,347	113,278
Long term suspension of customer deposits	192	199
Provision	695,762	688,288
– Allowance for litigation losses (Note 39)	230,372	230,372
– Provision for impairment of credit commitments ^(d)	435,210	432,809
Project funds payable	40,422	68,606
Lease liabilities	846,519	851,241
Deferred income	1,047,654	997,645
Account payable	1,469,656	1,515,357
Others	1,400,339	1,721,792
Total	16,316,848	13,334,003

(a) Dividends payable

As at 30 June 2020, the general meetings of shareholders were held and it decided to distribute cash dividends to all shareholders. Details are listed in note 38.

(b) Unearned rent and deposits under lease arrangements

As at 30 June 2020, 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.

(c) Salary and welfare payable

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Short-term employee benefits	2,704,872	2,345,511
Termination benefits	18,718	13,071
Defined contribution plans	36,114	40,869
Total	2,759,704	2,399,451

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

32 OTHER LIABILITIES (Continued)

(c) Salary and welfare payable (Continued)

Short-term employee benefits

	As at 1 January 2020	Increase in current period	Decrease in current period	As at 30 June 2020
Wages, bonuses, allowances and subsidies	1,964,287	1,773,436	(1,421,875)	2,315,848
Employee benefits	75	90,978	(90,999)	54
Social insurance	846	51,092	(50,006)	1,932
Including:				
Medical insurance	750	50,462	(49,403)	1,809
Occupational injury insurance	46	243	(218)	71
Maternity insurance	50	387	(385)	52
Housing fund	7,046	100,007	(104,871)	2,182
Labour union fee and staff education fee	59,488	30,926	(19,327)	71,087
Other short-term employee benefits	313,769	8	(8)	313,769
Total	2,345,511	2,046,447	(1,687,086)	2,704,872

	As at 1 January 2019	Increase in current year	Decrease in current year	As at 31 December 2019
Wages, bonuses, allowances and subsidies	1,398,132	2,953,087	(2,386,932)	1,964,287
Employee benefits	–	271,438	(271,363)	75
Social insurance	916	156,620	(156,690)	846
Including:				
Medical insurance	830	150,251	(150,331)	750
Occupational injury insurance	36	1,229	(1,219)	46
Maternity insurance	50	5,140	(5,140)	50
Housing fund	2,284	188,729	(183,967)	7,046
Labour union fee and staff education fee	39,361	97,133	(77,006)	59,488
Other short-term employee benefits	313,768	15	(14)	313,769
Total	1,754,461	3,667,022	(3,075,972)	2,345,511

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

32 OTHER LIABILITIES (Continued)

(c) Salary and welfare payable (Continued)

Defined contribution plans

	As at 1 January 2020	Increase in current period	Decrease in current period	As a 30 June 2020
Basic pension insurance	6,182	30,489	(26,603)	10,068
Unemployment Insurance	214	977	(848)	343
Annuity scheme	6,675	99,949	(98,317)	8,307
Total	13,071	131,415	(125,768)	18,718

	As at 1 January 2019	Increase in current year	Decrease in current year	As at 31 December 2019
Basic pension insurance	6,150	232,833	(232,801)	6,182
Unemployment Insurance	237	6,430	(6,453)	214
Annuity scheme	4,250	248,892	(246,467)	6,675
Total	10,637	488,155	(485,721)	13,071

	As at 30 June 2020	As at 31 December 2019
Early retirement benefits	36,114	40,869

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

32 OTHER LIABILITIES (Continued)

- (d) Provision – Provision for impairment of credit commitments

	Six month period ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2020	351,178	73,649	7,982	432,809
Impairment losses for the period	36,205	(34,322)	518	2,401
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
As at 30 June 2020	387,383	39,327	8,500	435,210

	Year ended 31 December 2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	Total
As at 1 January 2019	292,381	68,060	118	360,559
Impairment losses for the year	58,962	5,590	7,698	72,250
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(165)	(1)	166	–
As at 31 December 2019	351,178	73,649	7,982	432,809

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

33 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 2020 Unaudited	2019 Audited
Balance at beginning of the period/year	8,161,629	5,749,437
Charged to the income statement	1,502,592	2,491,542
Credited to other comprehensive income	(116,819)	(79,350)
Balance at end of the period/year	9,547,402	8,161,629

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

	As a 30 June 2020 Unaudited	As at 31 December 2019 Audited
Deferred tax assets		
Impairment allowance for assets	8,746,663	7,480,096
Salary and welfare payable	590,921	499,427
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	146,974	42,067
Impairment of financial assets at fair value through other comprehensive income	168,826	132,750
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	3,932	12,475
Impairment of loans and advances to customers at fair value through other comprehensive income	8,854	27,114
Credit commitment impairment	108,802	108,202
Others	501,556	480,348
Total deferred income tax assets	10,276,528	8,782,479
Deferred income tax liabilities		
Fair value changes of financial assets at fair value through other comprehensive income	(551,446)	(460,986)
Impairment of financial assets at fair value through other comprehensive income	(168,826)	(132,750)
Impairment of loans and advances to customers at fair value through other comprehensive income	(8,854)	(27,114)
Total deferred income tax liabilities	(729,126)	(620,850)
Net	9,547,402	8,161,629

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

33 DEFERRED INCOME TAXES (Continued)

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

	Six months ended 30 June	
	2020 Unaudited	2019 Audited
Impairment allowance for assets	1,266,567	676,051
Salary and welfare payable	91,494	14,524
Fair value changes of financial instruments and derivative financial instruments at fair value through profit or loss	104,907	108,048
Impairment changes of financial assets at fair value through other comprehensive income	36,076	(26,044)
Impairment changes of loans and advances to customer at fair value through other comprehensive income	(18,260)	(17,123)
Credit commitment impairment	600	25,726
Others	21,208	324,460
Total	1,502,592	1,105,642

34 DEBT SECURITIES ISSUED

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
	11 Subordinated debts with fixed rate ^(a)	3,995,381
15 Financial bonds 02 ^(b)	499,942	499,898
15 Tier 2 capital bonds ^(c)	7,991,605	7,990,915
15 Financial bonds 04 ^(d)	499,932	499,888
16 Financial bonds 02 ^(e)	2,999,904	2,999,860
17 Green financial bonds ^(f)	999,991	999,960
18 Green financial bonds ^(g)	3,999,987	3,999,980
19 Financial bonds 01 ^(h)	9,000,000	9,000,000
19 Financial bonds 02 ⁽ⁱ⁾	1,000,000	1,000,000
20 Financial bonds 01 ^(j)	9,999,440	–
20 Huiyin Financial Leasing bond 01 ^(k)	2,000,000	–
Interbank certificates of deposit issued ^(l)	124,322,744	151,476,020
Interest payable	700,053	781,108
Total	168,008,979	183,242,708

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

34 DEBT SECURITIES ISSUED (Continued)

- (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.
- (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 RMB30 billion of financial bonds on 12 August 2016 on the China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) 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.
- (j) The Group issued RMB10 billion of financial bonds on 27 April 2020 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.3%, paid annually.
- (k) The Group issued RMB2 billion of financial bonds on 16 April 2020 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.9%, paid annually.
- (l) The Group issued 39 interbank certificates of deposit at discount with a total face value of RMB56.27 billion with maturity ranging from three months to one year. As at 30 June 2020, the face value of the undue interbank certificates of deposit issued was RMB125.54 billion.

For the six month period ended 30 June 2020, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

35 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 2020 Unaudited	As at 31 December 2019 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 2020 and 31 December 2019

Preference shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original currency (USD)	Amount (RMB)	Maturity date	Conversion conditions
30 June 2020									
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 2020		Increase		30 June 2020	
	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 2019		Increase		31 December 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

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

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

(b) Other equity instruments (Continued)

Changes in preference shares outstanding (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 China Banking and Insurance Regulatory Commission ("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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

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

(b) Other equity instruments (Continued)

Perpetual bonds issued on 30 June 2020 and 31 December 2019

Perpetual bonds	Issue date	Classification	Initial interest rate	Issue price (yuan)	Amount	RMB (thousand)	Maturity date	Method
					(100 million yuan)			
31 December 2019	29 November 2019	Equity instruments	4.90%	¥100/share	100	10,000,000	No maturity date	floating interest rates
Total amount						10,000,000		
Less: issuance fee						(189)		
Carrying amount						9,999,811		

Huishang Bank separately obtained approval on 5 August and 5 November 2019, from the Anhui office of China Banking and Insurance Regulatory Commission and the People's Bank of China to issue capital bonds with fixed maturities of no more than RMB10 billion in the national interbank bond market; at the end of November 2019, Huishang Bank Successfully issued Huishang Bank Co., Ltd. 2019 No Fixed-Term Capital Bonds, and completed bond registration and custody at the Central Government Bonds Registration and Clearing Co., Ltd. The bond was filed on 29 November 2019, and was issued on 3 December 2019. The bond issuance has a scale of RMB10 billion, and the unit face value is RMB100. It is issued at par with par value and coupon rate is 4.9%.

The duration of the bond is consistent with the Bank's continuing operations. Five years after the date of issuance, the bank has the right to redeem all or part of the bond at annual interest payment date (including the interest payment date of the fifth year after the date of issuance) on the premise that the redemption prerequisites are met and the CBIRC is approved. When the write-down triggering conditions are met, the bank has the right to write down all or part of the above-mentioned bonds that have been issued and surviving according to the total face value of the bonds if they are reported to the CBRC and agreed, but without the consent of the bondholders.. The principal of the bond is settled in the order of depositors, general creditors and subordinated debts higher than the bonds, but before all classes of shares held by shareholders; the bonds are in the same order as other tier 1 capital instruments with the same repayment order be compensated.

The aforesaid bonds are paid by non-cumulative interest, and the Bank has the right to cancel part or all of the dividends of the bonds, which does not constitute a default event. The Bank is free to dispose of the proceeds of the cancellation of dividends for repayment of other due debts, but the Bank will not distribute profits to ordinary shareholders until the full interest payment is resumed.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

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

(b) Other equity instruments (Continued)

Perpetual bonds issued on 30 June 2020 and 31 December 2019 (Continued)

Related information attributable to equity instrument holders:

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
1. Total equity attributable to equity holders of the Bank	90,900,969	87,208,997
(1) Equity attributable to ordinary equity holders of the Bank	74,911,068	71,219,096
(2) Equity attributable to other equity holders of the Bank	15,989,901	15,989,901
2. Total equity attributable to non-controlling interests	2,360,692	2,284,632

(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 2020 Unaudited	As at 31 December 2019 Audited
Share premium	6,760,445	6,760,445

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

36 SURPLUS RESERVES AND GENERAL AND REGULATORY RESERVES

	Surplus reserves (a)	General reserves (b)
As at 1 January 2019	9,553,466	9,117,707
Appropriation to surplus reserves (a)	1,811,817	–
Appropriation to general reserves (b)	–	1,997,320
As at 31 December 2019	11,365,283	11,115,027
Appropriation to surplus reserves (a)	954,014	–
Appropriation to general reserves (b)	–	1,179,863
As at 30 June 2020	12,319,297	12,294,890

(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 2020 and 31 December 2019, the Bank’s statutory surplus reserve balances were RMB6,368.98 million and RMB6,368.98 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.

