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中原銀行股份有限公司*
ZHONGYUAN BANK CO., LTD.*

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

(Stock Code of H Shares: 1216)

(Stock Code of Preference Shares: 4617)

**ANNOUNCEMENT OF INTERIM RESULTS FOR
THE SIX MONTHS ENDED JUNE 30, 2019**

The board of directors (the “**Board**”) of Zhongyuan Bank Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited consolidated interim results (the “**Interim Results**”) of the Bank and its subsidiaries for the six months ended June 30, 2019 (the “**Reporting Period**”) which were prepared in accordance with the International Financial Reporting Standards (“**IFRSs**”). The Board and the audit committee of the Board have reviewed and confirmed the interim Results.

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Bank (www.zybank.com.cn). The interim report for the six months ended June 30, 2019 will be dispatched to the shareholders of the Bank and will be available on the above websites in due course.

On behalf of the Board
Zhongyuan Bank Co., Ltd.*
DOU Rongxing
Chairman

Zhengzhou, the People's Republic of China
August 29, 2019

As at the date of this announcement, the Board comprises Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie as executive directors; Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun as non-executive directors; Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny as independent non-executive directors.

* *Zhongyuan Bank Co., Ltd. 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 out banking and/or deposit-taking business in Hong Kong.*

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Corporate Information

Legal Name of the Company

中原銀行股份有限公司¹
(abbreviated as 中原銀行)

English Name of the Company

ZHONGYUAN BANK CO., LTD.¹
(Abbreviated as ZYBANK)

Registered Office

Zhongke Golden Tower,
No. 23 Shangwu Waihuan Road,
Zhengdong New District CBD,
Zhengzhou, Henan Province, PRC

Headquarters in China

Zhongke Golden Tower,
No. 23 Shangwu Waihuan Road,
Zhengdong New District CBD,
Zhengzhou, Henan Province, PRC

Principal Business Place in Hong Kong, China

40/F, Sunlight Tower,
No. 248 Queen's Road East,
Wanchai, Hong Kong, PRC

Board of Directors

Executive Directors:

Mr. DOU Rongxing (Chairperson)
Mr. WANG Jiong
Mr. LI Yulin
Mr. WEI Jie

Non-Executive Directors:

Mr. LI Qiaocheng
Mr. LI Xipeng
Mr. MI Hongjun

Independent non-Executive Directors:

Ms. PANG Hong
Mr. LI Hongchang
Mr. JIA Tingyu
Mr. CHAN Ngai Sang Kenny

Legal Representative

Mr. DOU Rongxing

Authorized Representatives

Mr. JIA Tingyu
Mr. ZHANG Ke

Joint Company Secretaries

Mr. ZHANG Ke
Ms. LEUNG Wing Han Sharon

Unified Social Credit Code

9141000031741675X6

Financial Licence Institution Number

B0615H241010001

Auditors

PRC Auditor

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Oriental Plaza,
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Beijing, PRC

International Auditor

KPMG
8/F, Prince's Building,
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Legal Advisors

Legal Advisor as to PRC Laws

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Beijing, PRC

¹ Zhongyuan Bank Co., Ltd. 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 and/or deposit-taking business in Hong Kong.

Corporate Information

Legal Advisor as to Laws of Hong Kong, PRC

Paul Hastings
21-22/F, Bank of China Tower,
1 Garden Road, Hong Kong, PRC

H Share Registrar

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East,
Wanchai, Hong Kong, PRC

Trustee Agency for Domestic Shares

China Securities Depository and Clearing Corporation Limited
23rd Floor, Tower B,
Investment Square,
No. 27 Financial Street,
Xicheng District, Beijing, PRC

Stock Code

1216

Preference Shares Stock Code

4617

Investor's Enquiry

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Summary Of Accounting Data And Financial Indicators

For the six months ended June 30,			
	2019	2018	Change over the corresponding period of last year
(in millions of RMB, unless otherwise stated, except percentages)			
Operating results			Rate of change (%)
Net interest income	7,591.7	6,406.9	18.5
Net fee and commission income	995.1	643.1	54.7
Operating income	9,657.5	7,581.9	27.4
Operating expenses	(3,331.4)	(2,875.7)	15.8
Impairment losses on assets	(3,700.2)	(2,288.6)	61.7
Profit before tax	2,625.9	2,417.6	8.6
Net profit	2,078.8	1,888.3	10.1
Net profit attributable to equity shareholders of the Bank	2,074.5	1,851.5	12.0
Expressed in per share (in RMB)			Rate of change (%)
Net assets per share attributable to equity shareholders of the Bank ⁽¹⁾	2.31	2.21	4.5
Earnings per share	0.10	0.09	11.1
Profitability indicators (%)			Change
Return on average total assets ⁽²⁾	0.65	0.71	(0.06)
Return on average equity ⁽³⁾	9.05	8.27	0.78
Net interest spread ⁽⁴⁾	2.58	2.48	0.10
Net interest margin ⁽⁵⁾	2.64	2.62	0.02
Net fee and commission income to operating income	10.30	8.48	1.82
Cost-to-income ratio ⁽⁶⁾	33.65	37.05	(3.40)

Summary Of Accounting Data And Financial Indicators

	June 30, 2019	December 31, 2018	Change over the end of last year
(in millions of RMB, unless otherwise stated, except percentages)			
Capital adequacy ratio indicators⁽⁷⁾(%)			Change
Calculated based on the Administrative Measures for the Capital of Commercial Banks			
Core tier-one capital adequacy ratio	9.21	9.44	(0.23)
Tier-one capital adequacy ratio	11.16	11.49	(0.33)
Capital adequacy ratio	13.94	14.37	(0.43)
Total equity to total assets	8.73	8.97	(0.24)
Asset quality indicators (%)			Change
Non-performing loan ratio ⁽⁸⁾	2.30	2.44	(0.14)
Allowance coverage ratio ⁽⁹⁾	156.05	156.11	(0.06)
Allowance to gross loan ratio ⁽¹⁰⁾	3.59	3.81	(0.22)
Other indicators (%)			
Loan-to-deposit ratio	72.70	73.48	(0.78)
Scale indicators			Rate of change (%)
Total assets	652,025.1	620,444.3	5.1
Of which: net loans to customers	283,681.4	246,551.7	15.1
Total liabilities	595,117.2	564,766.5	5.4
Of which: deposits from customers	405,273.7	349,387.0	16.0
Share capital	20,075.0	20,075.0	—
Equity attributable to shareholders of the Bank	56,089.7	54,857.5	2.2
Non-controlling interests	818.2	820.3	(0.3)
Total equity	56,907.9	55,677.8	2.2

Summary Of Accounting Data And Financial Indicators

- (1) Calculated by dividing equity attributable to shareholders of the parent company after deduction of other equity instruments at the end of the reporting period by the total number of ordinary shares at the end of reporting period.
- (2) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (3) Calculated based on the “Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (Revision 2010) issued by China Securities Regulatory Commission. Represents net profit attributable to shareholders of the Bank for the period as a percentage of weighted average balance attributable to shareholders of the Bank for the period.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets.
- (6) Calculated by dividing operating expenses after deduction of tax and surcharges by operating income.
- (7) The Administrative Measures for the Capital of Commercial Banks was issued on June 7, 2012 and came into effect on January 1, 2013 by replacing the Administrative Measures for Capital Adequacy Ratio of Commercial Banks.
- (8) Calculated by dividing total non-performing loans and advances by gross loans to customers.
- (9) Calculated by dividing allowance for impairment losses on loans and advances by total non-performing loans.
- (10) Calculated by dividing allowance for impairment losses on loans and advances by gross loans and advances to customers.

Management Discussion And Analysis

1. Overall Operation Overview

During the Reporting Period, in face of the complicated international and domestic situation, the Bank has always adhered to the core values of “stability, innovation, motivation and efficiency (穩健、創新、進取、高效)” and made efforts to make transformation, improve capabilities, promote innovation-driven development, and adapt to competition”. The coordinated development of quality, efficiency and scale has been further deepened, and the development of business has shown a steady development trend with progress and higher quality. The Bank ranking the 181st, amongst the top 1,000 banks in the world in terms of tier-one capital by The Banker (UK) in 2019 and the 28th among the PRC banks on this list. The Bank is also among the 10 enterprises from Henan province which have been included into the Top 500 list, being the only Henan financial institution list.

The Bank has always adhered to the principle of “technology cultivation, technology prosperity (科技立行、科技興行)”, and is committed to comprehensively enhancing the customer experience through “digitalization” means, creating a first-class commercial bank and achieving leap-forward development. During the Reporting Period, the Bank further promoted digital transformation and continued to enhance the effectiveness of technology support. The retail line has realized the overall agility in terms of organizational structure within both the headquarters and branches; the company line has realized the agile operation within the trading bank tribe and the transaction bank direct operation center; the establishment of agile center, formation of agile coaching team, building of agile maturity evaluation mechanism, and agile work methods are gradually implemented in the whole bank. The Bank has accelerated the construction of dual-speed IT and completed the decoupling of more than 500 functional modules in 15 systems including online and offline channels and important retail businesses. The function of the cloud platform continued to improve, and the unified development platform and micro-service platform has realized the first phase of the launch and the construction of the financial open platform has started. The pace of scientific and technological ecological construction has taken shape, and the technical output for Yongxudai have been signed with 10 banks. The blueprint plan of big data for the next three years has been formulated, and the closed-loop system design for big data operation and management has been completed. The projects such as operation and management cockpit, consolidated reports, customer portrait systems, and data integration have been launched. We also have gradually implemented data governance assessment, completed 127 data governance tasks, and completed 400 report models in public collections and data marts. The Bank has implemented 5 major use cases in the whole bank. So far, a total of 720,000 marketing clues have been followed up, and 460,000 have been successfully executed, helping

Management Discussion And Analysis

to sell various products of the value of RMB64.4 billion. The Bank has formulated and implemented the assessment, professional sequence, grading and other systems which match the agile transformation to form the annual OKR target task of the Bank. The degree of onlineization has been further enhanced. In terms of product online, the electronic channel transaction replacement rate of retail business has reached 94%, the company business has reached 90%, and the high-frequency business basically has realized all transactions online trading. In terms of customers online, the number of mobile banking accounts opened by retail customers has reached 4.87 million, with a coverage rate of 35.6%, increasing 3.5 percentage points up from the beginning of the year. The number of online banking accounts opened by corporate customers has reached 122,100, with a coverage rate of 83.3%. In terms of online management, the online project of middle and back management has been promoted steadily, the first phase of the new human resources system has been launched, and the market risk management project has been put into production successfully. The “Yuanxin” project continued to be upgraded iteratively, with 52 employee scenarios embedded, and the user experience was further improved.

As at June 30, 2019, the Bank's operating results were satisfactory and recorded operating income of RMB9,658 million, representing a year-on-year increase of RMB2,076 million or 27.4%, of which non-interest income amounted to RMB2,066 million, accounting for 21.4% of the operating income, representing an increase of 5.9 percentage points as compared with the corresponding period of last year. Profit before provision was RMB6,326 million, representing a year-on-year increase of RMB1,620 million or 34.4%. Total assets amounted to RMB652,025 million, representing an increase of RMB31,581 million or 5.1% as compared with the beginning of the year. Total loans (excluding accrued interest) amounted to RMB291,804 million, representing an increase of RMB37,434 million or 14.7% as compared with the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB401,354 million, representing an increase of RMB55,165 million or 15.9% as compared with the beginning of the year. The increase rate of deposits and loans were significantly higher than the average level of Henan Province. The total loans with high yield (excluding accrued interest) accounted for 44.8% of the total assets, representing an increase of 3.8 percentage points as compared with the beginning of the year. The low-cost general deposits (excluding accrued interest) accounted for 67.4% of the total liabilities, representing an increase of 6.1 percentage points from the beginning of the year. The high-cost interbank liabilities (including interbank certificates of deposit) accounted for 25.9% of the total liabilities, representing a decrease of 5.9 percentage points as compared with the beginning of the year, resulting in a continuing optimized asset and liability structure.

Management Discussion And Analysis

2 Analysis on Income Statement

For the six months ended June 30, 2019, the Bank recorded profit before provision of RMB6,326 million, representing a year-on-year increase of 34.4%, recorded profit before taxation of RMB2,626 million, representing a year-on-year increase of 8.6% and recorded net profit of RMB2,079 million, representing a year-on-year increase of 10.1%.

For the six months ended June 30,				
	2019	2018	Change	Rate of Change
	(in millions of RMB, except percentages)			
Interest income	14,337.1	11,935.4	2,401.7	20.1%
Interest expense	(6,745.4)	(5,528.5)	(1,216.9)	22.0%
Net interest income	7,591.7	6,406.9	1,184.8	18.5%
Fee and commission income	1,103.0	700.0	403.0	57.6%
Fee and commission expense	(107.9)	(56.9)	(51.0)	89.6%
Net fee and commission income	995.1	643.1	352.0	54.7%
Net trading gains/(losses)	40.4	(37.2)	77.6	N/A
Net gains arising from investments securities	962.6	517.1	445.5	86.2%
Other operating income ⁽¹⁾	67.7	52.0	15.7	30.2%
Operating income	9,657.5	7,581.9	2,075.6	27.4%
Operating expenses	(3,331.4)	(2,875.7)	(455.7)	15.8%
Impairment losses on assets	(3,700.2)	(2,288.6)	(1,411.6)	61.7%
Operating profit	2,625.9	2,417.6	208.3	8.6%
Profit before taxation	2,625.9	2,417.6	208.3	8.6%
Income tax	(547.1)	(529.3)	(17.8)	3.4%
Net profit	2,078.8	1,888.3	190.5	10.1%
Net profit attributable to shareholders of the Bank	2,074.5	1,851.5	223.0	12.0%
Minority interests	4.3	36.8	(32.5)	(88.3%)

Note:

- (1) Other operating income includes government subsidies, rental income, net gains arising from disposal of property and equipment and others.

Management Discussion And Analysis

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

For the six months ended June 30, 2019, the Bank recorded net interest income of RMB7,592 million, representing an increase of RMB1,185 million or 18.5% as compared to the same period of last year. Among this, a growth of net interest income of RMB1,123 million as compared to the same period of last year was attributable to the expansion of the Bank's business scale and an increase in net interest income of RMB62 million was attributable to the changes in yield or cost rate.

The following table sets forth the average balance of the Bank's interest-earning assets and interest-bearing liabilities, interest income or expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost rate of these interest-bearing liabilities for the six months ended June 30, 2018 and 2019.

	For the six months ended June 30,					
	Average balance	2019 Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	2018 Interest income/expense	Average yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
loans and advances to customers	273,224.9	8,593.7	6.29%	204,594.3	6,091.2	5.95%
Investment securities and other financial assets ⁽²⁾	207,855.1	4,684.5	4.51%	211,694.8	5,099.2	4.82%
Deposits with central bank	43,400.0	323.6	1.49%	47,013.4	350.3	1.49%
Deposits with bank and other financial institutions	17,659.4	168.6	1.91%	11,010.0	159.2	2.89%
Financial assets held under resale agreements	19,929.4	243.1	2.44%	13,006.7	203.9	3.14%
Placements with banks and other financial institutions	12,714.0	323.6	5.09%	1,516.4	31.6	4.17%
Total interest-earning assets	574,782.8	14,337.1	4.99%	488,835.6	11,935.4	4.88%

Management Discussion And Analysis

For the six months ended June 30,

	2019			2018		
	Average	Interest	Average	Average	Interest	Average
	balance	income/ expense	yield/cost ⁽¹⁾	balance	income/ expense	yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-bearing liabilities						
Deposits from customers	374,270.6	3,540.4	1.89%	315,235.1	2,404.6	1.53%
Financial assets sold under repurchase agreements	26,093.1	366.7	2.81%	20,975.9	289.4	2.76%
Placements from banks and other financial institutions	12,648.0	285.2	4.51%	7,105.1	134.4	3.78%
Borrowings from central bank	9,288.9	140.2	3.02%	1,999.2	25.1	2.51%
Deposits from banks and other financial institutions	49,018.7	774.4	3.16%	46,479.3	1,049.5	4.52%
Debt securities issued ⁽³⁾	88,026.1	1,638.5	3.72%	68,472.8	1,625.5	4.75%
Total interest-bearing liabilities	559,345.4	6,745.4	2.41%	460,267.4	5,528.5	2.40%
Net interest income		7,591.7			6,406.9	
Net interest spread ⁽⁴⁾			2.58%			2.48%
Net interest margin ⁽⁵⁾			2.64%			2.62%

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) The Bank has implemented New Accounting Standards for Financial Instruments since January 1, 2018, and such interest-earning assets consist of financial assets at amortized cost, financial assets at fair value through other comprehensive income.
- (3) Mainly consists of interbank deposits, financial bonds and Tier 2 capital instruments issued.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, and based on daily average interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average balance of total interest-earning assets, and based on daily average interest-earning assets.

Management Discussion And Analysis

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rate for the periods indicated. Changes in volume are measured by changes in the average balances of the Bank's interest-earning assets and interest-bearing liabilities and changes in rate are measured by changes in the average rates of the Bank's interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interests.

**For the six months ended June 30,
Change over the corresponding
period of last year**

Reasons for increase/(decrease)

	Volume⁽¹⁾	Rate⁽²⁾	Net increase/ (decrease)⁽³⁾
(in millions of RMB)			
Interest-earning assets			
Loans and advances to customers	2,043.3	459.2	2,502.5
Investment securities and other financial assets	(92.5)	(322.2)	(414.7)
Deposits with the central bank	(26.7)	—	(26.7)
Deposits with banks and other financial institutions	96.1	(86.7)	9.4
Financial assets held under resale agreements	108.5	(69.3)	39.2
Placements with banks and other financial institutions	233.3	58.7	292.0
Changes in interest income	2,362.0	39.7	2,401.7

Management Discussion And Analysis

**For the six months ended June 30,
Change over the corresponding
period of last year**

Reasons for increase/(decrease)

	Volume⁽¹⁾	Rate⁽²⁾	Net increase/ (decrease)⁽³⁾
	(in millions of RMB)		
Interest-bearing liabilities			
Deposits from customers	450.3	685.5	1,135.8
Financial assets sold under repurchase agreements	70.6	6.7	77.3
Placements from banks and other financial institutions	104.8	46.0	150.8
Borrowings from central bank	91.5	23.6	115.1
Deposits from banks and other financial institutions	57.3	(332.4)	(275.1)
Debt securities issued	464.2	(451.2)	13.0
Changes in interest expense	1,238.7	(21.8)	1,216.9

Notes:

- (1) Represents the average balance for the Reporting Period net of the average balance for the same period last year, multiplied by the average yield/cost for the last period.
- (2) Represents the average yield/cost for the Reporting Period minus the average yield/cost for the same period last year, multiplied by the average balance for the period.
- (3) Represents interest income/expense for the Reporting Period net of interest income/expense for the same period last year.

Management Discussion And Analysis

2.2 Interest Income

For the six months ended June 30, 2019, the Bank's interest income increased by RMB2,402 million or 20.1% to RMB14,337 million as compared to the same period last year, primarily attributable to the increase in the volume of loans and advances to customers and average yield.

2.2.1 Interest income from loans and advances to customers

For the six months ended June 30, 2019, the Bank's interest income from loans and advances to customers increased by RMB2,503 million or 41.1% to RMB8,594 million as compared to the same period last year, primarily attributable to the Bank's overall increase in the granting of loans with stronger support on marketing promotion, product innovation and real economy. The average balance of loans increased from RMB204,594 million to RMB273,225 million. The average yield increased from 5.95% to 6.29%, primarily due to the continuously deepened research on market trend, strengthened pricing management.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the six months ended June 30,					
	Average balance	2019 Interest income	Average yield	Average balance	2018 Interest income	Average yield
	(in millions of RMB, except percentages)					
Corporate loans ⁽¹⁾	159,229.7	4,791.0	6.02%	123,471.2	3,701.0	5.99%
Personal loans	113,995.2	3,802.7	6.67%	81,123.1	2,390.2	5.89%
Total	273,224.9	8,593.7	6.29%	204,594.3	6,091.2	5.95%

Note:

(1) Corporate loans include discounted bills.

Management Discussion And Analysis

2.2.2 Interest income from investment securities and other financial assets

For six months ended June 30, 2019, the Bank's interest income from investment securities and other financial assets decreased by RMB415 million or 8.1% to RMB4,685 million as compared to the same period last year, primarily attributable to the decrease of 0.31 percentage points in the average yield of investment securities and other financial assets. The decrease in the average yield was primarily resulted by market factors, the average yield of new investment securities and other financial assets was lower than the same period last year.

2.2.3 Interest income from deposits with the central bank

For the six months ended June 30, 2019, the Bank's interest income from deposits with the central bank decreased by RMB27 million or 7.6% to RMB324 million as compared to the same period last year, primarily attributable to the decrease in the average balance of deposits with the central bank. The decrease in the average balance of deposits with the central bank was primarily attributable to the continuously reduction of deposit reserve rate by the People's Bank of China.

2.2.4 Interest income from deposits with banks and other financial institutions

For the six months ended June 30, 2019, the Bank's interest income from deposits with banks and other financial institutions increased by RMB9 million to RMB169 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits with banks and other financial institutions of RMB6,649 million from RMB11,010 million for the six months ended June 30, 2018 to RMB17,659 million for the six months ended June 30, 2019.

2.2.5 Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements increased by RMB39 million from RMB204 million for the six months ended June 30, 2018 to RMB243 million for the six months ended June 30, 2019, primarily attributable to the increase in the average balance of financial assets held under resale agreements of RMB6,922 million from RMB13,007 million for the six months ended June 30, 2018 to RMB19,929 million for the six months ended June 30, 2019.

Management Discussion And Analysis

2.2.6 Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by RMB292 million from RMB32 million for the six months ended June 30, 2018 to RMB324 million for the six months ended June 30, 2019, primarily attributable to the increase in the average balance of placements with banks and other financial institutions of RMB11,198 million from RMB1,516 million for the six months ended June 30, 2018 to RMB12,714 million for the six months ended June 30, 2019.

2.3 Interest Expense

For the six months ended June 30, 2019, the Bank's interest expense increased by RMB1,217 million or 22.0% to RMB6,745 million as compared to the same period last year, primarily attributable to the increase in the volume of deposits from customers and average cost.

2.3.1 Interest expense on deposits from customers

For the six months ended June 30, 2019, the Bank's interest expense on deposits from customers increased by RMB1,136 million or 47.2% to RMB3,540 million as compared to the same period last year, primarily attributable to the increase in the average balance of deposits from customers of the Bank and the average cost. The increase in the average balance of deposits from customers of the Bank was primarily due to our efforts to develop our corporate banking and personal banking businesses, continue to expand our customers' base, enrich product system and to improve service quality and drive growth of deposits. The increase in the average cost of deposits from customers was primarily due to the increase in market interest rates driven by the effects of interest rate liberalization.

	For the six months ended June 30,					
	Average balance	2019 Interest expense	Average cost	Average balance	2018 Interest expense	Average cost
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	124,399.9	425.0	0.68%	121,015.8	376.5	0.62%
Time	82,730.4	929.5	2.25%	60,963.4	611.9	2.01%
Sub-total	207,130.3	1,354.5	1.31%	181,979.2	988.4	1.09%

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For the six months ended June 30,						
	Average balance	2019 Interest expense	Average cost	Average balance	2018 Interest expense	Average cost
(in millions of RMB, except percentages)						
Personal deposits						
Demand	39,528.9	97.6	0.49%	31,665.6	70.4	0.44%
Time	127,611.4	2,088.3	3.27%	101,590.3	1,345.8	2.65%
Sub-total	167,140.3	2,185.9	2.62%	133,255.9	1,416.2	2.13%
Total deposits from customers	374,270.6	3,540.4	1.89%	315,235.1	2,404.6	1.53%

2.3.2 Interest expense on deposits from banks and other institutions

For the six months ended June 30, 2019, the Bank's interest expense on deposits from banks and other financial institutions decreased by RMB275 million or 26.2% to RMB774 million as compared to the same period last year. The decrease in the interest expense on deposits from banks and other financial institutions was primarily attributable to the decrease in the average cost. The decrease in the average cost of deposits from banks and other financial institutions was primarily attributable to the decrease in market interest rates.

2.3.3 Interest expense on debt securities issued

For the six months ended June 30, 2019, the Bank's interest expense on debt securities issued increased by RMB13 million or 0.8% to RMB1,639 million as compared to the same period last year, primarily attributable to the Bank's issuance of Tier 2 capital instruments of RMB10.0 billion in the second half of 2018.

2.3.4 Net interest spread and net interest margin

The Bank's net interest spread increased from 2.48% for last year to 2.58% for the current year, while the Bank's net interest margin increased from 2.62% for last year to 2.64% for the current year. The increases in net interest spread and net interest margin were primarily because the Bank focused on the regulatory orientation, adjusted the asset/liability structure in a timely manner, strengthened differentiated pricing management, effectively controlled the cost of liabilities, and continued to improve asset returns.

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2.4 Non-interest income

2.4.1 Fee and commission income

For the six months ended June 30, 2019, the Bank's net fee and commission income increased by RMB352 million or 54.7% to RMB995 million as compared to the same period last year, primarily attributable to the Bank's active expansion of its intermediate businesses, service channel and the business volume.

	For the six months ended June 30,			
	2019	2018	Change	Rate of Change
	(in millions of RMB, except percentages)			
Net fee and commission income				
Bank card service fees	137.1	26.8	110.3	411.6%
Settlement and clearing service fees	228.4	101.5	126.9	125.0%
Agency service income	60.8	72.0	(11.2)	(15.6%)
Underwriting service income	164.6	107.2	57.4	53.5%
Acceptance and guarantee service fees	48.8	65.1	(16.3)	(25.0%)
Advisory and consulting fees	68.9	24.8	44.1	177.8%
Custodial service fees	238.2	189.4	48.8	25.8%
Wealth management business fees	156.2	113.2	43.0	38.0%
Sub-total	1,103.0	700.0	403.0	57.6%
Fee and commission expenses	(107.9)	(56.9)	(51.0)	89.6%
Net fee and commission income	995.1	643.1	352.0	54.7%

For the six months ended June 30, 2019, the Bank realized bank card service fees income of RMB137 million, representing an increase of RMB110 million as compared to the same period last year, primarily attributable to the Bank's the continuous development of credit card business and the increase in the amount of credit issued and transactions.