37 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 tax	Amount	income tax	Amount	income tax	
	before tax	impact	before tax	impact	before tax	impact	
As at 1 January 2019	133,519	(33,380)	1,249,985	(312,496)	732,598	(183,150)	1,587,076
Changes in amount for the previous year	37,857	(9,464)	372,687	(93,171)	(93,143)	23,285	238,051
As at 31 December 2019	171,376	(42,844)	1,622,672	(405,667)	639,455	(159,865)	1,825,127
Changes in amount for the period	23,964	(5,990)	372,054	(93,014)	71,260	(17,815)	350,459
As at 30 June 2020	195,340	(48,834)	1,994,726	(498,681)	710,715	(177,680)	2,175,586

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

38 DIVIDENDS

(a) Dividends for ordinary shares

	For the six month period ended 30 June 2020 Unaudited	2019 Audited
Dividends declared for the period/year	1,908,304	680,668
Dividends per ordinary share (in RMB)	0.157	0.056
Dividends paid during the period/year	8,178	669,709

The final dividend of RMB1.57 for every 10 shares in respect of the year ended 31 December 2019 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 Condensed Consolidated Interim Financial Statements (Continued)

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

39 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 2020 Unaudited	As at 31 December 2019 Audited
Bank acceptance	40,087,841	36,775,576
Letters of credit issued	9,003,847	8,514,842
Letters of guarantee issued	14,379,949	20,357,013
Loan commitments	1,341,255	848,660
Unused credit card lines	24,972,276	24,524,237
Total	89,785,168	91,020,328
Impairment allowance for credit commitments (Note 32(d))	435,210	432,809

(b) Capital commitments

	As at 30 June 2020 Unaudited	As at 31 December 2019 Audited
Contracted but not provided for	172,161	814,359

(c) 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 2020 and 31 December 2019, the nominal values of treasury bonds the Group was obligated to redeem prior to maturity were RMB3.91 billion and RMB3.92 billion respectively.

(d) Legal proceedings

During the reporting period, the Group was involved as defendants in certain lawsuits arising from its normal business operations. At 30 June 2020, provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2019: 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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

40 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 2020 Unaudited	As at 31 December 2019 Audited
Fair value changes of financial assets at fair value through other comprehensive income	47,607,937	50,826,734
Financial assets at amortised cost	43,598,069	40,908,576
Fair value changes of financial assets at fair value through profit or loss	9,840,000	3,360,000
Discounted bills	7,885,628	6,150,500
Total	108,931,634	101,245,810

The carrying value of financial assets sold under repurchase agreements by the Group as at 30 June 2020 was RMB56.41 billion (as at 31 December 2019: RMB50.37 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 2020 (as at 31 December 2019: 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 RMB1.46 billion as at 30 June 2020 (31 December 2019: RMB1.10 billion). The Group has no collateral that is re-pledged and obligated to return as at 30 June 2020 (31 December 2019: none).

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

41 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2020	As at 31 December 2019
Financial guarantees and credit related commitments	29,634,270	35,576,210

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.

42 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 2020 and the year of 2019, total wealth commission income the Group received were RMB608.98 million and RMB1,292.50 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they were not consolidated.

As at 30 June 2020, the carrying value of non-guaranteed wealth management products that the Group issued and managed was RMB182.81 billion (31 December 2019: RMB180.69 billion). As at 30 June 2020 the Group’s maximum exposure to these unconsolidated structured entities was zero (31 December 2019: none). As at 30 June 2020, the Group purchased financial assets from wealth management products not included in the scope of consolidation for a total of RMB zero (31 December 2019: RMB2.29 billion).

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.

(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 2020 and 31 December 2019. The Group classifies these assets into “investments at amortised cost” or “financial assets at fair value through profit or loss” based on their nature. As the investor of these entities, the Group earns interest from these transactions.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

42 STRUCTURED ENTITIES (Continued)

(b) Unconsolidated structured entities invested by the Group (Continued)

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

At 30 June 2020	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Trust fund and asset management plan	83,852,134	83,852,134
Financial assets at amortised cost		
– Trust fund and asset management plan	176,663,605	176,663,605
<hr/>		
At 31 December 2019	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVTPL		
– Non-guaranteed wealth management products	20,220,583	20,220,583
– Trust fund and asset management plan	67,358,431	67,358,431
Financial assets at amortised cost		
– Trust fund and asset management plan	199,069,467	199,069,467

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 2020 and the year ended 31 December 2019.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

43 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 2020 Unaudited	As at 31 December 2019 Audited
Cash	1,298,830	1,025,001
Surplus reserve with the central bank	21,769,152	32,602,248
Deposits with banks and other financial institutions	15,122,349	12,068,933
Total	38,190,331	45,696,182

- (b) Changes in liabilities arising from financing activities

	Debt securities issued	Dividends payable	Lease liabilities
At 1 January 2020	183,242,708	137,486	851,241
Proceeds from issuance of debt securities	68,270,000	–	–
Interest paid on debt issued	(2,990,816)	–	–
Cash paid relating to debt repayments	(83,422,674)	–	–
Dividends paid on debt issued	–	(8,178)	–
Interest expense	2,909,761	–	44,805
Dividends declared	–	1,908,304	–
Cash paid relating to lease liabilities	–	–	(141,580)
Other changes in lease liabilities	–	–	92,053
At 30 June 2020	168,008,979	2,037,612	846,519
	Debt securities issued	Dividends payable	Lease liabilities
At 1 January 2019	91,443,925	126,527	958,461
Proceeds from issuance of debt securities	204,430,000	–	–
Interest paid on debt issued	(4,586,881)	–	–
Cash paid relating to debt repayments	(199,062,931)	–	–
Dividends paid on debt issued	–	(669,709)	–
Interest expense	4,799,737	–	39,976
Dividends declared	–	680,668	–
Cash paid relating to lease liabilities	–	–	(316,954)
Other changes in lease liabilities	–	–	169,758
Interbank certificates of deposit designated as fair value through profit or loss	86,218,858	–	–
At 31 December 2019	183,242,708	137,486	851,241

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

44 CREDIT ASSETS SECURITIZATION TRANSACTIONS

The Group enters into credit asset transfers in the normal course of business during which it transfers credit assets to special purpose entities which in turn issue asset-backed securities or fund shares to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB0.23 billion as at 30 June 2020 (31 December 2019: RMB0.60 billion), which also approximates the Group's maximum exposure to loss.

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised in the statement of financial position to the extent of the Group's continuing involvement. For the year ended 30 June 2020, the carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was zero (for the year ended 31 December 2019: RMB2.46 billion) and the carrying amount of assets that the Group continues to recognise in the statement of financial position was RMB0.30 billion as at 30 June 2020 (31 December 2019: RMB0.30 billion).

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

45 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 2020:

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	12.10%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhu Yicun	4,375,000	Financing and investment management of energy construction	11.08%
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	Fang Xu	6,000,000	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%

The table below listed the major related legal entities of the Group with a shareholding ratio greater than 5% in as at 31 December 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	12.10%
Anhui Province Energy Group Co., Ltd.	Major shareholder	Hefei, Anhui	Zhu Yicun	4,375,000	Financing and investment management of energy construction	11.08%
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	Fang Xu	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 Condensed Consolidated Interim Financial Statements (Continued)

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

45 RELATED PARTY TRANSACTIONS (Continued)

(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 2020		As at 31 December 2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Loans and advances to customers	2,317,000	0.45%	2,362,000	0.52%
Financial assets	30,000	0.01%	1,480,000	0.31%
Placements from banks and other financial institutions	182,817	0.26%	75,562	0.07%
Deposits from customers	595,690	0.09%	683,472	0.11%
Bank acceptance	31,306	0.08%	5,457	0.01%
Letters of guarantee issued	205	0.01%	205	0.01%
Total	4,606,696	0.17%	4,606,696	0.27%

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers	3.96%-5.70%	3.96%-4.75%
Placements from banks and other financial institutions	0.30%-3.00%	0.30%-3.00%
Deposits from customers	0.30%-1.89%	0.30%-2.10%

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:

	For the six month period ended 30 June			
	2020		2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Interest income	57,586	0.23%	56,920	0.24%
Interest expense	5,377	0.04%	3,543	0.03%
Management fee of asset management plans	1,253	1.48%	3,214	3.08%

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(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 2020		As at 31 December 2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Loans and advances to customers	3,404,997	0.67%	2,626,573	0.58%
Financial assets	1,582,000	0.33%	1,602,000	0.34%
Placements from banks and other financial institutions	148,457	0.21%	73,523	0.07%
Deposits from customers	4,265,886	0.61%	3,878,552	0.64%
Bank acceptance	900,000	2.25%	200,000	0.54%
Letters of credit issued	–	–	13,723	0.16%
Loan commitments	29,714	2.22%	–	–
Total	10,331,054	0.56%	8,394,371	0.49%

	As at 30 June 2020	As at 31 December 2019
Loans and advances to customers	2.30%-6.17%	3.63%-5.23%
Placements from banks and other financial institutions	0.30%-1.95%	0.30%-1.95%
Deposits from customers	0.30%-4.30%	0.30%-4.53%

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

	For the six month period ended 30 June			
	2020		2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Interest income	61,253	0.25%	51,409	0.22%
Interest expense	58,234	0.47%	3,279	0.03%

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(c) Transactions with associates

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

	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Placements with and loans to banks and other financial institutions	800,000	15.97%	1,300,000	27.44%
Financial assets	356,000	0.07%	102,080	0.02%
Placements from banks and other financial institutions	27,377	0.04%	49,088	0.04%
Total	1,183,377	0.21%	1,451,168	0.24%

	As at 30 June 2020	As at 31 December 2019
Placements with and loans to banks and other financial institutions	4.48%-5.30%	4.48%-5.30%
Placements from banks and other financial institutions	0.72%-1.08%	0.72%-1.08%

The interest income and expense of loans and deposits with respect to associates are as follows:

	For the six month period ended 30 June 2020		2019	
	Amount	Percentage of total similar transactions	Amount	Percentage of total similar transactions
Interest expense	38	0.01%	184	0.01%

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

(d) Balances and transactions between the Group and these major shareholders and entities under their control

	For the six month period ended 30 June	
	2020	2019
Emoluments for directors, supervisors and senior management	7,332	6,920

	As at	As at
	30 June 2020	31 December 2019
Balances at the end of the year/period		
Loans and advances to customers	2,366	1,168
Deposits from customers	6,705	5,862

	For the six month period ended 30 June	
	2020	2019
Transactions during the year/period		
Interest income	406	198
Interest expense	729	583

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

46 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 inside and outside Anhui Province. When presenting information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

46 SEGMENT ANALYSIS (Continued)

	For the six month period ended 30 June 2020				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	9,813,092	5,324,577	9,654,493	–	24,792,162
Net interest expense to external customers	(3,525,350)	(2,513,916)	(6,226,655)	–	(12,265,921)
Intersegment net interest income/ (expense)	758,110	298,444	(1,056,554)	–	–
Net interest income	7,045,852	3,109,105	2,371,284	–	12,526,241
Net fee and commission income	1,211,108	338,886	707,089	–	2,257,083
Net trading gains	–	–	1,267,863	–	1,267,863
Net gains from investment securities	–	–	228,679	–	228,679
Dividend income	–	–	–	–	–
Other operating income	–	–	54,857	64,154	119,011
Operating expenses	(1,160,758)	(1,637,215)	(600,305)	(30,612)	(3,428,890)
– Depreciation and amortization	(271,000)	(109,651)	(14,409)	(1,469)	(396,529)
Impairment losses on assets	(3,558,739)	(699,245)	(2,350,754)	–	(6,608,738)
Share of profits of associates	–	–	–	78,368	78,368
Profit before income tax	3,537,463	1,111,531	1,678,713	111,910	6,439,617
Capital expenditure	153,621	77,543	10,190	1,040	242,394

	As at 30 June 2020				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	379,141,849	214,858,369	585,550,746	5,080,277	1,184,631,241
Including: investments in associates	–	–	–	4,920,706	4,920,706
Deferred tax assets					9,547,402
Total assets					1,194,178,643
Segment liabilities	(486,428,110)	(223,941,268)	(385,680,765)	(4,866,839)	(1,100,916,982)
Off-balance sheet credit commitments	64,812,892	24,972,276	–	–	89,785,168

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

46 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	17,512,992	9,304,080	21,011,734	–	47,828,806
Net interest expense to external customers	(6,265,076)	(3,828,111)	(13,009,587)	–	(23,102,774)
Intersegment net interest income/ (expense)	1,195,372	88,968	(1,284,340)	–	–
Net interest income	12,443,288	5,564,937	6,717,807	–	24,726,032
Net fee and commission income	2,144,093	662,090	1,357,752	–	4,163,935
Net trading gains	–	–	2,099,853	–	2,099,853
Net gains from investment securities	–	–	85,331	–	85,331
Dividend income	–	–	1,200	–	1,200
Other operating income	–	–	17,504	65,463	82,967
Operating expenses	(3,327,900)	(3,104,982)	(628,423)	(30,470)	(7,091,775)
– Depreciation and amortization	(372,051)	(330,697)	(27,147)	(766)	(730,661)
Impairment losses on assets	(4,588,972)	(1,229,833)	(6,101,281)	–	(11,920,086)
Share of profits of associates	–	–	–	153,360	153,360
Profit before income tax	6,670,509	1,892,212	3,549,743	188,353	12,300,817
Capital expenditure	292,847	130,668	19,631	554	443,700

	As at 31 December 2019				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	343,656,728	199,039,583	579,461,389	1,401,909	1,123,559,609
Including: investments in associates	–	–	–	1,242,338	1,242,338
Deferred tax assets					8,161,629
Total assets					1,131,721,238
Segment liabilities	(440,268,953)	(171,744,577)	(425,582,522)	(4,631,557)	(1,042,227,609)
Off-balance sheet credit commitments	68,796,635	22,223,693	–	–	91,020,328

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

46 SEGMENT ANALYSIS (Continued)

	For the six month period ended 30 June 2020					Total
	Anhui Province	Jiangsu Province	Head Office	Other areas	Intersegment eliminations	
Net interest income from external customers	17,342,351	1,242,166	6,207,621	24	-	24,792,162
Net interest expense to external customers	(9,371,229)	(515,584)	(2,378,443)	(665)	-	(12,265,921)
Intersegment net interest income/(expense)	1,001,456	55,098	(1,056,554)	-	-	-
Net interest income	8,972,578	781,680	2,772,624	(641)	-	12,526,241
Net fee and commission income	1,724,521	94,879	437,688	(5)	-	2,257,083
Net trading gains	968,706	53,296	245,860	1	-	1,267,863
Net gains from investment securities	174,721	9,613	44,345	-	-	228,679
Dividend income	-	-	-	-	-	-
Other operating income	90,930	5,003	23,078	-	-	119,011
Operating expenses	(2,603,655)	(233,247)	(570,815)	(21,173)	-	(3,428,890)
- Depreciation and amortization	(104,813)	(1,011)	(290,705)	-	-	(396,529)
Impairment losses on assets	(5,049,384)	(277,806)	(1,281,548)	-	-	(6,608,738)
Share of profits of associates	-	-	78,368	-	-	78,368
Profit before income tax	4,278,417	433,418	1,749,600	(21,818)	-	6,439,617
Capital expenditure	185,201	10,189	47,004	-	-	242,394

	As at 30 June 2020					Total
	Anhui Province	Jiangsu Province	Head Office	Other areas	Intersegment eliminations	
Segment assets	732,913,491	48,057,982	411,847,401	1,468,248	(9,655,881)	1,184,631,241
Including: investments in associates	-	-	4,920,706	-	-	4,920,706
Deferred tax assets						9,547,402
Total assets						1,194,178,643
Segment liabilities	(722,062,964)	(47,233,181)	(335,977,519)	(1,490,066)	5,846,748	(1,100,916,982)
Off-balance sheet credit commitments	74,070,021	15,694,747	20,400	-	-	89,785,168

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

46 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2019					Total
	Anhui Province	Jiangsu Province	Head Office	Other areas	Intersegment eliminations	
Net interest income from external customers	33,250,277	2,917,327	11,661,202	-	-	47,828,806
Net interest expense to external customers	(16,060,900)	(1,409,158)	(5,632,716)	-	-	(23,102,774)
Intersegment net interest income/(expense)	1,180,743	103,597	(1,284,340)	-	-	-
Net interest income	18,370,120	1,611,766	4,744,146	-	-	24,726,032
Net fee and commission income	2,894,740	253,981	1,015,214	-	-	4,163,935
Net trading gains	1,459,805	128,080	511,968	-	-	2,099,853
Net gains from investment securities	59,322	5,204	20,805	-	-	85,331
Dividend income	834	73	293	-	-	1,200
Other operating income	57,677	5,062	20,228	-	-	82,967
Operating expenses	(6,430,156)	(432,564)	(229,055)	-	-	(7,091,775)
- Depreciation and amortization	(552,739)	(3,974)	(173,948)	-	-	(730,661)
Impairment losses on assets	(8,286,767)	(727,068)	(2,906,251)	-	-	(11,920,086)
Share of profits of associates	-	-	153,360	-	-	153,360
Profit before income tax	8,125,575	844,534	3,330,708	-	-	12,300,817
Capital expenditure	308,457	27,064	108,179	-	-	443,700

	As at 31 December 2019					Total
	Anhui Province	Jiangsu Province	Head Office	Other areas	Intersegment eliminations	
Segment assets	637,330,969	66,509,544	424,672,116	-	(4,953,020)	1,123,559,609
Including: investments in associates	-	-	1,242,338	-	-	1,242,338
Deferred tax assets						8,161,629
Total assets						1,131,721,238
Segment liabilities	(623,220,841)	(65,250,606)	(358,709,182)	-	4,953,020	(1,042,227,609)
Off-balance sheet credit commitments	87,184,277	3,813,151	22,900	-	-	91,020,328

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

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 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 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.

47.1 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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 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.

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 Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Risk limit control and mitigation policies

The Group takes first-level legal person management system and 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.

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Risk limit control and mitigation policies (Continued)

(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.

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

	As at 30 June 2020	As at 31 December 2019
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	81,871,181	90,946,253
Deposits with banks and other financial institutions	14,905,385	14,254,228
Placements with banks and other financial institutions	5,008,855	4,737,805
Derivative financial assets	134,439	235,406
Financial assets held under resale agreements	23,819,178	28,651,227
Loans and advances to customers	510,054,306	450,419,777
Investment securities – financial assets at fair value through profit or loss	102,523,522	95,225,453
Investment securities – financial assets at fair value through other comprehensive income	114,715,980	102,995,517
Investment securities – financial assets at amortised cost	268,324,669	278,852,511
Finance lease receivables	50,021,436	43,949,191
Other financial assets	1,984,341	6,188,901
Total	1,173,363,292	1,116,456,269
Credit risk exposures in relation to off-balance sheet items are as follows:		
Bank acceptance	40,087,841	36,775,576
Letters of credit	9,003,847	8,514,842
Letters of guarantee	14,379,949	20,357,013
Loan commitments	1,341,255	848,660
Unused credit card lines	24,972,276	24,524,237
Total	89,785,168	91,020,328

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

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

The above table represents the worst-case scenario of credit risk exposure to the Group at 30 June 2020 and 31 December 2019, 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, 43.47% of on-balance-sheet exposure is attributable to loans and advances to customers (31 December 2019: 40.33%).

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:

- 97.54% of the loans and advances are categorized as Pass in the five-category system (31 December 2019: 97.45%);
- Collateralized loans and mortgage loans, which represent the largest group in the corporate and retail portfolio respectively, are secured by collateral;
- 98.44% of the loans and advances are considered to be neither past due nor impaired (31 December 2019: 98.55%).