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For the six months ended June 30, 2019, the Bank realized settlement and clearing service fees income of RMB228 million, representing an increase of RMB127 million as compared to the same period last year, primarily because the Bank accelerated the transformation of trading bank, continuously promoted product innovation and expanded service channels.

For the six months ended June 30, 2019, the Bank realized wealth management business fees of RMB156 million, representing an increase of RMB43 million as compared to the same period last year, primarily attributable to the Bank's continued improvement of product systems and increase in the size of issuance of wealth management products.

For the six months ended June 30, 2019, the Bank realized underwriting service income of RMB165 million, representing an increase of RMB57 million as compared to the same period last year, primarily because the Bank obtained qualification of B-Class lead underwriter and actively expanded underwriting business.

For the six months ended June 30, 2019, the Bank realized agency service income of RMB61 million, representing a decrease of RMB11 million as compared to the same period last year, primarily attributable to the Bank's active response to the new regulations on entrusted lending resulted in the significantly decrease of the revenue from entrusted lending business.

2.4.2 Net trading gains/(losses)

For the six months ended June 30, 2019, the Bank's net trading gains were RMB40 million, representing an increase of RMB78 million as compared to the same period last year, primarily attributable to the increase in investment income from security assets at fair value through profit or loss for the current period.

2.4.3 Net gains arising from investment securities

For the six months ended June 30, 2019, the Bank's net gains arising from investment securities amounted to RMB963 million, representing an increase in gains of RMB446 million as compared to the same period last year, primarily attributable to the increase in investment income from interbank investments at fair value through profit or loss for the current period.

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2.5 Operating expenses

For the six months ended June 30, 2019, the Bank's operating expenses increased by RMB456 million or 15.8% to RMB3,331 million as compared to the same period last year, primarily attributable to the growths in staff costs, depreciation and amortisation and other general and administrative expenses caused by the Bank's active implementation of the strategy of "sending banking business online and to rural area", accelerating the transformation to digital and technology-based bank and increasing strategic expenditures.

For the six months ended June 30				
	2019	2018	Change	Rate of Change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	1,415.4	1,128.8	286.6	25.4%
Staff welfare	117.8	108.9	8.9	8.2%
Social insurance and annuity	241.4	201.2	40.2	20.0%
Housing fund	84.9	72.0	12.9	17.9%
Employee education expenses and labor union expenses	49.2	38.4	10.8	28.1%
Others ⁽¹⁾	31.6	46.2	(14.6)	(31.6%)
Sub-total of staff costs	1,940.3	1,595.5	344.8	21.6%
Tax and surcharges	82.1	66.5	15.6	23.5%
Depreciation and amortisation	548.7	388.1	160.6	41.4%
Other general and administrative expenses	760.3	825.6	(65.3)	(7.9%)
Total	3,331.4	2,875.7	455.7	15.8%

Note:

(1) Primarily included expenses relating to dispatched staff.

For the six months ended June 30, 2019, staff costs increased by RMB345 million or 21.6% to RMB1,940 million as compared to the same period last year, primarily attributable to the increase in salaries, bonuses and allowances as well as social insurance and annuities and staff welfare expenses as a result of the increase in results and staff headcount of the Bank. Staff costs represented the largest component of the Bank's operating expenses, and respectively accounted for 58.2% and 55.5% of the total operating expenses for the six months ended June 30, 2019 and for the six months ended June 30, 2018.

Management Discussion And Analysis

For the six months ended June 30, 2019, depreciation and amortisation expenses increased by RMB161 million or 41.4% to RMB549 million as compared to the same period last year, primarily because (i) the Bank continued to increase investment in science and technology; (ii) the Bank accelerated the strategy of “Ruralization of Banking Services” (下鄉), promoted the localisation of the outlets, and established new county and township sub-branches; (iii) from January 1, 2019, the Bank implemented the new leasing criteria and depreciated the right-of-use assets.

For the six months ended June 30, 2019, tax and surcharges amounted to RMB82 million, representing an increase of RMB16 million or 23.5% as compared to the same period last year. The increase was primarily due to the increase in operating income.

For the six months ended June 30, 2019, other general and administrative expenses decreased by RMB65 million or 7.9% to RMB760 million as compared to the same period last year. Other general and administrative expenses primarily include property management fees, office expenses, business marketing expenses and others.

2.6 Asset impairment losses

For the six months ended June 30, 2019, the Bank’s asset impairment losses increased by RMB1,412 million or 61.7% to RMB3,700 million as compared to the same period last year, which primarily because (i) the Bank adopted more prudent risk classification, which increased the provision; (ii) the Bank strengthens the written-off of non-performing loans.

	For the six months ended June 30,			
	2019	2018	Change	Rate of Change
(in millions of RMB, except percentages)				
Loans and advances to customers	2,618.0	1,932.6	685.4	35.5%
Investment financial assets ⁽¹⁾	965.1	306.2	658.9	215.2%
Other assets ⁽²⁾	117.1	49.8	67.3	135.1%
Total impairment losses	3,700.2	2,288.6	1,411.6	61.7%

Management Discussion And Analysis

Notes:

- (1) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses include impairment losses on financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (2) From January 1, 2018, the Bank implemented the New Accounting Standards for Financial Instruments, the impairment losses mainly include impairment losses on deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, off-balance sheet credit asset and other receivables.

2.7 Income tax expense

For the six months ended June 30, 2019, the Bank's income tax increased by RMB18 million or 3.4% to RMB547 million, primarily attributable to the increase in the Bank's profit before taxation.

For the six months ended June 30,				
	2019	2018	Change	Rate of Change
(in millions of RMB, except percentages)				
Current income tax	1,048.9	460.9	588.0	
Deferred income tax	(501.8)	68.4	(570.2)	
Total income tax expenses	547.1	529.3	17.8	3.4%

3 Analysis on the Major Items of Balance Sheet

3.1 Assets

As of June 30, 2019, the Bank's total assets increased by RMB31,581 million or 5.1% to RMB652,025 million as compared to the end of last year. The principal components of the Bank's assets consist of (i) loans and advances to customers (net); and (ii) investment securities and other financial assets (net), representing 43.5% and 37.1% of the Bank's total assets as of June 30, 2019, respectively.

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

Management Discussion And Analysis

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	293,779.2	45.1%	255,865.7	41.2%
Allowance for impairment losses	(10,097.8)	(1.6%)	(9,314.0)	(1.5%)
Loans and advances to customers, net	283,681.4	43.5%	246,551.7	39.7%
Investment securities and other financial assets	242,110.2	37.1%	252,645.9	40.7%
Financial assets held under resale agreements	15,684.8	2.4%	16,345.2	2.6%
Cash and deposits with central bank	61,770.5	9.5%	64,544.5	10.4%
Deposits with banks and other financial institutions	10,880.8	1.7%	15,863.5	2.6%
Placements with banks and other financial institutions	16,129.5	2.5%	10,032.0	1.6%
Derivative financial assets	37.1	0.1%	43.1	0.1%
Other assets ⁽¹⁾	21,730.8	3.2%	14,418.4	2.3%
Total assets	652,025.1	100.0%	620,444.3	100.0%

Note:

- (1) Consist primarily of properties and equipments, deferred income tax assets, goodwill and other assets.

3.1.1 Loans and advances to customers

As of June 30, 2019, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB37,434 million or 14.7% to RMB291,804 million as compared to the end of last year. The Bank's loans and advances to customers consist of corporate loans, personal loans and discounted bills.

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

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	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	137,824.0	46.9%	130,280.9	50.9%
Personal loans	125,735.7	42.8%	105,170.5	41.1%
Discounted bills	28,244.2	9.6%	18,918.8	7.4%
Sub-total	291,803.9	99.3%	254,370.2	99.4%
Accrued interest	1,975.3	0.7%	1,495.5	0.6%
Total loans and advances to customers	293,779.2	100.0%	255,865.7	100.0%

(1) Corporate loans

Corporate loans are the largest component of the Bank's loan portfolio. As of June 30, 2019, the Bank's corporate loans increased by RMB7,543 million or 5.8% to RMB137,824 million as compared to the end of last year, representing 47.2% of the Bank's gross loans to customers (excluding accrued interest), primarily attributable to the Bank's efforts to develop its corporate loan business and more supports to real economy.

The following table sets forth a breakdown of the Bank's corporate loans by collateral as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	9,265.9	6.7%	8,378.9	6.4%
Guaranteed loans	64,652.2	46.9%	65,886.7	50.6%
Collateralised loans	39,231.4	28.5%	36,577.1	28.1%
Pledged loans	24,674.5	17.9%	19,438.2	14.9%
Total corporate loans	137,824.0	100.0%	130,280.9	100.0%

Management Discussion And Analysis

(2) Personal loans

As of June 30, 2019, the Bank's personal loans increased by RMB20,565 million or 19.6% to RMB125,736 million as compared to the end of last year, primarily attributable to the Bank's efforts in increasing support for consumption growth.

The following table sets forth a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	62,985.4	50.2%	50,865.7	48.4%
Personal business loans	21,805.2	17.3%	20,905.9	19.9%
Personal consumption loans	34,472.4	27.4%	29,032.2	27.6%
Credit card loans	6,472.7	5.1%	4,366.7	4.1%
Total personal loans	125,735.7	100.0%	105,170.5	100.0%

(3) Discounted bills

As of June 30, 2019, the Bank's discounted bills increased by RMB9,325 million or 49.3% to RMB28,244 million as compared to the end of last year, which primarily due to the Bank's continuous satisfaction of customers' demand for short-term financing.

Management Discussion And Analysis

3.1.2 Investment securities and other financial assets

As of June 30, 2019, the Bank's total investment securities and other financial assets decreased by RMB10,536 million or 4.2% to RMB242,110 million as compared to the end of last year, primarily due to the decrease of investments in trust plans and other investments by the Bank.

The following table sets forth the composition of the Bank's investment securities and other financial assets as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments at fair value through profit or loss	48,077.6	19.6%	43,869.3	17.2%
Financial investments at fair value through other comprehensive income	40,427.6	16.5%	43,150.3	16.9%
Financial investments at amortised cost	156,398.6	63.9%	167,598.5	65.9%
Total investment securities and other financial assets	244,903.8	100.0%	254,618.1	100.0%
Add: accrued interest	2,168.4		2,029.4	
Less: impairment loss	(4,962.0)		(4,001.6)	
Net investment securities and other financial assets	242,110.2		252,645.9	

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The following table sets forth the distribution of the Bank's investment securities and other financial assets as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
PRC government bonds	32,751.9	13.5%	28,620.0	11.3%
Debt securities issued by PRC policy banks and other financial institutions	57,066.1	23.6%	48,428.5	19.2%
Debt securities issued by PRC corporate issuers	13,338.6	5.5%	14,226.9	5.6%
Sub-total	103,156.6	42.6%	91,275.4	36.1%
Other financial assets				
Wealth management products issued by other PRC commercial banks	27,268.8	11.3%	28,455.1	11.3%
Asset management plans	10,896.3	4.5%	11,252.7	4.5%
Trust plans	67,553.2	27.9%	89,200.3	35.3%
Others	31,066.9	12.8%	30,433.0	12.0%
Sub-total	136,785.2	56.5%	159,341.1	63.1%
Accrued interest	2,168.4	0.9%	2,029.4	0.8%
Net investment securities and other financial assets	242,110.2	100.0%	252,645.9	100.0%

Management Discussion And Analysis

3.1.3 Other components of the Bank's assets

Other components of the Bank's assets consist primarily of (i) financial assets held under resale agreements; (ii) cash and deposits with the central bank; (iii) deposits with banks and other financial institutions, (iv) placements with banks and other financial institutions; and (v) other assets.

As of June 30, 2019, the financial assets held under resale agreements decreased by RMB660 million or 4.0% to RMB15,685 million as compared to the end of last year, primarily because the Bank adjusted the size of the financial assets held under resale agreements at the end of the Reporting Period after taking comprehensive consideration regarding market price and the allocation demand of assets and liabilities.

As of June 30, 2019, the total cash and deposits with the central bank decreased by RMB2,774 million or 4.3% to RMB61,771 million as compared to the end of last year, primarily attributable to the continuous reduction of the deposit reserve ratio by the People's Bank of China.

As of June 30, 2019, the total deposits with banks and other financial institutions decreased by RMB4,983 million or 31.4% to RMB10,881 million as compared to the end of last year, primarily because the Bank adjusted the size of the deposits with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the allocation demand of assets and liabilities.

As of June 30, 2019, the total placements with banks and other financial institutions increased by RMB6,098 million from RMB10,032 million for the end of last year to RMB16,130 million, primarily because the Bank adjusted the size of the placements with banks and other financial institutions at the end of the Reporting Period after taking comprehensive consideration of market price and the matching demand of assets and liabilities.