47.1.4 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 2020	As at 31 December 2019
Commercial banks in Chinese mainland	19,352,851	29,845,042
Other financial institutions in Chinese mainland	21,758,081	14,189,754
Commercial banks outside Chinese mainland	2,622,486	3,608,464
Total	43,733,418	47,643,260

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers

Loans and advances three-staging exposure

Loans and advances to customers (excluding interest receivable) by five-category loan classification and three-staging analysed as follows:

	As at 30 June 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
Pass	510,053,967	3,331,594	–	513,385,561
Special-mention	–	6,998,675	–	6,998,675
Loss	–	–	5,966,433	5,966,433
Total	510,053,967	10,330,269	5,966,433	526,350,669

	As at 31 December 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
Pass	447,337,963	4,836,502	–	452,174,465
Special-mention	–	6,995,996	–	6,995,996
Loss	–	–	4,814,658	4,814,658
Total	447,337,963	11,832,498	4,814,658	463,985,119

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 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(excluding interest receivable) by industry are analysed as follows:

	As at 30 June 2020		As at 31 December 2019	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	51,570,464	10	50,085,752	10
Manufacturing	48,346,625	9	44,841,449	9
Public utilities	126,880,969	23	96,487,469	20
Real estate	26,495,718	5	18,942,685	4
Construction	29,806,322	6	27,650,318	6
Transportation	7,016,839	1	6,354,974	1
Energy and chemistry	13,608,021	3	10,231,011	2
Catering and travelling	1,107,522	1	1,051,283	1
Education and media	1,519,916	1	1,379,677	1
Financial services	5,570,120	1	5,316,378	1
Others	2,068,465	1	1,441,667	1
Discounted bills	17,933,350	3	21,870,165	5
Subtotal	331,924,331	64	285,652,828	61
Personal loans and advances				
Mortgages	100,177,002	19	90,030,552	20
Revolving loans for private business	7,493,424	1	6,634,323	1
Others	86,755,912	16	81,667,416	18
Subtotal	194,426,338	36	178,332,291	39
Total loans and advances to customers, before impairment allowance	526,350,669	100	463,985,119	100

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 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(excluding interest receivable) are analyzed by security type as follows:

	As at 30 June 2020	As at 31 December 2019
Unsecured	101,095,329	89,147,529
Guaranteed	97,341,191	67,868,488
Collateralized	184,516,470	167,388,733
Pledged	143,397,679	139,580,369
Total loans and advances to customers	526,350,669	463,985,119

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

	As at 30 June 2020			As at 31 December 2019		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	473,110,239	89.88%	1.13%	422,457,526	91.05%	1.07%
Jiangsu Province	53,240,430	10.12%	1.13%	41,527,593	8.95%	0.74%
Total loans and advances to customers	526,350,669	100.00%	1.13%	463,985,119	100.00%	1.04%

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

	As at 30 June 2020		As at 31 December 2019	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired ^(e)	326,751,682	191,402,987	281,146,371	176,110,637
Overdue but not impaired ^(f)	616,645	1,612,922	669,833	1,243,620
Impaired ^(g)	4,556,004	1,410,429	3,836,624	978,034
Total	331,924,331	194,426,338	285,652,828	178,332,291
Less: impairment allowance	(14,253,680)	(3,040,359)	(11,843,606)	(2,677,787)
Total impairment allowance	(14,253,680)	(3,040,359)	(11,843,606)	(2,677,787)
Net	317,670,651	191,385,979	273,809,222	175,654,504

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

(e) Loans and advances neither past due nor impaired

As at 30 June 2020

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special- mention	
Corporate loans			
– Commercial loans	302,864,867	5,953,465	308,818,332
– Discounted bills	17,933,350	–	17,933,350
Subtotal	320,798,217	5,953,465	326,751,682
Personal loans and advances	191,354,545	48,442	191,402,987
Total	512,152,762	6,001,907	518,154,669

As at 31 December 2019

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special- mention	
Corporate loans			
– Commercial loans	253,167,268	6,108,938	259,276,206
– Discounted bills	21,870,165	–	21,870,165
Subtotal	275,037,433	6,108,938	281,146,371
Personal loans and advances	176,070,597	40,040	176,110,637
Total	451,108,030	6,148,978	457,257,008

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 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 2020

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	368,922	247,723	–	–	616,645
Personal loans and advances	1,063,738	549,184	–	–	1,612,922
Total	1,432,660	796,907	–	–	2,229,567

As at 31 December 2019

	Up to 30 days	30 to 60 days	60 to 90 days	Over 90 days	Total
Corporate loans	488,327	181,506	–	–	669,833
Personal loans and advances	1,012,349	231,271	–	–	1,243,620
Total	1,500,676	412,777	–	–	1,913,453

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 2020 and 31 December 2019, the fair values of collateral for corporate loans that were past due but not impaired amounted to RMB623,946 thousand and RMB692,566 thousand. The fair values of collateral for retail loans that were past due but not impaired amounted to RMB757,426 thousand and RMB644,409 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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 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 2020	As at 31 December 2019
Corporate loans	4,556,004	3,836,624
Personal loans and advances	1,410,429	978,034
Total	5,966,433	4,814,658
Fair value of collateral		
Corporate loans	4,812,291	4,330,387
Personal loans and advances	749,566	636,449
Total	5,561,857	4,966,836

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 2020, the carrying value of the restructured loans held by the Group amounted to RMB448 million (31 December 2019: RMB392 million).

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Loans and advances to customers (Continued)

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

	As at 30 June 2020					Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years		
Unsecured	1,163,734	515,443	70,117	411	1,749,705	
Guaranteed	1,061,158	1,037,338	657,897	50,601	2,806,994	
Collateralized	1,095,849	1,322,845	764,458	83,985	3,267,137	
Pledged	29,671	24,585	24,306	–	78,562	
Total	3,350,412	2,900,211	1,516,778	134,997	7,902,398	

	As at 31 December 2019					Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years		
Unsecured	738,462	254,382	122,941	26	1,115,811	
Guaranteed	831,497	858,439	353,654	49,992	2,093,582	
Collateralized	1,023,278	1,085,952	1,021,972	74,718	3,205,920	
Pledged	4,510	5,140	23,106	–	32,756	
Total	2,597,747	2,203,913	1,521,673	124,736	6,448,069	

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 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 2020			Total
	Stage 1	Stage 2	Stage 3	
AAA	44,342,414	159,964	–	44,502,378
AA- to AA+	2,001,400	–	–	2,001,400
Unrated ^(a)	217,829,301	4,229,525	8,900,984	230,959,810
Total	264,173,115	4,389,489	8,900,984	277,463,588
Less: allowance for impairment losses	(2,679,328)	(2,061,385)	(8,758,748)	(13,499,461)
Net balance	261,493,787	2,328,104	142,236	263,964,127

	As at 31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
AAA	42,231,593	159,922	–	42,391,515
AA- to AA+	1,844,907	–	–	1,844,907
Unrated ^(a)	227,584,581	8,113,685	5,450,449	241,148,715
Total	271,661,081	8,273,607	5,450,449	285,385,137
Less: allowance for impairment losses	(2,917,406)	(3,592,054)	(4,904,817)	(11,414,277)
Net balance	268,743,675	4,681,553	545,632	273,970,860

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 Financial investments (Continued)

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

	Six month period ended 30 June 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2020	2,917,406	3,592,054	4,904,817	11,414,277
Addition	(238,078)	626,171	1,697,091	2,085,184
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	(2,156,840)	2,156,840	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
At 30 June 2020	2,679,328	2,061,385	8,758,748	13,499,461

	Year ended 31 December 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	149,618	945,072	4,390,347	5,485,037
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(53,013)	53,013	–	–
Transfers to Stage 3	–	(957,748)	957,748	–
Write-off and transfer out	–	–	(1,949,608)	(1,949,608)
At 31 December 2019	2,917,406	3,592,054	4,904,817	11,414,277

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 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 2020			
	Stage 1	Stage 2	Stage 3	Total
AAA	32,458,178	–	–	32,458,178
AA- to AA+	5,621,334	–	–	5,621,334
A-to A+	277,642	–	–	277,642
C	–	–	55,560	55,560
Unrated ^(b)	73,706,648	696,749	13,835	74,417,232
Total	112,063,802	696,749	69,395	112,829,946
Allowance for impairment losses	(320,074)	(195,226)	(160,000)	(675,300)

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
AAA	28,260,907	–	–	28,260,907
AA- to AA+	5,858,262	–	–	5,858,262
to A+	89,741	39,879	–	129,620
C	–	–	78,995	78,995
Unrated ^(b)	66,624,688	450,681	13,835	67,089,204
Total	100,833,598	490,560	92,830	101,416,988
Allowance for impairment losses	(243,265)	(137,251)	(150,484)	(531,000)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 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 2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2020	243,265	137,251	150,484	531,000
Addition	81,819	52,965	9,516	144,300
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(5,010)	5,010	–	–
Transfers to Stage 3	–	–	–	–
At 30 June 2020	320,074	195,226	160,000	675,300

	As at 31 December 2019			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	
As at 1 January 2019	269,824	288,721	54,714	613,259
Addition	(178,537)	2,515	93,763	(82,259)
Stage conversion				
Transfers to Stage 1	153,985	(153,985)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(2,007)	–	2,007	–
At 31 December 2019	243,265	137,251	150,484	531,000

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 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 2020	As at 31 December 2019
AAA	1,994,415	69,941
AA- to AA+	860,883	120,108
C	16,262	16,262
Unrated ^(c)	98,622,201	93,572,608
Total	101,493,761	93,778,919

- (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, creditworthy issuers in the market and 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.

47.1.7 Foreclosed collateral

	As at 30 June 2020	As at 31 December 2019
Property and land use rights	427,698	404,664
Others	163,601	163,602
Total	591,299	568,266
Allowance for impairment losses (Note 26)	(199,949)	(199,949)
Net balance	391,350	368,317

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 30 June 2020	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	81,871,181	-	-	81,871,181
Deposits with banks and other financial institutions	13,720,307	66,917	1,118,161	14,905,385
Placements with banks and other financial institutions	4,780,266	-	228,589	5,008,855
Derivative financial assets	134,439	-	-	134,439
Financial assets held under resale agreements	23,819,178	-	-	23,819,178
Loans and advances to customers	510,054,306	-	-	510,054,306
Financial investments				
– financial assets at fair value through profit or loss	102,523,522	-	-	102,523,522
Financial investments				
– financial assets at fair value through other comprehensive income	114,715,980	-	-	114,715,980
Financial investments				
– financial assets at amortised cost	267,234,853	1,089,816	-	268,324,669
Finance lease receivables	50,021,436	-	-	50,021,436
Other financial assets	1,984,341	-	-	1,984,341
Total	1,170,859,809	1,156,733	1,346,750	1,173,363,292

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

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

Geographical sectors (Continued)

As at 31 December 2019	Chinese mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	90,946,253	–	–	90,946,253
Deposits with banks and other financial institutions	10,850,565	2,220,639	1,183,024	14,254,228
Placements with banks and other financial institutions	4,617,805	–	120,000	4,737,805
Derivative financial assets	235,406	–	–	235,406
Financial assets held under resale agreements	28,651,227	–	–	28,651,227
Loans and advances to customers	450,419,777	–	–	450,419,777
Financial investments				
– financial assets at fair value through profit or loss	95,225,453	–	–	95,225,453
Financial investments				
– financial assets at fair value through other comprehensive income	102,995,517	–	–	102,995,517
Financial investments				
– financial assets at amortised cost	277,485,607	1,366,904	–	278,852,511
Finance lease receivables	43,949,191	–	–	43,949,191
Other financial assets	6,188,901	–	–	6,188,901
Total	1,111,565,702	3,587,543	1,303,024	1,116,456,269

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk

47.2.1 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.

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.

47.2.2 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.

47.2.3 Interest rate risk

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact on the financial position of the Bank. Interest rate risk of the Bank primarily arises from the structural mismatch of maturity or re-pricing periods for our banking portfolio. Such structural mismatch of durations may cause the Bank interest income to be affected by changes in the prevailing interest rate. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily 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 duration of our banking portfolio based on its assessment of potential changes in the interest rate environment.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 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 2020	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	81,844,764	-	-	-	-	1,325,247	83,170,011
Deposits with banks and other financial institutions	14,876,405	-	-	-	-	28,980	14,905,385
Placements with banks and other financial institutions	-	203,754	4,771,085	-	-	34,016	5,008,855
Derivative financial assets	-	-	-	-	-	134,439	134,439
Financial assets held under resale agreements	23,814,449	-	-	-	-	4,729	23,819,178
Loans and advances to customers	174,089,261	144,452,424	42,262,706	33,895,789	113,235,595	2,118,531	510,054,306
Financial Investments							
- financial assets at fair value through profit or loss	57,833,958	11,222,704	12,510,391	8,742,668	1,736,309	10,477,492	102,523,522
- financial assets at fair value through other comprehensive income	7,434,485	3,185,174	14,521,148	62,068,413	27,492,925	218,675	114,920,820
- financial assets at amortised cost	4,897,617	9,335,712	36,249,138	124,380,294	93,461,908	-	268,324,669
Finance lease receivables	1,404,853	2,454,829	11,795,935	33,643,041	130,603	592,175	50,021,436
Other financial assets	-	-	-	-	-	1,984,341	1,984,341
Total assets	366,195,792	170,854,597	122,110,403	262,730,205	236,057,340	16,918,625	1,174,866,962
Liabilities							
Borrowings from the central bank	(7,828,805)	(6,718,330)	(32,254,092)	-	-	(516,925)	(47,318,152)
Deposits from banks and other financial institutions	(8,344,673)	(29,851,119)	(11,584,985)	(19,710,102)	-	(862,674)	(70,353,553)
Placements from banks and other financial institutions	(4,835,399)	(10,492,278)	(23,868,232)	-	-	(381,292)	(39,577,201)
Derivative financial liabilities	-	-	-	-	-	(259,329)	(259,329)
Financial assets sold under repurchase agreements	(37,782,165)	(4,431,545)	(14,062,309)	-	-	(130,246)	(56,406,265)
Deposits from customers	(411,498,876)	(17,688,540)	(90,255,095)	(169,897,013)	(4,318)	(10,549,283)	(699,893,125)
Debt securities issued	(4,422,851)	(48,722,100)	(86,177,645)	(15,999,344)	(11,986,986)	(700,053)	(168,008,979)
Other financial liabilities	(574)	(256)	(11,987)	(460,669)	(373,033)	(2,958,231)	(3,804,750)
Total liabilities	(474,713,343)	(117,904,168)	(258,214,345)	(206,067,128)	(12,364,337)	(16,358,033)	(1,085,621,354)
Total interest rate sensitivity gap	(108,517,551)	52,950,429	(136,103,942)	56,663,077	223,693,003	560,592	89,245,608

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

As at 31 December 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	90,910,606	-	-	-	-	1,060,648	91,971,254
Deposits with banks and other financial institutions	9,794,105	-	4,316,638	-	-	143,485	14,254,228
Placements with banks and other financial institutions	-	2,262,310	2,461,294	-	-	14,201	4,737,805
Derivative financial assets	-	-	-	-	-	235,406	235,406
Financial assets held under resale agreements	28,531,183	109,916	-	-	-	10,128	28,651,227
Loans and advances to customers	145,947,022	235,648,788	39,815,860	26,692,029	278,329	2,037,749	450,419,777
Financial Investments							
- financial assets at fair value through profit or loss	30,097,148	28,524,222	18,627,958	5,998,347	1,380,980	10,596,798	95,225,453
- financial assets at fair value through other comprehensive income	1,742,838	5,347,976	9,262,370	61,597,413	23,466,391	1,759,405	103,176,393
- financial assets at amortised cost	4,896,800	4,013,119	36,701,376	137,095,798	91,263,767	4,881,651	278,852,511
Finance lease receivables	38,116,768	1,063,251	2,652,533	1,653,274	227	463,138	43,949,191
Other financial assets	-	-	-	-	-	6,188,901	6,188,901
Total assets	350,036,470	276,969,582	113,838,029	233,036,861	116,389,694	27,391,510	1,117,662,146
Liabilities							
Borrowings from the central bank	(6,615,680)	(1,711,521)	(32,103,588)	-	-	(257,757)	(40,688,546)
Deposits from banks and other financial institutions	(6,707,691)	(39,618,534)	(38,272,141)	(13,647,320)	(12,460,602)	(629,348)	(111,335,636)
Placements from banks and other financial institutions	(298,473)	-	(13,162,921)	(22,455,970)	-	(385,697)	(36,303,061)
Derivative financial liabilities	-	-	-	-	-	(281,329)	(281,329)
Financial assets sold under repurchase agreements	(32,428,277)	(7,771,323)	(9,783,799)	-	-	(381,563)	(50,364,962)
Deposits from customers	(403,230,324)	(22,822,666)	(65,538,762)	(102,235,548)	(6,804)	(9,620,715)	(603,454,819)
Debt securities issued	(12,261,338)	(23,736,215)	(117,478,213)	(16,999,840)	(11,985,994)	(781,108)	(183,242,708)
Other financial liabilities	(1)	(19)	(11,516)	(443,531)	(396,174)	(1,405,215)	(2,256,456)
Total liabilities	(461,541,784)	(95,660,278)	(276,350,940)	(155,782,209)	(24,849,574)	(13,742,732)	(1,027,927,517)
Total interest rate sensitivity gap	(111,505,314)	181,309,304	(162,512,911)	77,254,652	91,540,120	13,648,778	89,734,629

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

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 2020	As at 31 December 2019
100 bps up along the yield curve	1,594,846	2,090,924
100 bps down along the yield curve	(1,594,846)	(2,090,924)

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:

	As at	As at
	30 June 2020	31 December 2019
100 bps up	(3,242,146)	(3,088,579)
100 bps down	3,442,245	3,274,872

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 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.

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 2020					
Assets					
Cash and balances with the central bank	82,925,241	243,725	408	637	83,170,011
Deposits with banks and other financial institutions	12,505,903	2,144,343	69,657	185,482	14,905,385
Placements with banks and other financial institutions	3,734,545	1,274,310	-	-	5,008,855
Derivative financial assets	122,432	4,144	2,210	5,653	134,439
Financial assets held under resale agreements	23,819,178	-	-	-	23,819,178
Loans and advances to customers	504,429,000	4,813,417	10,439	801,450	510,054,306
Financial investments					
- financial assets at fair value through profit or loss	102,523,522	-	-	-	102,523,522
- financial assets at fair value through other comprehensive income	118,520,820	-	-	-	118,520,820
- financial assets at amortised cost	267,234,853	1,089,816	-	-	268,324,669
Finance lease receivables	50,021,436	-	-	-	50,021,436
Other financial assets	1,970,294	12,831	-	1,216	1,984,341
Total assets	1,167,807,224	9,582,586	82,714	994,438	1,178,466,962

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
Liabilities					
Borrowings from the central bank	(47,318,152)	-	-	-	(47,318,152)
Deposits from banks and other financial institutions	(69,135,376)	(1,217,810)	(29)	(338)	(70,353,553)
Placements from banks and other financial institutions	(38,711,585)	(865,616)	-	-	(39,577,201)
Derivative financial liabilities	(229,538)	(25,881)	(2,158)	(1,752)	(259,329)
Financial assets sold under repurchase agreements	(56,406,265)	-	-	-	(56,406,265)
Deposits from customers	(694,825,069)	(4,376,401)	(52,529)	(639,126)	(699,893,125)
Debt securities issued	(168,008,979)	-	-	-	(168,008,979)
Other financial liabilities	(3,804,596)	(150)	-	(4)	(3,804,750)
Total liabilities	(1,078,439,560)	(6,485,858)	(54,716)	(641,220)	(1,085,621,354)
Net on-balance sheet financial position	89,367,664	3,096,728	27,998	353,218	92,845,608
Financial guarantees and credit commitments	75,868,092	12,701,086	521,620	694,370	89,785,168

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2019					
Assets					
Cash and balances with the central bank	91,807,128	163,095	401	630	91,971,254
Deposits with banks and other financial institutions	10,081,473	3,803,422	22,140	347,193	14,254,228
Placements with banks and other financial institutions	4,688,972	48,833	-	-	4,737,805
Derivative financial assets	50,320	185,086	-	-	235,406
Financial assets held under resale agreements	28,651,227	-	-	-	28,651,227
Loans and advances to customers	446,989,760	3,339,169	90,848	-	450,419,777
Financial investments					
- financial assets at fair value through profit or loss	95,225,453	-	-	-	95,225,453
- financial assets at fair value through other comprehensive income	103,176,393	-	-	-	103,176,393
- financial assets at amortised cost	277,059,340	1,793,171	-	-	278,852,511
Finance lease receivables	43,949,191	-	-	-	43,949,191
Other financial assets	6,118,545	69,164	-	1,192	6,188,901
Total assets	1,107,797,802	9,401,940	113,389	349,015	1,117,662,146
Liabilities					
Borrowings from the central bank	(40,688,546)	-	-	-	(40,688,546)
Deposits from banks and other financial institutions	(110,161,458)	(1,173,534)	(319)	(325)	(111,335,636)
Placements from banks and other financial institutions	(34,759,543)	(1,543,518)	-	-	(36,303,061)
Derivative financial liabilities	(207,275)	(72,660)	-	(1,394)	(281,329)
Financial assets sold under repurchase agreements	(43,955,651)	(6,409,311)	-	-	(50,364,962)
Deposits from customers	(600,372,757)	(2,953,434)	(12,594)	(116,034)	(603,454,819)
Debt securities issued	(183,242,708)	-	-	-	(183,242,708)
Other financial liabilities	(2,253,948)	(2,505)	-	(3)	(2,256,456)
Total liabilities	(1,015,641,886)	(12,154,962)	(12,913)	(117,756)	(1,027,927,517)
Net on-balance sheet financial position	92,155,916	(2,753,022)	100,476	231,259	89,734,629
Financial guarantees and credit commitments	69,861,125	18,247,484	219,101	2,692,618	91,020,328

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 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 2020	As at 31 December 2019
1% of appreciation of foreign exchange against RMB	34,223	(157,725)
1% of depreciation of foreign exchange against RMB	(34,223)	157,725

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.