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3.2 Liabilities

As of June 30, 2019, the Bank's total liabilities increased by RMB30,351 million or 5.4% to RMB595,117 million as compared to the end of last year.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	405,273.7	68.1%	349,387.0	61.9%
Deposits from banks and other financial institutions	28,242.0	4.7%	60,802.0	10.8%
Debt securities issued	85,066.9	14.3%	93,277.6	16.5%
Financial assets sold under repurchase agreements	39,622.0	6.7%	33,527.9	5.9%
Placements from banks and other financial institutions	18,436.6	3.1%	12,729.2	2.3%
Borrowings from central bank	11,587.8	1.9%	9,247.5	1.6%
Tax payable	1,172.2	0.2%	1,054.8	0.2%
Derivated financial liabilities	244.3	0.1%	228.1	0.0%
Other liabilities ⁽¹⁾	5,471.7	0.9%	4,512.4	0.8%
Total liabilities	595,117.2	100.0%	564,766.5	100.0%

Note: Consist primarily of payment and collection clearance accounts, staff salaries payable, lease liability, other tax payable, dividends payable, provisions and other payables.

3.2.1 Deposits from customers

As of June 30, 2019, the Bank's total deposits from customers (excluding accrued interest) increased by RMB55,165 million or 15.9% to RMB401,354 million as compared to the end of last year. It was primarily attributable to (1) the Bank's continued efforts to develop its corporate customers, expand service channels and improve service quality, resulting in an increase in its corporate deposits; (ii) initial results of its strategy of "Ruralization of Banking Services" (下鄉), leading to an increase in its township customer deposits; (iii) the Bank's continued efforts to promote product innovation, which effectively derived an increase in deposits.

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The following table sets forth the Bank's deposits from customers by product type and maturity profile of deposits as of the dates indicated.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	143,537.6	35.4%	133,615.6	38.2%
Time	79,678.8	19.7%	64,865.7	18.6%
Sub-total	223,216.4	55.1%	198,481.3	56.8%
Personal deposits				
Demand	44,992.7	11.1%	40,614.6	11.6%
Time	133,144.9	32.9%	107,093.1	30.7%
Sub-total	178,137.6	44.0%	147,707.7	42.3%
Accrued interest	3,919.7	0.9%	3,198.0	0.9%
Total deposits from customers	405,273.7	100.0%	349,387.0	100.0%

3.2.2 Deposits from banks and other financial institutions

As of June 30, 2019, the Bank's balance of deposits from banks and other financial institutions decreased by RMB32,560 million or 53.6% to RMB28,242 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from interbanks and other financial institutions according to market interest rates and allocation strategies of assets and liabilities.

3.2.3 Placements from banks and other financial institutions

As of June 30, 2019, the Bank's balance of placements from banks and other financial institutions increased by RMB5,708 million from RMB12,729 million for the end of last year to RMB18,437 million, primarily because the Bank enriched financing channels and adjusted the size of placements from banks and other financial institutions according to market interest rates and liquidity management needs.

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3.2.4 Debt securities issued

As of June 30, 2019, the Bank's balance of debt securities issued decreased by RMB8,211 million or 8.8% to RMB85,067 million as compared to the end of last year, primarily because the Bank appropriately adjusted the size of interbank deposits issued according to the market conditions and allocation strategies of assets and liabilities.

3.2.5 Financial assets sold under repurchase agreements

As of June 30, 2019, the Bank's financial assets sold under repurchase agreements increased by RMB6,094 million or 18.2% as compared to the end of last year to RMB39,622 million, primarily because the Bank optimized debt duration and adjusted the size of financial assets sold under repurchase agreements based on allocation strategies of assets and liabilities.

3.3 Shareholders' Equity

As of June 30, 2019, the Bank's total shareholders' equity increased by RMB1,230 million or 2.2% to RMB56,908 million as compared to the end of last year. The total equity attributable to shareholders of the Bank increased by RMB1,232 million or 2.2% to RMB56,090 million as compared to the end of last year. The increase in shareholders' equity was primarily attributable to the increase in profit during the Reporting Period.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	20,075.0	35.3%	20,075.0	36.1%
Other equity instrument	9,632.8	16.9%	9,632.8	17.3%
Capital reserve	14,310.0	25.1%	14,310.0	25.7%
Surplus reserve	1,500.6	2.6%	1,500.6	2.7%
General reserve	7,884.3	13.9%	7,884.3	14.2%
Re-evaluation and impairment reserve	531.6	0.9%	671.4	1.1%
Retained earnings	2,155.4	3.9%	783.4	1.4%
Equity attributable to shareholders of the Bank	56,089.7	98.6%	54,857.5	98.5%
Non-controlling interests	818.2	1.4%	820.3	1.5%
Total shareholders' equity	56,907.9	100.0%	55,677.8	100.0%

Management Discussion And Analysis

4 Off-balance Sheet Commitments

The following table sets forth the contractual amounts of the Bank's off-balance sheet credit commitments as of the dated indicated.

	As of June 30, 2019	As of December 31, 2018
	(in millions of RMB)	
Credit commitments		
Loan commitments	13,096.6	9,342.7
Bank acceptance	46,260.2	36,986.9
Letters of credit	15,876.0	11,444.1
Letters of guarantees	3,118.3	2,903.0
Total	78,351.1	60,676.7

5 Analysis on Loan Quality

During the Reporting Period, in face of complex economic and financial situation, the Bank further deepened the adjustment of credit structure, continued to strengthen credit risk management, optimized credit procedures and strengthened post-loan management measures to step up the efforts on collection and disposal of non-performing loans, so that the loan quality was generally kept at a manageable level. As of June 30, 2019, the balance of non-performing loans of the Bank amounted to RMB6,708 million, representing an increase of RMB501 million as compared with the end of last year. The non-performing loan ratio was 2.30%, representing a decrease of 0.14 percentage point as compared with the end of last year. Special mention loan accounted for 3.38%, representing a decrease of 0.54 percentage point as compared with the end of last year.

Management Discussion And Analysis

5.1 Distribution of Loans by Five-Category Loan Classification

The following table sets forth, as of the dates indicated, the Bank's loans by the Bank's five-category loan classification. According to the five-category loan classification system, the Bank classified its non-performing loans into substandard, doubtful and loss categories.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Normal	275,220.6	94.32%	238,199.7	93.64%
Special mention	9,875.6	3.38%	9,963.7	3.92%
Substandard	3,154.8	1.08%	2,780.5	1.09%
Doubtful	2,150.7	0.74%	2,273.8	0.90%
Loss	1,402.2	0.48%	1,152.5	0.45%
Total loans and advances to customers	291,803.9	100.00%	254,370.2	100.00%
Non-performing loans and non-performing loan ratio ⁽¹⁾	6,707.7	2.30%	6,206.8	2.44%

Notes:

- (1) Non-performing loan ratio is calculated by dividing non-performing loans by total loans and advances to customers.

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5.2 Distribution of Loans and Non-Performing Loans by Product Types

The following table sets forth, as of the dates indicated, the Bank's loans and non-performing loans by product types.

	As of June 30, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio ⁽³⁾	Loan amount	% of total	NPL Amount	NPL ratio ⁽³⁾
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	85,264.6	29.2%	4,339.6	5.09%	84,790.6	33.3%	4,467.4	5.27%
Medium-to-long-term loans ⁽²⁾	52,559.4	18.0%	684.6	1.30%	45,490.3	17.9%	182.1	0.40%
Sub-total	137,824.0	47.2%	5,024.2	3.65%	130,280.9	51.2%	4,649.5	3.57%
Personal loans								
Personal residential mortgage loans	62,985.4	21.6%	40.2	0.06%	50,865.7	20.1%	39.3	0.08%
Personal consumption loans	34,472.4	11.8%	323.4	0.94%	29,032.2	11.4%	248.5	0.86%
Personal business loans	21,805.2	7.5%	825.5	3.79%	20,905.9	8.2%	790.8	3.78%
Credit card loans	6,472.7	2.2%	20.4	0.32%	4,366.7	1.7%	4.7	0.11%
Sub-total	125,735.7	43.1%	1,209.5	0.96%	105,170.5	41.4%	1,083.3	1.03%
Discounted bills	28,244.2	9.7%	474.0	1.68%	18,918.8	7.4%	474.0	2.51%
Total	291,803.9	100.0%	6,707.7	2.30%	254,370.2	100.0%	6,206.8	2.44%

Notes:

- (1) Short-term loans include loans with maturity of one year or less and advances.
- (2) Medium-to-long-term loans include loans with maturity of more than one year.
- (3) NPL ratio calculated by dividing non-performing loans in each product type by gross loans in that product type.

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As at the end of June 2019, the balance of corporate non-performing loans of the Bank amounted to approximately RMB5,024 million, representing an increase of approximately RMB375 million as compared with that of the end of last year. The non-performing loan ratio was 3.65%, representing an increase of approximately 0.08 percentage points as compared with the end of last year. The increase in corporate non-performing loans of the Bank was primarily due to the fact that the Bank implemented more prudent five-category loan classification system according to regulatory requirements in the first half of the year. In addition, the credit customers of the Bank were mainly small and medium corporate clients, whose repayment abilities were deteriorated greatly by the operation difficulties as a result of economic downside.

The balance of personal non-performing loans of the Bank amounted to approximately RMB1,210 million, representing an increase of approximately RMB126 million as compared with that of the end of last year. The non-performing loan ratio was 0.96%, representing a decrease of approximately 0.07 percentage points as compared with the end of last year. The personal non-performing loans of the Bank increased mainly because the Bank implemented more prudent five-category loan classification system according to regulatory requirements in the first half of the year. The decline in the Bank's non-performing loan ratio was mainly due to the fact that (i) the Bank proactively responded to national policies by reinforcing credit structure adjustment and further developing personal credit business, and as of June 30, 2019, the balance of personal loans amounted to approximately RMB125,736 million, representing an increase of approximately RMB20,565 million or approximately 19.55% as compared with the end of last year; and (ii) the Bank continuously increased contribution to reduce non-performing loans and proactively reduced personal non-performing loans.

Management Discussion And Analysis

5.3 Distribution of Loans and Non-Performing Loans by Industry

	As of June 30, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Leasing and business services	30,962.1	10.6%	124.3	0.40%	25,941.0	10.2%	126.3	0.49%
Manufacturing	26,410.6	9.1%	1,942.1	7.35%	29,135.1	11.5%	2,192.8	7.53%
Real estate	19,476.2	6.7%	450.8	2.31%	16,958.8	6.7%	427.7	2.52%
Wholesale and retail	17,486.9	6.0%	1,443.5	8.25%	18,001.4	7.1%	1,099.2	6.11%
Construction	11,558.4	4.0%	203.8	1.76%	9,885.3	3.9%	229.6	2.32%
Water, environment and public facility management	7,578.8	2.6%	40.5	0.53%	7,473.6	2.9%	5.5	0.07%
Electricity, gas and water production and supply	4,390.5	1.5%	18.2	0.41%	4,367.6	1.7%	60.7	1.39%
Agriculture, forestry, animal husbandry and fishery	4,051.7	1.4%	382.5	9.44%	4,103.7	1.6%	240.7	5.87%
Education	3,354.2	1.1%	10.2	0.30%	2,920.5	1.1%	12.9	0.44%
Accommodation and catering	3,053.2	1.0%	75.1	2.46%	3,271.3	1.3%	110.3	3.37%
Health, social security and social welfare	2,997.3	1.0%	–	0.00%	2,477.7	1.0%	–	0.00%
Transportation, storage and postal services	2,648.6	0.9%	263.7	9.96%	2,122.3	0.8%	116.3	5.48%
Mining	1,825.4	0.6%	46.4	2.54%	2,157.8	0.9%	15.8	0.73%
Others	2,030.1	0.7%	23.1	1.14%	1,464.8	0.5%	11.7	0.80%
Total corporate loans	137,824.0	47.2%	5,024.2	3.65%	130,280.9	51.2%	4,649.5	3.57%
Total personal loans	125,735.7	43.1%	1,209.5	0.96%	105,170.5	41.4%	1,083.3	1.03%
Discounted bills	28,244.2	9.7%	474.0	1.68%	18,918.8	7.4%	474.0	2.51%
Total	291,803.9	100.0%	6,707.7	2.30%	254,370.2	100.0%	6,206.8	2.44%

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

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As of June 30, 2019, the non-performing corporate loans of the Bank mainly concentrated in the manufacturing, wholesale and retail industry and the agriculture, forestry, animal husbandry and fishery, with non-performing loan ratio of approximately 7.35%, 8.25% and 9.44%, respectively, of which:

- (i) the balance of non-performing loans in the manufacturing industry decreased by RMB251 million as compared with the end of last year, with a decrease of approximately 0.18 percentage points in non-performing loan ratio, which was mainly attributable to the Bank's efforts to further increase the written-off of non-performing assets in the first half of the year, through cash collection, verification, restructuring and other means to resolve non-performing loans, the results have been remarkable.
- (ii) the balance of non-performing loans in the wholesale and retail industry increased by RMB344 million as compared with the end of last year, with an increase of approximately 2.14 percentage points in non-performing loan ratio, which was mainly because the Bank implemented more prudent five-category loan classification system according to regulatory requirements in the first half of the year; and attributable to the effect of prolonged trade receivables cycle and slowdown of recollection on the capital turnover, and worsen operating conditions in the wholesale and retail industry after being significantly affected by the slowdown of the PRC economy development.
- (iii) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry increased by RMB142 million as compared with the end of last year, with an increase of approximately 3.57 percentage points in non-performing loan ratio, which was mainly because the Bank implemented more prudent five-category loan classification system according to regulatory requirements in the first half of the year; and attributable to the increase of non-performing loan ratio in the industry as a result of production and operation difficulties in the traditional manufacturing industry and a weakened repayment capacity after being affected by the economic downturn.