47.3 Liquidity risk

47.3.1 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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 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 2020	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	(8,521,428)	(6,855,365)	(32,931,210)	-	-	(48,308,003)
Deposits from banks and other financial institutions	(9,213,411)	(29,964,130)	(11,677,582)	(23,071,767)	-	(73,926,890)
Placements from banks and other financial institutions	(4,993,718)	(10,852,495)	(24,703,332)	-	-	(40,549,545)
Financial assets sold under repurchase agreements	(37,797,419)	(4,465,787)	(14,367,586)	-	-	(56,630,792)
Deposits from customers	(424,977,110)	(17,747,441)	(91,738,840)	(183,621,890)	(4,514)	(718,089,795)
Debt securities issued	(4,564,858)	(50,430,489)	(89,122,403)	(19,252,700)	(12,637,200)	(176,007,650)
Other financial liabilities	(2,958,805)	(256)	(11,987)	(460,669)	(373,033)	(3,804,750)
Total liabilities (contractual maturity)	(493,026,749)	(120,315,963)	(264,552,940)	(226,407,026)	(13,014,747)	(1,117,317,425)
Assets						
Cash and balances with the central bank	83,170,011	-	-	-	-	83,170,011
Deposits with banks and other financial institutions	14,985,137	-	-	-	-	14,985,137
Placements with banks and other financial institutions	-	272,444	4,860,552	-	-	5,132,996
Financial assets held under resale agreements	23,822,339	-	-	-	-	23,822,339
Loans and advances to customers	39,044,122	28,821,436	125,930,732	158,191,406	352,459,190	704,446,886
Financial investments						
- Financial assets at fair value through profit or loss	68,417,795	11,347,346	12,882,728	9,539,501	2,328,057	104,515,427
- Financial assets at fair value through other comprehensive income	7,648,650	3,774,796	16,812,485	73,640,031	30,458,522	132,334,484
- Financial assets at amortised cost	6,315,400	11,967,689	46,146,598	160,292,344	98,894,993	323,617,024
Finance lease receivables	2,382,960	2,901,280	13,944,135	37,605,006	135,853	56,969,234
Other financial assets	850,591	84,543	640,978	386,032	22,197	1,984,341
Financial assets held for managing liquidity risk (contractual maturity)	246,637,005	59,169,534	221,218,208	439,654,320	484,298,812	1,450,977,879
Net liquidity	(246,389,744)	(61,146,429)	(43,334,732)	213,247,294	471,284,065	333,660,454

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 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	(6,880,436)	(1,717,021)	(32,997,134)	-	-	(41,594,591)
Deposits from banks and other financial institutions	(7,342,683)	(39,838,371)	(38,829,133)	(16,054,921)	(15,064,301)	(117,129,409)
Placements from banks and other financial institutions	(308,131)	-	(13,636,180)	(22,701,979)	-	(36,646,290)
Financial assets sold under repurchase agreements	(32,482,247)	(8,008,797)	(10,088,283)	-	-	(50,579,327)
Deposits from customers	(417,577,551)	(23,342,758)	(66,833,677)	(110,453,284)	(7,755)	(618,215,025)
Debt securities issued	(12,280,000)	(24,033,728)	(122,223,216)	(20,296,900)	(13,423,200)	(192,257,044)
Other financial liabilities	(1,444,413)	(28,857)	(192,285)	(546,272)	(149,023)	(2,360,850)
Total liabilities (contractual maturity)	(478,315,461)	(96,969,532)	(284,799,908)	(170,053,356)	(28,644,279)	(1,058,782,536)
Assets						
Cash and balances with the central bank	91,971,254	-	-	-	-	91,971,254
Deposits with banks and other financial institutions	9,797,967	-	4,467,481	-	-	14,265,448
Placements with banks and other financial institutions	-	2,327,581	2,485,115	-	-	4,812,696
Financial assets held under resale agreements	28,545,854	110,468	-	-	-	28,656,322
Loans and advances to customers	35,309,283	25,504,862	113,688,513	112,927,981	229,759,835	517,190,474
Financial investments						
- Financial assets at fair value through profit or loss	40,935,757	29,037,386	19,807,935	10,504,802	10,966,960	111,252,840
- Financial assets at fair value through other comprehensive income	3,470,614	5,839,607	13,255,125	80,829,544	28,788,526	132,183,416
- Financial assets at amortised cost	10,969,599	6,249,396	48,388,890	175,245,027	98,623,779	339,476,691
Finance lease receivables	38,427,874	1,977,290	4,438,051	4,935,415	4,747	49,783,377
Other financial assets	1,861,202	3,897,606	405,349	18,857	5,887	6,188,901
Financial assets held for managing liquidity risk (contractual maturity)	261,289,404	74,944,196	206,936,459	384,461,626	368,149,734	1,295,781,419
Net liquidity	(217,026,057)	(22,025,336)	(77,863,449)	214,408,270	339,505,455	236,998,883

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.3 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 2020 and 31 December 2019 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

As at 30 June 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(9,162,602)	(1,366,435)	(1,921,456)	–	–	(12,450,493)
– Inflow	9,168,415	1,353,093	1,910,297	–	–	12,431,805
Total	5,813	(13,342)	(11,159)	–	–	(18,688)

As at 31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Foreign exchange derivatives						
– Outflow	(121,586)	(3,459,900)	(6,367,932)	–	–	(9,949,418)
– Inflow	122,110	3,594,229	6,399,789	–	–	10,116,128
Total	524	134,329	31,857	–	–	166,710

Derivative financial instruments with net delivery

As at 30 June 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest rate derivatives	(9,456)	(22,315)	(61,897)	(13,954)	–	(107,622)

As at 31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest rate derivatives	(19,098)	(15,813)	(105,529)	(60,808)	–	(201,248)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.4 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 2020	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	21,781,275	26,417	-	-	-	-	-	61,362,319	83,170,011
Deposits with banks and other financial institutions	13,597,278	1,308,107	-	-	-	-	-	-	14,905,385
Placements with banks and other financial institutions	-	-	216,965	4,791,890	-	-	-	-	5,008,855
Derivative financial assets	-	6,680	6,101	18,485	103,173	-	-	-	134,439
Financial assets held under resale agreements	-	23,819,178	-	-	-	-	-	-	23,819,178
Loans and advances to customers	-	34,614,743	24,508,626	118,793,863	98,115,300	231,015,274	3,006,500	-	510,054,306
Financial investments									
- Financial assets at fair value through profit or loss	52,360,178	8,543,473	11,222,704	12,430,103	8,822,956	1,736,309	1,107,628	6,300,171	102,523,522
- Financial assets at fair value through other comprehensive income	-	7,124,039	2,914,967	13,996,377	63,210,931	27,455,831	13,835	204,840	114,920,820
- Financial assets at amortised cost	-	4,755,381	9,335,712	36,249,138	124,380,294	93,461,908	142,236	-	268,324,669
Finance lease receivables	-	1,997,028	2,454,829	11,795,935	33,643,041	130,603	-	-	50,021,436
Other financial assets	-	850,591	84,543	640,978	386,032	22,197	-	-	1,984,341
Total assets	87,738,731	83,045,637	50,744,447	198,716,769	328,661,727	353,822,122	4,270,199	67,867,330	1,174,866,962
Borrowings from the central bank	-	(8,345,730)	(6,718,330)	(32,254,092)	-	-	-	-	(47,318,152)
Deposits from banks and other financial institutions	(4,041,196)	(5,166,151)	(29,851,119)	(11,584,985)	(19,710,102)	-	-	-	(70,353,553)
Placements from banks and other financial institutions	-	(5,216,691)	(10,492,278)	(23,868,232)	-	-	-	-	(39,577,201)
Derivative financial liabilities	-	(9,593)	(42,678)	(91,050)	(116,008)	-	-	-	(259,329)
Financial assets sold under repurchase agreements	-	(37,912,411)	(4,431,545)	(14,062,309)	-	-	-	-	(56,406,265)
Deposits from customers	(362,115,871)	(59,932,288)	(17,688,540)	(90,255,095)	(169,897,013)	(4,318)	-	-	(699,893,125)
Debt securities issued	-	(4,442,939)	(48,783,964)	(86,262,685)	(16,165,694)	(12,353,697)	-	-	(168,008,979)
Other financial liabilities	-	(2,958,805)	(256)	(11,987)	(460,669)	(373,033)	-	-	(3,804,750)
Total liabilities	(366,157,067)	(123,984,608)	(118,008,710)	(258,390,435)	(206,349,486)	(12,731,048)	-	-	(1,085,621,354)
Net liquidity gap	(278,418,336)	(40,938,971)	(67,264,263)	(59,673,666)	122,312,241	341,091,074	4,270,199	67,867,330	89,245,608

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.4 Maturity analysis (Continued)