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5.4 Distribution of Loans and Non-Performing Loans by Collateral

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans and non-performing loans by collateral.

	As of June 30, 2019				As of December 31, 2018			
	Loan amount	% of total	NPL Amount	NPL ratio	Loan amount	% of total	NPL Amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	27,805.1	9.5%	804.4	2.89%	22,309.8	8.7%	158.0	0.71%
Guaranteed loans	79,477.4	27.2%	2,734.1	3.44%	81,392.5	32.0%	3,177.0	3.90%
Collateralised loans	135,519.7	46.5%	2,883.6	2.13%	115,649.2	45.5%	2,348.5	2.03%
Pledged loans	49,001.7	16.8%	285.6	0.58%	35,018.7	13.8%	523.3	1.49%
Total	291,803.9	100.0%	6,707.7	2.30%	254,370.2	100.0%	6,206.8	2.44%

Note: Non-performing loan ratio calculated by dividing non-performing loans in each product type secured by each type of collateral by gross loans in that type of collateral.

As of June 30, 2019, the balance of our guaranteed non-performing loans decreased by approximately RMB443 million from the end of last year, representing a decrease in non-performing loan ratio of approximately 0.46 percentage points, which was mainly attributable to the Bank's efforts to further increase the written-off of non-performing assets in the first half of the year, through cash collection, verification, restructuring and other means to resolve non-performing loans, the results have been remarkable.

As of June 30, 2019, the balance of our collateralised non-performing loans increased by approximately RMB535 million from the end of last year, representing an increase in non-performing loan ratio of approximately 0.10 percentage points, primarily because (i) the Bank implemented more prudent five-category loan classification system in the first half of the year; and (ii) with the relatively high proportion of loan customers of the Bank were small and medium enterprises, those enterprises experienced decline in operations and were exposed to risks under the current economic situation, which resulted in an increase in collateralised non-performing loans.

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5.5 Borrowers Concentration

As of June 30, 2019, the balance of loans to any single borrower of the Bank did not exceed 10% of the Bank's net capital.

The following table sets forth, as of June 30, 2019, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank.

		As of June 30, 2019		
		Balance	% of total loans	% of net capital
Industry		(in millions of RMB, except percentages)		
Borrower A	Manufacturing	2,492.8	0.9%	3.6%
Borrower B	Leasing and commercial services	1,847.8	0.6%	2.7%
Borrower C	Accommodation and catering	1,192.2	0.4%	1.7%
Borrower D	Real estate	1,000.0	0.3%	1.4%
Borrower E	Leasing and commercial services	970.0	0.3%	1.4%
Borrower F	Real estate	938.0	0.3%	1.4%
Borrower G	Leasing and commercial services	832.5	0.3%	1.2%
Borrower H	Real estate	779.0	0.3%	1.1%
Borrower I	Leasing and commercial services	699.0	0.2%	1.0%
Borrower J	Leasing and commercial services	613.0	0.2%	0.9%
Total		11,364.3	3.8%	16.4%

As of June 30, 2019, the loan balance of the largest single borrower of the Bank was approximately RMB2,493 million, accounting for approximately 0.9% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was approximately RMB11,364 million, representing approximately 3.8% of the total amount of loans of the Bank.

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5.6 Overdue loans

The following table sets forth, as of the dates indicated, the distribution of the Bank's loans to customers by maturity.

	As of June 30, 2019		As of December 31, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	282,644.5	96.86%	243,455.4	95.71%
Overdue loans				
Up to 3 months	3,391.7	1.16%	4,798.9	1.89%
Over 3 months up to 1 year	2,897.7	0.99%	2,702.5	1.06%
Over 1 year up to 3 years	1,957.3	0.68%	2,628.9	1.03%
Over 3 years	912.7	0.31%	784.5	0.31%
Sub-total	9,159.4	3.14%	10,914.8	4.29%
Total loans	291,803.9	100.00%	254,370.2	100.00%

Note: Overdue loans represent the principal amount of the loans on which principal or interest is overdue.

As of June 30, 2019, the amount of overdue loans totaled approximately RMB9,159 million, representing a decrease of approximately RMB1,755 million as compared with the end of last year. Overdue loans accounted for approximately 3.14% of the total loans, representing a decrease of approximately 1.15 percentage points as compared with the end of last year.

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6 Business Segment Report

The table below sets forth the Bank's total operating income by business segments for the periods as indicated.

	For the six months ended June 30, 2019		For the six months ended June 30, 2018	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	4,994.2	51.7%	4,261.6	56.2%
Retail banking business	2,830.9	29.3%	1,765.9	23.3%
Financial markets business	1,770.2	18.3%	1,504.9	19.8%
Other businesses	62.2	0.7%	49.5	0.7%
Total operating income	9,657.5	100.0%	7,581.9	100.0%

7 Analysis on Capital Adequacy Ratio

The Bank continued to optimize its business structure and strengthen its capital management. As of June 30, 2019, the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio of the Bank were 13.94%, 11.16% and 9.21%, respectively, representing a decrease of 0.43 percentage point, 0.33 percentage point and 0.23 percentage point, respectively, as compared with that of the end of last year, which fulfilled the requirements provided in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC. The changes in capital adequacy ratio were mainly due to the increase of risk-weighted assets resulting from the business development of the Bank.

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In accordance with Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC, the capital adequacy ratio of the Bank was as follows:

	As of June 30, 2019	As of December 31, 2018
(in millions of RMB, except percentages)		
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,471.7	14,605.8
Surplus reserve	1,500.6	1,500.6
General reserve	7,884.3	7,884.3
Retained earnings	2,155.4	783.4
Valid portion of minority interests	415.5	373.3
Total Core tier-one capital	46,502.5	45,222.4
Core tier-one capital deductions	(719.7)	(709.2)
Net core tier-one capital	45,782.8	44,513.2
Other tier-one capital	9,688.2	9,682.6
Net tier-one capital	55,471.0	54,195.8
Net tier-two capital	13,848.0	13,581.9
Net capital base	69,319.0	67,777.7
Total risk-weighted assets	497,217.4	471,779.0
Core tier-one capital adequacy ratio	9.21%	9.44%
Tier-one capital adequacy ratio	11.16%	11.49%
Capital adequacy ratio	13.94%	14.37%

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8 Business Review

8.1 Corporate Banking Business

In 2019, under the guidance of the “Three Major Strategies”, the corporate business line has realized continuous, healthy and rapid development with its proactive implementation of “sending banking business online and to rural area” and “digital transformation”, and its adherence to both business development and transformation.

8.1.1 Corporate deposits

The Bank focused on establishing its internal growth mechanism for corporate deposits, as well as optimizing the corporate deposits business structure. The Bank has continued to improve its competence in corporate deposit business by enhancing cooperation with the government, building the basic clients cluster, improving fundamental settlement services and providing convenience in settlement.

As of June 30, 2019, the balance of the Bank’s corporate deposits amounted to RMB223,216 million, representing an increase of RMB24,735 million or 12.5% as compared to the beginning of the year. The Bank’s new market share ranked the second in Henan Province, of which the balance of settlement deposits amounted to RMB173,710 million, representing an increase of RMB16,930 million as compared to the beginning of the year. The daily average balance of corporate deposits of the Bank was RMB207,130 million, representing an increase of RMB19,623 million or 10.5% as compared to the beginning of the year.

8.1.2 Corporate loans

On the basis of consolidated clients, the Bank has achieved good market performance by leading key products, seeking breakthroughs with key customers, implementing key projects, setting benchmarks for key industries, developing key segments and key regions, focusing on economic hot spots and placing quality assets. During the Reporting Period, the Bank has successively organized the signing of strategic cooperation agreements with key customers such as China Forestry Group, CCS Supply Chain Management Co., Ltd. to deepen business cooperation and communication, returning to the origin of supporting the real economy.

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As of June 30, 2019, the Bank's corporate loan balance amounted to RMB166,068 million, representing an increase of RMB16,869 million or 11.3% as compared to the beginning of the year. The Bank provided a credit balance of RMB250 billion to support the key projects in China and Henan Province, such as the "Three Zones and One Cluster (三區一群)" and the "Four Brands (四張牌)" and the "Quality Improvement in 100 Cities (百城提質)" in Henan Province. In the first half of the year, 188 key projects (with new exposures with amount of more than RMB50 million) were launched, with a total investment amount of RMB37,450 million.

8.1.3 Corporate customers

During the Reporting Period, the Bank adhered to the customer-oriented approach, developed the customer segmentation operating approach, and adopted customized service model and operating strategies tailored for different customer groups. The Bank developed the segmentation operating approach by providing layered services to institutional customers, strategic customers, transaction banking customers and small and micro enterprise customers. It continued to deepen the cooperation relationship among banks, the government and enterprises, actively explore new approaches for supporting the small and medium size enterprises, thereby pushing ahead the Bank's transformation and development. As of June 30, 2019, the Bank had 203,000 corporate customers (including interbank customers), representing an increase of 10,000 as compared to the end of 2018 (193,000).

8.1.3.1 Strategic customers

The Bank actively implemented multi-layer operation for corporate customers and formulated differentiated operating strategies. Focusing on strategic customers and key customers, the Bank fully explored customer needs, established an agile action team, conducted point-to-point marketing promotion, and formulated comprehensive financial service solutions that are all-covered, customized and personalized, so as to increase the market share and overall contribution of strategic customers. As of June 30, 2019, the Bank's head office-level strategic customer coverage was 81.2%, and the balance of credit assets accounted for 31% of the total assets, representing an increase of 17.8% as compared to the beginning of the year; the strategic customers' average daily corporate deposit balance increased by RMB6,700 million or 33.7% as compared to the beginning of the year.

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8.1.3.2 Institutional customers

The Bank proactively expanded its institutional business coverage to foster new growth points of the business, and seized business opportunities in key segments of the institutions, enhanced the commitments in technological marketing, and improved the vertical service capabilities for institutional customers. As of June 30, 2019, the average daily balance of institutional deposits of the Bank was RMB124,352 million, representing an increase of RMB9,451 million as compared to the beginning of the year. The number of institutional business agency qualification increased by 245 compared with the beginning of the year.

8.1.3.3 Small and micro customers

The Bank has always adhered to the market positioning of “close to the public, serving small and micro customers, supporting agriculture, rural areas and farmers, and promoting regional economic development (貼近市民、服務小微，支援三農，推動區域經濟發展)”, actively promoted “Sending banking business online and to rural area”, fully expanded the financing channels for private enterprises and small and micro enterprises by strengthening mechanism, creating products, getting through channels and taking innovative “portfolio measures”, focused on solving the problem of “difficulty in accessing finance”, “expensive financing costs” and “slow financing process” for private enterprises and small and micro enterprises. Adhering to “technology-based banking (科技興行)”, the Bank will further utilize new technologies and new approaches, innovate financial service models, strengthen the integration of finance with “Internet +” and utilize big data tools to enrich customer acquisition methods, and make full use of new channels such as online banking and mobile banking to provide efficient and convenient financial services to private enterprises. As of June 30, 2019, the Bank served over 29,800 small and micro enterprises customers and the loan balance to small and micro enterprises reached RMB113,377 million. The balance of the Bank’s loans to small and micro enterprises reached RMB34,542 million, representing an increase of RMB181 million as compared to the beginning of the year, and the number of the Bank’s small and micro customers reached 29,000, representing an increase of 1,000 as compared to the beginning of the year.

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8.1.4 Corporate products

During the Reporting Period, while continuously improving the corporate product system, the Bank continued to optimize the existing product functions, accelerated the launching pace of online products, developed online product manuals for customer managers, and launched flexible inquiry functions, resulting in continuous improvement in customer experience.

In terms of liability products, the Bank optimized the functions of certificates of deposit and other products, launched functions such as certificate allotment, strengthened the construction of electronic channels and enhanced the market competitiveness of products. In terms of customer settlement services and liquidity management, in accordance with the requirements of the self-regulatory mechanism on interest rate pricing and on the premise of compliance, the Bank further optimized cash management products, and became a major cooperative bank for cash management with an increasing number of customers.

In terms of investment banking products, the Bank vigorously promoted the transformation from traditional investment banking to comprehensive service investment banking, continued to enrich investment banking business products, and actively expanded innovative business products such as asset securitization, overseas financing and financial advisory for listing in Hong Kong.

In terms of transaction banking products, the Bank continued to improve the transaction banking product system and formed a series product brand of “ZY Bank e (原銀e)”. Meanwhile, the Bank launched innovative products such as “prompt borrowing and repayment of working capital loans under prepayments (預付款項下隨借隨還流動資金貸款)” and “upgrading bill pool to asset pool (票據池升級為資產池)” to meet customers’ needs.

We continued to carry out online transformation of existing products and the development of our new products was based on online scenarios. Currently, the Bank has achieved the full online transformation of active liability products, and aimed at enhancing the competitiveness of our corporate products.

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8.1.5 Investment banking

During the Reporting Period, on the basis of steady development of investment banking business such as structured financing, equity financing and financial advisory service, the Bank vigorously promoted the transformation from traditional investment banking to integrated service investment banking, continued to enrich investment banking business products, and actively expanded innovative business products such as asset securitization, overseas financing and financial advisory for listing in Hong Kong.

On February 22, 2019, the Bank obtained the qualification of class B lead underwriter for debt financing instruments of non-financial enterprises from the National Association of Financial Market Institutional Investors ("Association"). As of June 30, 2019, the Bank achieved a total of 1 medium-term note with a size of RMB2 billion raised from debt financing instruments of non-financial enterprises; completed the issuance of 2 ultra-short-term financing bills, with a total registered size of RMB12.5 billion and a total issued size of RMB1.5 billion; completed the unified registration of 1 debt financing instrument for type 1 enterprises; and achieved accumulated total of RMB7.8 billion of filing scale of debt financing plans on the Beijing Financial Assets Exchange, in which an amount of RMB980 million were successfully issued through listing. We became the first bank among the 12 new class B lead underwriters to achieve the issuance of debt financing instruments.

The Bank actively revitalized interbank resources and established cooperative circles with banking, insurance, trust, leasing and other financial institutions to provide all-round and multi-channel financial services to large and medium-sized customers in the province through syndicated loans, joint investments and fund matching. The Bank continuously enriched and innovated equity financing services to meet the financing needs of listed companies, back-up listed enterprises and state-owned enterprises under local governments. Through comprehensive financial services in the capital market, the Bank meets the diversified demands of listed companies such as private placement, industrial mergers and acquisitions, equity incentives and shareholders' financing. Through customized products such as debt optimization, employee share option incentives and exchange platforms for equity investment institutions, the Bank provides financing and intelligence services to tech-innovative SMEs and back-up listed enterprises. Through M&A advisory and M&A loans, the Bank supports the transformation of state-owned enterprises under local governments. The Bank cooperated with Henan Province Small and Medium Enterprises Development Fund (LLP) to implement the "investment and loan linkage

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(投貸聯動)” and continued to support the growth of SMEs. The Bank actively expanded the asset securitization business, to satisfy the financing needs for asset securitization of high-quality enterprises in and outside the province. As an independent lead underwriter, the Bank has successfully issued the first debt financing plan for receivables with commercial property mortgage in Henan Province. The Bank vigorously promoted overseas financing and financial advisory business for listing in Hong Kong and constantly explore the innovative business models and service models.

8.1.6 Transaction banking

The Bank adhered to the future bank layout, actively promoted digital strategic transformation, strengthened the construction of online system, conducted in-depth industry research and promoted the implementation of key businesses. During the Reporting Period, the Bank actively integrated its internal resources and established the transaction banking department. By leveraging financial technology and focusing on digital transformation, the Bank vigorously developed transaction banking businesses such as cash management, domestic financing, cross-border finance and electronic channels, and continuously improved the transaction banking product system. The Bank formed “ZY Bank e(原銀e)” series of product brands, including five major brands, namely “ZY Bank e Housekeeper (原銀e管家)”, “ZY Bank e Facilities (原銀e融通)”, “ZY Bank e Linkage (原銀e鏈通)”, “ZY Bank e Cross-border (原銀e跨境)” and “ZY Bank e Pipeline (原銀e渠道)”, and initiated the establishment of the Zhongyuan Supply Chain Cooperation and Development Alliance on June 11, 2019.

During the Reporting Period, the transaction banking business of the Bank deepened the cooperation with upstream and downstream core enterprises, expanded customer base, extended the industrial chain, and achieved breakthroughs in key customers and major projects. The income and financing volume of transaction banking intermediary business achieved a relatively rapid growth, among which the income and financing volume from intermediary business recorded a year-on-year increase of 48% and 27%, respectively.

8.1.6.1 Cash management

Through independent research and development and product innovation, the Bank has established a relatively complete cash management product system to provide standardized and personalized cash management service plans for customers such as enterprises, governments and public institutions.

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As of June 30, 2019, the Bank had 6,851 cash management customers, representing an increase of 172% as compared to the beginning of the year, and the average daily balance of RMB-denominated deposits was RMB46.7 billion, representing an increase of 33% as compared to the beginning of the year. With comprehensive and all-round product systems and service capabilities of cash management, the Bank is becoming a major cooperative bank for cash management of an increasing number of customers.

8.1.6.2 Corporate electronic channels

The Bank constantly innovated the application scenarios of corporate electronic channels. With online corporate service, agile product construction and excellent customer experience as the targets, the Bank has always been committed to creating the best omni-channel service ecosystem, and to achieve rapid response to customer needs through accelerating product development with agile iteration. As of June 30, 2019, the aggregated number of the Bank's corporate online banking customers was 122,100, representing an increase of 9,500 customers as compared to the beginning of the year. The accumulated transaction amount increased by RMB1,086.6 billion as compared to the beginning of the year, and the total transaction volume increased by 418,000 transactions as compared to the beginning of the year, accounting for 93.30% of the total number of transactions conducted by corporate banking customers during the same period.

8.1.6.3 Supply chain financing and trade financing

The Bank insisted on the customer-centric principle and actively promoted the online, digital and scenario-based development of supply chain finance business. In terms of product construction, the Bank adhered to the scientific philosophy of promoting development in an agile manner and striving for excellence, kept improving and committed to providing customized, professional and online supply chain finance and trade finance services to customers in different industries and fields in the process of building an industrial financial ecosystem. During the Reporting Period, the effective financing customers of the Bank's transaction banking business increased by 750, with an aggregate financing amount of RMB68.7 billion. Among which, the amount of domestic credit balance was RMB15.876 billion, representing an increase of 38.7% as compared to the beginning of the year; the bills pool was upgraded to an asset pool with newly added assets of RMB9.1 billion in the first half of the year, and the financing amount in the asset pool reached RMB8.4 billion.

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8.1.6.4 Cross-border finance

The Bank actively obtained the relevant business qualifications, comprehensively promoted system construction, solidly carried out business research, successfully obtained the qualification for cooperation in forward foreign exchange settlement business, and realized the implementation of business; fully launched cross-border bilateral RMB cash pooling business; achieved full coverage of major business types of capital account; comprehensively promoted system construction and became the first domestic bank in China to realize six-in-one in domestic certificates, which significantly reduced business operation time, effectively improved customer experience and officially connected with the “single window (單一窗口)” platform for international trade to provide full-process online financial services for foreign trade enterprises.

8.2 Retail Banking Business

During the Reporting Period, the Bank’s retail banking business line thoroughly implemented the requirements of the “three major strategies (三大戰略)”, the “sending banking business online and to rural area strategy(上網下鄉戰略)” and the “three focuses, one perseverance (三抓一堅持)” and the “five equal emphasis(五個並重)” of the Bank, adhered to the customer-oriented approach, actively promoted the transformation to an agile bank, gradually enhanced the market competitiveness and brand image of the Bank’s retail business, strived to promote the rapid development of various retail businesses and achieved good performance indicators.

8.2.1 Retail deposits

During the Reporting Period, the Bank continued to enrich the traditional product system. In terms of wealth management, insurance, funds, precious metals and trust products, the Bank continuously optimized the product design system, accelerated the product update and iterative speed, and promptly responded to market demands; continued to improve our payment product system and optimized our payment environment; implemented the mobile priority strategy and accelerated the promotion of intelligence, online and mobile products.

As of June 30, 2019, the time point balance of saving deposits was RMB178,138 million, representing an increase of RMB30,430 million as compared to the beginning of the year. The balance of asset under management was RMB218,050 million, representing an increase of RMB34,960 million as compared with the beginning of the year.

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8.2.2 Retail loans

During the Reporting Period, the Bank took various measures and strived to improve the online risk management system while actively increasing the loan disbursement, strengthened the research and judgment of external situations, planned business development ideas and realized the maximum loan return. The Bank accelerated the iteration and optimization of products, focused on hot products and launched the “Yuan e Hua (原e花)”, a proactive credit extension product, it also accelerated the iteration of Yongxudai, and launched “online car loan (線上車貸)” and “one card loan(一證貸)” products.

As of June 30, 2019, the time point balance of personal loans amounted to RMB125,736 million, representing an increase of RMB20,565 million as compared to the beginning of the year; among which, the balance of mortgage loans amounted to RMB62,985 million, representing an increase of RMB12,120 million as compared with the beginning of the year; the balance of non-mortgage loans amounted to RMB62,751 million, representing an increase of RMB8,446 million as compared to the beginning of the year; the balance of the Yongxudai business amounted to RMB40,305 million, with an newly added amount of RMB6,426 million in 2019.

8.2.3 Retail customers

As of June 30, 2019, the Bank had 13,690,000 customers, representing an increase of 1,310,000 as compared with the beginning of the year; the number of effective customers was 3,042,000, representing an increase of 292,600 as compared to the beginning of the year; the number of customers with the amount of deposits over RMB3 million reached 3,969, representing an increase of 700 as compared to the beginning of the year.

8.2.4 Scenario development and operation

During the Reporting Period, the Bank continued to focus on the scenario building, to add new impetus for the acquisition of bulk customers.

As for Zhongyuan foodie map, as of June 30, 2019, there were 23,000 cumulative merchants on the platform, in which 17,000 were new merchants in 2019; the accumulated transaction amount of the platform reached RMB1,019 million, representing an increase of RMB801 million in 2019, and the total number of users was 324,700.

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As for small and micro merchants, the products of the small and micro merchant ecosystem “Zhongyuan Jushang (中原聚商)”, “Zhongyuan Juhui (中原聚惠)” and “Backstage Management Platform for Small and Micro Merchants Banking (小微商户银行后台平台)” were fully launched to the market. As of June 30, 2019, the number of merchants reached 46,000, the deposits amounted to RMB1,754 million, representing an increase of RMB686 million as compared to the beginning of the year, and the balance of asset under management was RMB2,279 million, representing an increase of RMB741 million as compared to the beginning of the year.

As for community products, as of June 30, 2019, the Bank launched 342 “Zhongyuan Smart Communities(中原智慧社区)”, covering 180 property management companies, 166,000 community users and 28,000 online registered users, and recorded 23,000 payment transactions and the payments amounted to RMB7.2 million in total.

As for education products, the Bank continued to learn advanced experience in terms of Internet education products, innovated training institution and kindergarten products, and strived to create a unique and customized user experience. As of June 30, 2019, the Bank had 608 online schools and educational institutions as its customers, recorded 31,300 payment transactions and the payments amounted to RMB103,507,400, leading to an increase of RMB35,180,000 in the time point balance of merchants' settlement accounts as compared to the beginning of the year. In respect of the campus card project, the number of customers increased by 62,800.

8.2.5 Customer groups and activity planning

During the Reporting Period, the Bank leveraged data as driving force and continuously improved its ability to actively plan its customer groups and activities.

Through carrying out online marketing activities, the Bank enhanced the loyalty of agency payroll customers; the Bank actively sought customer groups of platforms and signed strategic cooperation agreements with key platform customers, explored new models of customer acquisition through key channels, and carried out cooperative customer acquisition through channels interaction and joint activities; based on the financial and non-financial needs of teachers and doctors, the Bank established an exclusive rights system, planned exclusive activities based on customer preferences and social hotspots, and continuously improved the marketing system using big data.

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As of June 30, 2019, the Bank held a total of 84 online activities, high-end customer visits and forums, and issued 642,600 big data usage cases, which brought an AUM of RMB1,698 million, successfully retained customers.

8.2.6 Farmers-benefiting business

During the Reporting Period, the contribution from the Bank's farmers-benefiting business increased significantly, and the development system of "County Areas(縣域)" and "three-in-one(三位一體)" gradually improved. As of June 30, 2019, 4,485 payment service points in rural area have been set up in the whole province, and the last mile of financial services has been opened to continuously optimize the financial services for rural areas.

By innovating models and improving systems, the Bank strictly prevented and controlled the risks of farmers-benefiting business. The Bank strengthened the construction of channels, improved the development level of farmers-benefiting business; strengthened innovating and leading to build an online system for farmers-benefiting business, and continued to optimize the online management tools such as electronic map system, Huinong APP and Zhunong POS; focused on risk prevention and control to strengthen the risk control and management of farmers-benefiting business.

By using online thinking, the Bank iteratively optimized the farmers-benefiting assets and products. The Bank established a platform to achieve a breakthrough in the active credit extension model for farmers, actively explored the "Internet + rural finance(互聯網+農村金融)" model, established a credit scoring system for farmers, and innovated and established a rating system of "Zhongyuan Xiaoxiang Credit Rating (中原小象信用分)"; in respect of iterative products, the Bank achieved a breakthrough in the scale of farmers-benefiting asset business, accelerated the online transformation of farmers-benefiting assets and products, and achieved all-round online operation of "Wangnong Loans(旺農貸)" and "Yunong Loans(豫農貸)".