As at 31 December 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	33,272,199	35,647	-	-	-	-	-	58,663,408	91,971,254
Deposits with banks and other financial institutions	8,710,682	1,085,751	-	4,457,795	-	-	-	-	14,254,228
Placements with banks and other financial institutions	-	-	2,272,501	2,465,304	-	-	-	-	4,737,805
Derivative financial assets	-	2,608	133,778	59,972	39,048	-	-	-	235,406
Financial assets held under resale agreements	-	28,541,311	109,916	-	-	-	-	-	28,651,227
Loans and advances to customers	-	32,992,752	23,499,888	105,908,644	88,892,883	197,045,369	2,080,241	-	450,419,777
Financial investments									
- Financial assets at fair value through profit or loss	27,177,446	4,347,910	28,524,222	18,627,958	5,998,347	1,364,718	34,588	9,150,264	95,225,453
- Financial assets at fair value through other comprehensive income	-	2,961,496	4,990,297	8,579,418	62,997,915	23,452,556	13,835	180,876	103,176,393
- Financial assets at amortised cost	-	8,752,924	3,690,519	37,023,976	137,095,798	91,263,767	1,025,527	-	278,852,511
Finance lease receivables	-	38,058,204	1,526,389	2,652,533	1,653,274	227	58,564	-	43,949,191
Other financial assets	-	1,829,125	3,897,606	405,349	18,857	5,887	32,077	-	6,188,901
Total assets	69,160,327	118,607,728	68,645,116	180,180,949	296,696,122	313,132,524	3,244,832	67,994,548	1,117,662,146
Borrowings from the central bank	-	(6,873,437)	(1,711,521)	(32,103,588)	-	-	-	-	(40,688,546)
Deposits from banks and other financial institutions	(3,390,565)	(3,946,474)	(39,618,534)	(38,272,141)	(13,647,320)	(12,460,602)	-	-	(111,335,636)
Placements from banks and other financial institutions	-	(308,103)	-	(13,306,447)	(22,688,511)	-	-	-	(36,303,061)
Derivative financial liabilities	-	(27,544)	(18,339)	(185,107)	(50,339)	-	-	-	(281,329)
Financial assets sold under repurchase agreements	-	(32,473,507)	(7,957,182)	(9,934,273)	-	-	-	-	(50,364,962)
Deposits from customers	(394,782,209)	(18,068,830)	(22,822,666)	(65,538,762)	(102,235,548)	(6,804)	-	-	(603,454,819)
Debt securities issued	-	(12,261,338)	(23,736,215)	(117,514,815)	(17,432,768)	(12,297,572)	-	-	(183,242,708)
Other financial liabilities	-	(1,405,216)	(19)	(11,516)	(443,531)	(396,174)	-	-	(2,256,456)
Total liabilities	(398,172,774)	(75,364,449)	(95,864,476)	(276,866,649)	(156,498,017)	(25,161,152)	-	-	(1,027,927,517)
Net liquidity gap	(329,012,447)	43,243,279	(27,219,360)	(96,685,700)	140,198,105	287,971,372	3,244,832	67,994,548	89,734,629

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.5 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 2020	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	40,087,841	–	–	40,087,841
Letters of credit	8,886,051	117,796	–	9,003,847
Letters of guarantee	3,373,390	10,519,295	487,264	14,379,949
Loan commitments	1,023,255	318,000	–	1,341,255
Unused credit card lines	3,311,958	21,371,157	289,161	24,972,276
Total	56,682,495	32,326,248	776,425	89,785,168

As at 31 December 2019	Within 1 year	1 to 5 years	Over 5 years	Total
Bank acceptance	36,775,576	–	–	36,775,576
Letters of credit	8,268,785	246,057	–	8,514,842
Letters of guarantee	11,763,516	8,113,152	480,345	20,357,013
Loan commitments	645,660	203,000	–	848,660
Unused credit card lines	2,880,944	21,581,311	61,982	24,524,237
Total	60,334,481	30,143,520	542,327	91,020,328

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 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.
- 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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(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.

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.

	Carrying value	As at 30 June 2020			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	268,324,669	–	269,196,904	–	269,196,904
Financial Liabilities					
Debt securities issued	(168,008,979)	–	(165,746,782)	–	(165,746,782)
	Carrying value	As at 31 December 2019			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	278,972,511	–	279,503,658	–	279,503,658
Financial Liabilities					
Debt securities issued	(183,242,708)	–	(181,242,458)	–	(181,242,458)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(b) *Financial instruments not measured at fair value (Continued)*

(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.

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 30 June 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	16,459,220	–	16,459,220
– Interbank certificates of deposit	–	1,182,407	–	1,182,407
– Asset management schemes by securities firms or trust companies	6,300,171	62,204,156	–	68,504,327
– Wealth management products	–	15,347,807	–	15,347,807
Derivative financial assets	–	134,439	–	134,439
Financial assets at fair value through other comprehensive income				
– Debt securities	–	105,735,860	–	105,735,860
– Interbank certificates of deposit	–	7,094,086	–	7,094,086
– Equity securities	–	3,804,840	–	3,804,840
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	17,933,350	–	17,933,350
Total assets	6,300,171	229,896,165	–	236,196,336
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	(259,329)	–	(259,329)
Total liabilities	–	(259,329)	–	(259,329)

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	2,534,833	–	2,534,833
– Interbank certificates of deposit	–	49,676	–	49,676
– Asset management schemes by securities firms or trust companies	5,534,868	49,333,793	–	54,868,661
– Wealth management products	–	36,325,749	–	36,325,749
Derivative financial assets	–	235,406	–	235,406
Financial assets at fair value through other comprehensive income				
– Debt securities	–	95,905,662	–	95,905,662
– Interbank certificates of deposit	–	5,511,326	–	5,511,326
– Equity securities	–	180,876	–	180,876
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	21,870,165	–	21,870,165
Total assets	5,534,868	211,947,486	–	217,482,354
Derivative financial liabilities	–	(281,329)	–	(281,329)
Total liabilities	–	(281,329)	–	(281,329)

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.

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.5 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 2020 and 31 December 2019:

		As at 30 June 2020	As at 31 December 2019
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.75%	8.85%
Tier-one Capital Adequacy Ratio	(a)	10.70%	10.85%
Capital Adequacy Ratio	(a)	12.98%	13.21%
Common Equity Tier-one Capital	(b)	76,646,751	72,785,738
Common shares		12,154,801	12,154,801
Capital reserve		8,936,031	8,585,572
Surplus reserve and General reserve		24,614,187	22,480,310
Undistributed profits		29,206,049	27,998,413
Eligible portion of minority interests		1,735,683	1,566,642
Deductible Items from Common Equity Tier-one Capital	(c)	(3,967,142)	(1,343,168)
Net Common Equity Tier-one Capital		72,679,609	71,442,570
Additional Tier-one Capital	(d)	16,221,326	16,198,787
Net Tier-one Capital		88,900,935	87,641,357
Tier-two capital	(e)	18,942,407	19,066,882
Tier 2 capital instruments issued and related premium		8,800,000	9,200,000
Excess loan loss provisions		9,687,899	9,449,111
Eligible portion of minority interests		454,508	417,771
Net Capital		107,843,342	106,708,239
Risk-weighted Assets	(f)	830,681,103	807,541,926

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

47 FINANCIAL RISK MANAGEMENT (Continued)

47.5 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.

47.6 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 2020	As at 31 December 2019
Entrusted loans	54,078,165	62,017,917
Entrusted wealth management products	182,809,527	180,689,009

Notes to Condensed Consolidated Interim Financial Statements (Continued)

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

48 SUBSEQUENT EVENTS

A board meeting was convened by the Bank on 20 August 2020, at which, the proposal for initial public offering and listing of shares through non-public offering (“Non-public Offering”) under the general mandate was considered and approved. The Bank intends to issue a total of not more than 1.735 billion domestic shares to Deposit Insurance Fund Management Co., Ltd. and Anhui Transportation Holding Group Co., Ltd. under a general mandate. The Bank has signed relevant subscription agreements with the Deposit Insurance Fund Management Co., Ltd. and Anhui Transportation Holding Group Co., Ltd. after the board meeting on August 20, 2020. For details of the aforementioned proposal for Non-public Offering and subscription agreements, please refer to the Bank’s announcement dated 20 August 2020.

49 OTHER IMPORTANT MATTERS

Upon consideration and approval at the meeting of the Board held on 7 January 2020 and the 2020 first extraordinary general meeting held on 22 February 2020 respectively, the Bank proposes to acquire part of assets and liabilities of Baoshang Bank Co., Ltd. (“Baoshang Bank”) and establish or acquire directly four branches of Baoshang Bank. For details, please refer to the Bank’s announcements dated 7 January 2020 and 22 February 2020 and the circular dated 7 February 2020. According to the Announcement on the Transfer of Related Business, Assets and Liabilities by Baoshang Bank Co., Ltd. issued by the Takeover Group of Baoshang Bank on 30 April 2020, the Bank established the Beijing Branch, Shenzhen Branch, Chengdu Branch and Ningbo Branch of Huishang Bank and opened on 25 May 2020 officially. At present, the acquisition of relevant assets and liabilities is still in progress.

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 2020	As at 31 December 2019
RMB current assets to RMB current liabilities	52.20%	43.22%
Foreign currency current assets to foreign currency current liabilities	165.86%	204.09%

2 CURRENCY CONCENTRATIONS

As at 30 June 2020	USD	EUR	Others	Total
Spot assets	9,582,586	82,714	994,438	10,659,738
Spot liabilities	(6,485,858)	(54,716)	(641,220)	(7,181,794)
Forward purchases	2,072,686	121,055	597,150	2,790,891
Forward sales	(1,618,843)	(121,054)	(33,538)	(1,773,435)
Net long position	3,550,571	27,999	916,830	4,495,400

As at 31 December 2019	USD	EUR	Others	Total
Spot assets	9,401,940	113,389	349,015	9,864,344
Spot liabilities	(12,154,962)	(12,913)	(117,756)	(12,285,631)
Forward purchases	8,973,195	–	9,599	8,982,794
Forward sales	(1,083,561)	–	–	(1,083,561)
Net long/(short) position	5,136,612	100,476	240,858	5,477,946

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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.