By building rural ecosystem, the Bank enriched the contents of high-frequency scenario services. The Bank built water purification equipment to create a high-frequency living scenario; expanded gas customer groups and carried out cooperation on "coal-to-gas (煤改氣)" projects; kept a close eye on the acquisition of summer grains and made provision for customer funds; built rural household bookstores to deepen the empowering of non-financial scenarios; set up a financial

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night school to send classes to rural areas for farmers; promoted the automobile sales in rural areas to give back to rural customers' needs; provided drone services to keep close to the production and life of villagers; and established a sales platform for agricultural products to facilitate the poverty alleviation of melon farmers.

As of June 30, 2019, the balance of deposits from farmers-benefiting business amounted to RMB19.11 billion, representing an increase of RMB9.14 billion as compared to the beginning of the year. The balance of loans to farmers-benefiting projects amounted to RMB880 million, of which RMB360 million was granted during the year.

8.2.7 Credit card business

During the Reporting Period, the Bank continued to increase the marketing of credit cards and strived to improve the income from intermediary business. With ETC credit card as the starting point, the Bank actively expanded customer acquisition channels to maintain our market share. Through continuous high-frequency scene activities, we continuously optimized the whole process service, deepen customer operations, and efficiently served customers. Driven by data, the Bank implemented the whole process of risk management, achieved accurate customer images, built an intelligent data analysis platform, and continuously improved the risk control capabilities. Through the layout of online customer acquisition channels and cooperation with JD Finance and 51 Credit Cards, the Bank successively issued the co-branded cards of Zhongyuan Bank and JD Finance as well as the co-branded cards of Zhongyuan Bank and 51 Credit Cards, achieving breakthroughs in scenario-based customer acquisition and business model. As of June 30, 2019, the Bank received over 188,000 applications for JD co-branded cards, issued 69,900 cards, and achieved an aggregated transaction amount of RMB240 million.

As of June 30, 2019, a total of 1,421,000 credit cards were issued, of which 392,200 were newly issued in 2019. A total of 1,113,200 cards were activated; the transactions totalled 17,462,800 with an amount of RMB24,085 million, the total income was RMB154,918,900; the customer active ratio was 65.87%. The total credit card facilities were RMB19,540 million, with the loan balance of RMB6,473 million, representing credit limit utilization rate of 33.13%, among them, the revolving loan was RMB5,617 million, and the balance of instalment loans was RMB856 million.

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8.3 Financial market business

8.3.1 Treasury operation

During the Reporting Period, the Bank further expanded the financial market business horizontally and vertically and enhanced market influence. In the first quarter of 2019, the Bank was awarded as the active trader in the currency and bond markets respectively. On the basis of ensuring liquidity, the Bank strengthened investment and research capabilities, and widened carry trade while grasping the market opportunities. At the same time, the market operation ability was actively improved, and the market making business and money market business were developing rapidly. In the first quarter of 2019, our market making rate of bilateral transaction ranked first in the whole market. As of June 30, 2019, the balance of the Bank's deposits and placements with banks and other financial institutions as well as financial assets held under resale agreements was RMB42,695 million, accounting for 6.6% of the Bank's total assets. The balance of the Bank's deposits and placements from banks and other financial institutions as well as financial assets sold under repurchase agreements was RMB86,301 million, accounting for 14.5% of the Bank's total liabilities.

During the Reporting Period, the Bank actively promoted business transformation and upgrading, steadily promoted the integration of the domestic and foreign currency markets on the premise of ensuring stable business development and controllable risks, continuously diversified the variety of investment business and strengthened business innovation, and improved the research level and profitability with multiple measures simultaneously, so as to achieve positive interaction between investment and research and build an investment transaction model suitable for the Bank.

8.3.2 Interbank business

Under the implementation of the strategy of business continuity of "focusing on the origin", the Bank performed well in liquidity adjustment, exerted asset adjustment functions, and explored new cooperation opportunities in interbank business and promoted the further development of the interbank business of the Bank while ensuring stable business development.

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During the Reporting Period, the Bank proactively adjusted its interbank liabilities structure, optimized its asset allocation, strengthened communication and cooperation with customers and improved its business development mechanism, which significantly enhanced its ability to prevent and control interbank business risks. Through deepened cooperation with the Shanghai Commercial Paper Exchange, the Foreign Exchange Trading Center and other nationally approved exchanges in the business, the Bank continuously improved its product innovation capabilities and expanded its profit sources; steady progress was made in the construction of the bill business system, through its iteratively updated business systems, the Bank continued to improve customer experience and enhanced customer loyalty; through compliant and stable operation, the Bank effectively responded to market impact and continuously enhanced its market influence.

8.3.3 Asset management

During the Reporting Period, the Bank continued to promote the transformation of the net worth wealth management products, gradually improving the net worth wealth product system. Currently, the Bank has launched the cash management product “Xian Jin Bao (現金寶)” series, the regularly open product “Profit (盈)” series, the private closed product “Qian Jing (乾景)” series and the public closed product “Steady Growth (穩健增利)” series, which meet the multi-level and different customers’ needs for investment in net worth wealth management products in terms of customer base, term variety, redemption method and risk preference, and provide consumers with more diversified investment options. Meanwhile, the Bank continues to improve the business online oriented level, adding a post-processing platform of foreign exchange trading center, starting the construction of new asset management system and financial distribution platform system, and improving the efficiency of online business transactions. During the Reporting Period, the balance of net worth wealth management products amounted to RMB12,455 million, representing an increase of RMB8,248 million as compared to that as at the beginning of the year.

During the Reporting Period, the Bank’s Dingsheng (鼎盛) fortune series wealth management products performed steadily, gradually enhancing its market influence. As of June 30, 2019, the Bank had a total of 396 existing wealth management products with a size of RMB53,801 million, representing an increase of RMB1,583 million as compared to that as at the end of 2018, of which RMB47,136 million was non-principal guaranteed wealth management products.

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8.4 Internet Finance Business

8.4.1 Development of internet finance business

During the Reporting Period, the Bank actively implemented the strategy of mobile application as the priority and accelerated the promotion of intelligent, online and mobile transformation.

8.4.1.1 Mobile banking

During the Reporting Period, the Bank launched 72 functions, including smart voice and smart transfer; established scenario-based mobile banking and launched Automobile Store (汽車商城) and Zhongyuan Store (中原商城), among which 19,000 online transactions were completed at Zhongyuan Store. The mobile banking APP ranked the third in terms of overall downloads among commercial banks in China.

8.4.1.2 WeChat banking

During the Reporting Period, the Bank launched the new version of WeChat Banking to build three major segments, namely “Joyful life (惠享生活), wonderful life (精彩生活) and convenient finance (便捷金融)”. The Bank diversified WeChat scenario-based services and launched the functions of “Fen Si Hui (粉絲惠), Game Center (遊戲中心), Ti Qian Hua (提錢花) and Huawei Online Store (華為線上商城)” to enhance the followers’ loyalty. The Bank was awarded the “Best New Media Marketing Service Innovation Award (最佳新媒體營銷服務創新獎)” for 2018 by China Internet Finance Confederation. As of June 30, 2019, there were a total of 2,410,000 followers with 430,000 new followers, and a total of 1,120,000 users who connected their cards with WeChat Banking with 130,000 new users.

8.4.1.3 Self-service banking

Self-service banking completed the integration of software versions of the Bank’s ATM, CRS and smart teller machines. The transformation of the self-service channel UI experience was initiated, and customer operating experience was further improved through the transformation of self-service channel transaction process and risk prevention. In addition, self-service banking continued to optimize the self-service equipment monitoring and management system, realized real-time monitoring of the status of six types of self-service equipment, remote version release and unified data management, and further improved the online operation management level of equipment.

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8.4.1.4 Mobile banking

With the integration of artificial intelligence, voice recognition and financial transactions, the Bank has diverted traditional businesses through smart services to improve customer experience and reduce operating costs. As of June 30, 2019, the total number of mobile calls through the mobile channels was 1,669,100, with a customer satisfaction of 99.62%; the number of customers handled through online channels was 1,305,600, with a pickup rate of 99.81% and a diversion rate of online customer service of 95%

8.4.2 Direct banking business

During the Reporting Period, the Bank's direct banking business adhered to the positioning of "China's best housing-secured loans financial technology platform", focused on the asset quality of existing business and the business expansion and product implementation, and actively entered into cooperation banks, which achieved initial success in the construction of financial technology platforms.

The Bank formulated multi-level marketing standards and classified marketing plans to actively expand business layout. The Bank insisted on deepening the agile transformation, established agile action groups within the product and operation department, and continue to serve the front line. Adhering to the innovation-driven principle, the Bank will conduct research and develop commercial property mortgage products, and promote projects such as the intelligent identification of bank statements and the crawling of external risk information. With "omni-channel user experience, intelligent risk management, digital operation and involved housing ecology" as the starting point, the Bank has carried out in-depth exploration, and has completed the whole process of system tools, the establishment of the risk management model which combines the rules for cooperative banks and Zhongyuan risk model, the launch of executive driving cab, etc., and has actively explored the marketing customer acquisition model based on big data analysis.

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8.5 Subsidiaries Business

8.5.1 County banks business

As of June 30, 2019, the Bank held 51.72%, 51%, 51%, 51%, 43.69%, 51.02%, 51%, 41% and 78.46% interests in Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行股份有限公司), Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and Henan Xinxiang Xinxing County Bank Co., Ltd. (河南新鄉新興村鎮銀行股份有限公司), respectively, which are sponsored by the Bank. Of those nine county banks, the Bank was aligned with two County banks not controlled by it through acting-in-concert agreements.

Those nine county banks provide local corporates and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, bill discounting, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intend to incorporate those nine county banks into the Bank's comprehensive service offering channels, to take advantages of their existing local market position and customer base, thereby allowing us to further penetrate our services and raise the Bank's brand awareness.

Those nine county banks adhere to their market positions of serving "agriculture, rural areas and farmers" (三農) and "small and micro enterprises" (小微) and extend credit in the principle of "micro, mobile and disperse" (小額、流動、分散). Their scale of assets keeps expanding with the structure of deposits and loans approaching rational, along with intensified support to agriculture and small and micro enterprises. As of June 30, 2019, total assets amounted to RMB12,056 million, representing an increase of RMB1,097 million, or 10.0%, as compared to the beginning of the year. The balance of deposits (excluding accrued interest) amounted to RMB10,211 million, representing an increase of RMB1,366 million, or 15.4%, as compared to the beginning of the year. The Bank's total loans (excluding accrued interest) amounted to RMB7,464 million, representing an increase of RMB644 million, or 9.4%, as compared to the beginning of the year.

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8.5.2 Consumer finance company business

During the Reporting Period, Zhongyuan Consumer Finance Company (中原消費金融公司) closely followed the current changes in economic situation, carried out various work focusing on the risk prevention, structural adjustment and foundation consolidation, continuously optimized the market business structure, established a user ecosystem surrounding on the self-operated channels and built an open platform as its strategic direction, steadily improved the pure online development model, and continued to build its own customer base, showing a good development trend.

As of June 30, 2019, Zhongyuan Consumer Finance Company (中原消費金融公司) had issued 8,122,300 consumer loans, with a total loan amount of RMB35,091 million and a loan balance (excluding accrued interest) of RMB9,880 million, serving 3,258,400 customers in aggregate.

9 Risk Management

During the Reporting Period, the Bank actively responded to the complicated internal and external business situations, insisted on promoting the construction of “technology bank(科技銀行), data-based bank (數據銀行) and smart bank (智慧銀行)” and empowered risk management in an agile manner. The Bank continuously improved the digital risk control system, focusing on big data applications, innovatively carried out various tasks in order to continuously enhance the risk-reward ability. The Bank completed the first phase of the development of the new generation credit system, and launched important products such as product factory, image management and risk detection. The Bank strengthened the construction of anti-fraud risk early warning model, promoted the development of non-retail decision-making model project, strengthened the management of retail credit risk model system; accelerated the application and iteration of SAS model, and formally switched Yongxudai to SAS model, the automatic pass rate of online car loan increased from 2.04% to 20.1%. The Bank has established an agile credit audit mechanism, reconstructed the risk approval organization structure, set up research, strategy, credit audit and data manager, and established a risk management system covering industry, strategy and customer risk judgment. We have strengthened risk management for business continuity, conducted emergency drills for business continuity, and improved emergency management for emergencies. In addition, the Bank actively carries out market chaos rectification work, strictly carries out staff behavior management, continuously strengthens anti-money laundering work, and has established an efficient and feasible mechanism for the study and prevention of various risks.

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9.1 Credit risk

During the Reporting Period, the Bank has further optimized its systems and procedures, strengthened system construction, strictly controlled the credit risks, actively “reduced stock, managed increment, controlled variables and improved quality”. During the Reporting Period, the Bank’s asset quality remained stable, the credit structure continued to be optimized and the overall concentration risk was under control.