As at 30 June 2020	Banks and other financial institutions	Non-bank private institutions	Total
Asia Pacific (excluding Chinese mainland)	154,407	1,089,816	1,244,223
– Hong Kong	66,917	1,089,816	1,156,733
Europe	22,905	–	22,905
North and South America	1,006,236	–	1,006,236
Oceania	1,530	–	1,530
Total	1,185,078	1,089,816	2,274,894

As at 31 December 2019	Banks and other financial institutions	Non-bank private institutions	Total
Asia Pacific (excluding Chinese mainland)	2,223,156	1,366,904	3,590,060
– Hong Kong	2,220,639	1,366,904	3,587,543
Europe	18,728	–	18,728
North and South America	1,160,685	–	1,160,685
Oceania	1,093	–	1,093
Total	3,403,662	1,366,904	4,770,566

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(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 2020	As at 31 December 2019
Total loans and advances to customers which have been overdue:		
Within 3 months	3,350,412	2,597,747
Within 3 to 6 months (inclusive)	1,386,958	987,499
Within 6 to 12 months	1,513,253	1,216,414
Over 12 months	1,651,775	1,646,409
Total	7,902,398	6,448,069
By percentage:		
Within 3 months	42.40%	40.30%
Within 3 to 6 months (inclusive)	17.55%	15.31%
Within 6 to 12 months	19.15%	18.86%
Over 12 months	20.90%	25.53%
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 2020			
Overdue loans and advances to customers	7,091,038	811,360	7,902,398
Individually assessed	(4,556,829)	(477,585)	(5,034,414)
As at 31 December 2019			
Overdue loans and advances to customers	5,975,231	472,838	6,448,069
Individually assessed	(4,078,485)	(263,087)	(4,341,572)

Fair value of collateral against overdue loans and advances to customers:

	As at 30 June 2020	As at 31 December 2019
Fair value of collateral		
Corporate loans	5,298,610	4,346,979
Personal loans and advances	1,487,035	1,280,858
Total	6,785,645	5,627,837

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4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.2 Identified impaired loans and advances

As at 30 June 2020	Anhui Province	Jiangsu Province	Total
Identified impaired loans and advances for which allowance is:			
Individually assessed	5,363,496	602,937	5,966,433
	(4,505,916)	(523,545)	(5,029,461)
As at 31 December 2019	Anhui Province	Jiangsu Province	Total
Identified impaired loans and advances for which allowance is:			
Individually assessed	4,508,358	306,300	4,814,658
	(4,077,116)	(252,333)	(4,329,449)

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

Huishang Bank Co., Ltd. makes a supplementary disclosure of the following information in accordance with CBIRC:

1. SIGNIFICANT RELATED PARTY TRANSACTIONS APPROVED BY THE BOARD OF DIRECTORS

In the first half of 2020, Huishang Bank Co., Ltd. shall approve a proposal on the significant related party transactions in accordance with the “Administrative Measures on Related Transactions between Commercial Banks and Insiders and Shareholders”, “Interim Measures on the Management of Equity of Commercial Banks” and other provisions (hereinafter referred to as “CBIRC”), the details are as follows:

Approved by the board of directors	Content	New credit limit (including low risk limit)	Remarks	
2020/3/4	The 14th Meeting of the 4th Board of Directors	Proposal on the approval of group credit related party transactions of Anhui Transportation Holding Group Co., Ltd.	2,000,000	
2020/3/31	The 15th Meeting of the 4th Board of Directors	Proposal on the approval of related party transactions of Anhui Transportation Holding Group Co., Ltd. and its related companies	10,841,875	
		Proposal on the approval of related party transactions of Anhui Publishing Group Co., Ltd. and its related companies	2,480,000	
		Proposal on the approval of related party transactions of Anhui Refinancing Co. Ltd. and its related companies	300,000	
		Proposal on the approval of related party transactions of Chery Commercial Vehicle (Anhui) Co., Ltd.	1,000,000	
		Proposal on the approval of related party transactions of Huishang Bank Financial Leasing Co., Ltd.	7,000,000	
2020/4/29	The 16th Meeting of the 4th Board of Directors	Proposal on the approval of related party transactions of Chery Automobile Co., Ltd. and its related companies	7,960,000	Another 450 million yuan of indirect credit limit was granted to related enterprises
		Proposal on changing the group credit conditions of Hefei Xingtai Financial Holdings (Group) Co., Ltd.	4,573,810	The credit limit is not increased, only involves the change of credit conditions
2020/6/29	The 18th Meeting of the 4th Board of Directors	Proposal on the approval of related party transactions of Anhui Energy Group Co., Ltd. and its related companies	2,290,000	
		Proposal on the approval of related party transactions of Hefei Urban Construction Development Donglu Real Estate Co., Ltd.	600,000	
		Proposal on the approval of related party transactions of Wuhu Xingwanchuangzhan Real Estate Development Co., Ltd.	800,000	
		Proposal on the approval of related party transactions of Zongyang County Public Transportation Co., Ltd.	170,000	The credit limit is not increased, only involves the change of credit conditions
		Proposal on the approval of related party transactions of Times Innovation Technology Investment Development Co., Ltd.	2,480,000	The credit limit is not increased, only involves the change of credit conditions

In addition, the Bank held the 15th meeting of the 4th board of directors on 31 March 2020, at which it reviewed and approved Huishang Bank's 2020 Daily Related Party Transaction Business Plan, and formulated the annual related party transaction plan on the funds, bills, bonds, investments, etc.

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

2. IMPLEMENTATION OF SIGNIFICANT RELATED PARTY TRANSACTIONS

As of the end of the second quarter of 2020, the significant related party transactions between Huishang Bank Co., Ltd. and the related parties under the CBIRC's definition are as follows:

1. The amount of a single related party transaction accounts for more than 1% of the net capital of the commercial bank

(1) *Huishang Bank Financial Leasing Co., Ltd.*

Related party	Transaction type	Amount	Remarks
Huishang Bank Financial Leasing Co., Ltd.	Interbank borrowing	1,200,000	

2. The balance of related party transactions accounts for more than 5% of the net capital of the commercial bank

(1) *Wuhu Construction Investment Co., Ltd. and its related companies*

Related party	Transaction type	Amount	Remarks
Wuhu Construction Investment Co., Ltd.	Loans on Mergers& Acquisitions	450,000	
	Debt securities	300,000	
		10,000	
	Investment in single trust fund of Wanjiang Mingzhu No.1 Urban Development Fund (The Actual financier is Wuhu Construction Investment Co., Ltd)	840,000	
Chery Automobile Co., Ltd.	Commercial acceptance bill securities	20,000	
		4,312	
		5,402	
	Forfaiting under letters of credit	100,000	
	Bank acceptance bill	270,000	
	900,000	300 transactions in total, the minimum is 100 thousand yuan and the maximum is 50 million yuan.	
Anhui Chery Automobile Sales Co., Ltd.	Domestic letter of credit	100,000	
		350,000	
		270,000	
	Bank acceptance bill	980,000	1,353 transactions in total, the minimum is 100 thousand yuan and the maximum is 50 million yuan.
Wuhu Golden Safety System Co., Ltd.	Domestic letter of credit	6,000	
	Bank acceptance bill	9,000	24 transactions in total, the minimum is 25 thousand yuan and the maximum is 1.5 million yuan.

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2. IMPLEMENTATION OF SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

2. The balance of related party transactions accounts for more than 5% of the net capital of the commercial bank (Continued)

(1) Wuhu Construction Investment Co., Ltd. and its related companies (Continued)

Related party	Transaction type	Amount	Remarks
Wuhu Rayhoo Casting Co., Ltd.	Bank acceptance bill	18,868	32 transactions in total, the minimum is 37 thousand yuan and the maximum is 3.8761 million yuan.
Wuhu Puwei Technology Research Co., Ltd.	Domestic letter of credit	900	
		250	
		280	
	Bank acceptance bill	14,509	93 transactions in total, the minimum is 10 thousand yuan and the maximum is 1.1 million yuan.
Chery New Energy Vehicles Sales Co., Ltd.	Domestic letter of credit	60,000	
		180,200	
	Bank acceptance bill	119,800	6 transactions in total, the minimum is 2.7 million yuan and the maximum is 80 million yuan.
Anhui Chery Commercial Vehicle Sales Co., Ltd.	Bank acceptance bill	300,000	177 transactions in total, the minimum is 400 thousand yuan and the maximum is 2 million yuan.
Kairui New Energy Vehicles Co., Ltd.	Domestic letter of credit	20,000	
		40,000	
	Bank acceptance bill	40,000	50 transactions in total, the minimum is 500 thousand yuan and the maximum is 1 million yuan.
Wuhu Ruitai Auto Parts Co., Ltd.	Bank acceptance bill	42,652	130 transactions in total, the minimum is 30 thousand yuan and the maximum is 2 million yuan.
Tower (Wuhu) Automotive Co., Ltd.	Bank acceptance bill	32,270	76 transactions in total, the minimum is 40 thousand yuan and the maximum is 3 million yuan.

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2. IMPLEMENTATION OF SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

2. The balance of related party transactions accounts for more than 5% of the net capital of the commercial bank (Continued)

(1) Wuhu Construction Investment Co., Ltd. and its related companies (Continued)

Related party	Transaction type	Amount	Remarks
Wuhu Aiman Equipment Engineering Co., Ltd.	Bank acceptance bill	6,871	75 transactions in total, the minimum is 5.8 thousand yuan and the maximum is 604.5 thousand yuan.
Chery New Energy Vehicles Sales Limited.	Forfaiting under letters of credit	60,000	
Anhui Jiangbei Development Co., Ltd.	Bid security of banking service on declaration of specialized bonds	300	
Wuhu Yongda Technology Co., Ltd.	Bank acceptance bill	44,949	170 transactions in total, the minimum is 20.2 thousand yuan and the maximum is 3.8772 million yuan.
	Discount of commercial acceptance bill	20,000	
Zhongtie Times Architectural Design Co., Ltd.	Domestic guarantee	80	
		30	
Wuhu Hua Yan Water Co., Ltd.	Water fee	15	3 transactions in total

(2) Huishang Bank Financial Leasing Co., Ltd.

Related party	Transaction type	Amount	Remarks
Huishang Bank Financial Leasing Co., Ltd.	Interbank borrowing	5,700,000	8 transactions in total, the minimum is 0.5 billion yuan and the maximum is 1.2 billion yuan.
	Domestic letter of credit	1,460,750	12 transactions in total, the minimum is 90 million yuan and the maximum is 1.94 billion yuan.

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3. RELATED PARTY TRANSACTIONS WITH RELATED NATURAL PERSONS

The identities of related natural persons of the Bank (in accordance with the “Administrative Measures on Related Transactions between Commercial Banks and Insiders and Shareholders”) mainly include: (1) Insiders, namely directors, executives of the head office and branches, and other persons who have the right to decide or participate in commercial bank credit and asset transfer; (2) Close relatives of insiders; (3) Shareholders, directors, and key executives of related legal persons or other organizations. The affiliated legal persons or other organizations mentioned in this item do not include insiders and their close relatives that directly, indirectly, jointly control or can exert significant influence on the legal persons or other organizations; and (4) Other natural persons that have a significant influence on the Bank. The Bank’s natural person shareholders hold or control less than 5% of the equity, and the Bank has no major natural person shareholders.

As of the end of the second quarter of 2020, based on the above-mentioned criteria, the balance of related party transactions of related natural persons of the Bank was RMB518,920 thousand yuan, mainly for personal housing loans, personal comprehensive consumption revolving loans and credit card overdrafts, all of which were related party transactions.