Actively built a multi-level and differentiated risk policy system. The Bank optimized the first-tier risk preference indicator system, strengthened limit management and assessment guidance, and focused on improving the risk management capability of weak links. The Bank formulated prudent credit policy guidelines to respond in advance to the trends of growth drivers differentiation, industry differentiation and enterprise differentiation, and guided the business departments to seize significant development opportunities. The Bank introduced regional risk policies in 18 cities in Henan Province, focused on local characteristic industries, key enterprises and major projects, and assisted branches to reasonably balance risk-return and improve development efficiency.

Optimized the risk approval mechanism to ensure the continuous improvement of the quality and efficiency of examination and approval. The Bank has further implemented the bank-wide agile transformation strategy, accelerated the establishment of a three-in-one approval system for industries, strategies and projects, and established an agile team with in-house research, strategy, credit review and data modelling and analysis. The Bank strengthened the management of review and approval process, focused on data collection and analysis and monitored business risks during the process in a multi-dimensional way. The Bank strengthened assessment and guidance, objectively reflected the quality of credit approval of branches and strictly monitored credit extension. The Bank strengthened the evaluation of the credit authorization plan, implemented differentiated authorization and dynamic authorization based on the risk management capabilities of branches, and guided business units to expand credit business steadily.

Continued to promote the task of “reducing old and controlling new” and maintained a stable asset quality. The Bank strictly implemented the regulatory requirements, steadily promoted the inclusion of loans overdue for more than 90 days into non-performing loans, and further consolidated asset quality; continued to promote the recovery and resolution of non-performing assets and high-risk credit extension, focused on the overall layout of key branches and key projects, strengthened supervision and guidance, enriched solutions, and improve the effectiveness of substantive resolution through “portfolio consolidation”. By continuously promoting risk screening and inspection, carrying out inspections on credit business risks, shadow banking risks and external shocks risks, etc., the Bank aims to promote improvement through inspection and effectively resolve potential risks.

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Continued to promote the construction of credit risk management tools and focused on enhancing the online, digital and intelligent risk management capabilities. The Bank focused on building a big data risk management platform, strengthened internal and external data cleaning and data governance, enriched the underlying data categories, and provided risk leads for credit access, risk alert and anti-fraud. Through accelerating the transformation and construction of a new generation of credit system, the Bank has successfully launched important functional modules such as product factories, process management, image management, risk detection and functional authorization, so as to provide more intuitive and comprehensive risk warning. The Bank has promoted the construction of non-retail big data risk supporting decision-making model project, accelerated the development of credit assessment model for corporate customers, built risk analysis models at industry and regional levels, and enhanced the capability of supporting decision-making for credit business. The Bank has optimized and improved the management of the retail credit risk model system, improved the model management system and model monitoring mechanism, continuously repeated mathematical optimization, and standardized the whole life cycle management of models. In addition, the Bank actively promoted the construction of the second-generation credit collection system, promoted the mobile and online construction of post-loan management, improved the quality and efficiency of credit management, and enhanced the ability of customer risk identification and judgment. In terms of provision, the Bank has established a new financial instrument IFRS9 impairment measurement system to enhance the accuracy of provision.

9.2 Market risk

During the Reporting Period, the Bank continued to improve the construction of the market risk management system, actively explored the market risk management model suitable for the development of the Bank, timely initiated the construction project of the market risk management system, and earnestly carried out market risk monitoring and reporting.

Continued to promote the construction of market risk management system. The Bank formulated and issued a series of measures and plans, established and improved the market risk limit management and emergency management system, and further improved the market risk management framework and management process.

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Steady implementation of market risk management projects. We completed the launch of the key functions of the second phase of market risk management system, and continued to monitor and optimize the online functions of the first phase; established daily monitoring indicator system with limit management as the core, established intelligent monitoring systems such as bond alert and transaction behavior analysis, and timely grasped the risk trend of credit bonds; established an internal model measurement system for market risk with VaR as the core to further improve the measurement level of market risk.

Strengthen the monitoring and measurement of market risk. The Bank measures and monitors indicators such as bond valuation, duration, sensitivity and leverage ratio of trading accounts continuously, and timely monitors internal and external market risks to ensure the effective implementation of authorization and limits for financial market business.

Use stress testing tools to timely monitor market risk tolerance. The Bank conducts stress tests on market risk on a regular basis to identify and measure the interest rate risk of bank accounts, special market risk of debt securities, foreign exchange risk and other major market risk conditions, and evaluate our market risk bearing capacity under different stress scenarios. Based on the results of stress tests, the Bank's market risk is controllable under the light and medium stress scenarios. Meanwhile, the Bank further adjusted the market position and improved the maturity structure to effectively address the potential risks under severe stress scenarios.

9.3 Operational risk

The Bank has established its operational risk management structure which is composed of the Board of Directors, the Board of Supervisors, the senior management and the relevant departments. The Bank constantly improves institutional systems and strengthens its operational risk management through various measures, such as checking for various business lines, inspecting and examining employees' behaviors, conducting educational activities in relation to compliance. In the meanwhile, based on relevant systems, the Bank has constructed and further improved the management procedures for identification, evaluation, monitoring and warning management of operational risks so as to ensure the sustainability and effectiveness of our internal control compliance and operational risk management, and to further enhance its elaborate management capability of operational risks.

During the Reporting Period, through the application of three major tools of operational risk management under the internal control, compliance and operational risk management system, the Bank continuously improved the management level of operational risk, improved the business continuity and emergency management mechanism, and the overall operation was in an orderly manner. The Bank did not have any major operational risk events.

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9.4 Liquidity risk

The Bank has established its liquidity risk management systems which are suitable for business scale, nature and complexity. Specifically, such systems include organization system under the coordinated management of the whole bank, annual liquidity management strategy system, liquidity management system, daily management tool system and regional liquidity mutual aid system.

During the Reporting Period, the Bank strengthened liquidity risk management and continuously improved construction of liquidity risk system, so the overall liquidity was relatively good, major liquidity supervision indicators satisfied the supervision requirements and was improved continuously and the liquidity risk management system was optimized continuously. The major management measures include: continuing to optimize and improve the structure of the liquidity risk management system, clarifying the responsibilities of the management, the head office and the branches, strengthening the coordinated management and control of the liquidity risk from the bank-wide level, and comprehensively controlling the liquidity risk; providing a systematic basis for liquidity management by improving risk policies, executive measures and operational procedures related to liquidity risk management; realizing orderly transmission of liquidity management strategies through the management decisions of the Asset and Liability Management Committee, further improving management tools such as market and business analysis, daily management, stress test and emergency drill, and enhancing liquidity risk resistance capability. As a primary dealer in the open market and the president bank of the liquidity mutual assistance mechanism of city commercial banks in Henan Province, the Bank actively transmitted the monetary policies of the People's Bank of China, fulfilled the responsibilities and obligations of the president bank, and actively maintained the safety and stability of regional liquidity; continued to improve our macroeconomic research and judgment capabilities, enhanced our forward-looking liquidity management and dynamically adjusted our liquidity management strategies.

9.5 Information technology risk

The Bank has established its tiered information technology risk management organization system on the basis of the three lines of defense; it takes information technology risk management policies as its core and information technology risk management institutional system is formulated by tiers and re-inspected on a regular basis; it proactively implements relevant works, such as information technology risk control self-assessment, information technology key risk indicators monitoring and information technology risk loss (incidents) database collection, and establishes an effective risk management process system which supports risk identification, assessment, control/mitigation, monitoring/reporting.

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The Bank's information technology risk management levels has been further improved during the Reporting Period. Through a series of measures, including continuously implementing information technology risk examination and inspection, optimizing organization and management process, improving information technology management structure, conducting risk monitoring and assessment of information technology, perfecting disaster backup system and contingency plans, ensuring its business continuity, the information technology risk management level was further enhanced.

9.6 Reputational risk

For the management of reputational risks, the Bank combines the prevention with disposal, and adheres to the principles of “being vigilant in peace time and mass prevention and mass treatment”, “unified leadership and graded control”, “fast response and co-operative response” and “duty fulfillment and discipline observation and reverse responsibility investigation”, so as to improve its capability and efficiency to prevent reputational risks and solve reputational incidents.

During the Reporting Period, the Bank carefully developed the prevention and control of reputational risks, improved reputational risk management system, further optimized reputational risk disposal mechanism, and continuously improved the effectiveness of reputational risk management. The Bank strengthened the positive propaganda to enhance its brand reputation. The Bank solved various reputational risk incidents in a proper manner by strengthening daily monitoring and warning on public opinions and deeply investigating the reputational risk factors. Professional public opinion monitoring service institutions were introduced to strengthen daily public opinion monitoring to ensure “immediate detection and immediate response”. The Bank established a public opinion disposal platform, optimized the management and control process of public opinion and formed a closed-loop management for reputational risk. The Bank continued to closely communicate with the regulatory authorities and the news authorities on a daily basis, and strove to obtain support from the news authorities on our reputational risk management. The Bank organized reputational risk emergency rehearsal and reputational risk training, which improved the awareness and disposal capability of its employees for reputational risks, and helped to cultivate the culture of managing reputational risks.

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9.7 Exchange rate risk

During the Reporting Period, the Bank strictly complied with the relevant requirements on exchange rate risk management, continued to strengthen the daily management of foreign currency positions, carried out the management of authorization of foreign currency business and setting limits on foreign currency exposure, continued to improve the accuracy of the measurement of exchange rate risk exposure and the timeliness of monitoring and warning, controlled the negative impact of adverse movements in exchange rates within a reasonable range acceptable to the Bank, and made sure the exchange rate risk exposure was satisfied with the regulatory requirements and the operational needs.

10 Corporate Strategies and Future Prospect

In face of the complex economic and financial situation at home and abroad, the fierce market competition in the industry and the changes in science and technology, the Bank always adhere to become a leading commercial bank in China, holding the core value of “stability, innovation, motivation and efficiency”. The Bank has set up vigorous risk management and internal control systems, constantly providing the customers with efficient, convenient, customized and innovated finance services, so as to expand its scope of service and promote market recognition of the brand name.

- (1) In line with the strategy of “rooted in Henan with country-wide radiation (深耕河南, 輻射全國)”, the Bank intends to further enhance the leading market position in Henan Province while observing opportunities to expand the business coverage scope.
- (2) Leveraging historical opportunity due to the implementation of multiple favorable policies and core national strategies, such as “Henan Grain Production Core Region (河南糧食生產核心區)”, “Central Plains Economic Zone (中原經濟區)”, “Zhengzhou Airport Economic Experimental Zone (鄭州航空港經濟綜合試驗區)” and “China (Henan) Pilot Free Trade Zone (中國(河南)自由貿易試驗區)”, the Bank intends to enhance its leading market position in this region.
- (3) Based on all branches, the Bank intends to strengthen traditional finance, explore business opportunities, and build a traditional business brand with the Bank’s characteristics.
- (4) The Bank intends to provide comprehensive and unified banking services for customers, forming a brand as a transaction bank which is capable of offering comprehensive financial services, through developing businesses that could effectively integrate the operations of corporate banking, investment banking and financial markets business.

Management Discussion And Analysis

- (5) The Bank plans to transform into a “smart bank (智慧銀行)” where it can rely on advanced technologies, particularly big-data and cloud computing technologies to improve cost-efficiency of its business experience.

The Bank will continue to adhere to the “Three Major Strategies (三大戰略)” and accelerate the development and layout of “sending banking business online and to rural area (上網下鄉)” with “data-based bank (數據銀行)” and “technology bank(科技銀行)” as our development direction, the Internet thinking and the continuous development and application of advanced financial technologies as the new driving forces to promote our sustainable development.

Changes in Share Capital and Information on Shareholders

1 Changes in Ordinary Shares of the Bank during the Reporting Period

There was no change in share capital of the Bank during the Reporting Period. As at the end of the Reporting Period, the total issued share capital of the Bank was 20,075,000,000 Shares, including 3,795,000,000 H Shares and 16,280,000,000 domestic Shares.)

2 Shareholdings of Top 10 Non-Overseas Listed Domestic Shareholders of the Bank

No.	Name of Shareholders	Nature of Shareholders	Number of Shares held at the end of the Reporting Period	Approximate percentage of the total issued share capital of the Bank at the end of the Reporting Period
1	Henan Investment Group Co., Ltd. (河南投資集團有限公司)	State-owned Legal Person Shares	1,407,285,479	7.01%
2	Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司)	State-owned Legal Person Shares	1,156,751,425	5.76%
3	Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司)	Privately-owned Legal Person Shares	753,000,000	3.75%
4	Henan Guangcai Group Development Co., Ltd. (河南光彩集團發展有限公司)	Privately-owned Legal Person Shares	568,000,000	2.83%
5	Henan Xingda Investment Co., Ltd. (河南興達投資有限公司)	Privately-owned Legal Person Shares	566,395,712	2.82%
6	Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司)	Privately-owned Legal Person Shares	553,109,303	2.76%
7	Xinxiang City Finance Bureau (新鄉市財政局)	State-owned Shares	337,492,544	1.68%
8	Southern Henan Highway Investment Co., Ltd. (河南省豫南高速投資有限公司)	Privately-owned Legal Person Shares	327,637,129	1.63%
9	Henan Aike Industrial Development Co., Ltd. (河南省愛克實業發展有限公司)	Privately-owned Legal Person Shares	300,000,000	1.49%
10	Xuchang City Finance Bureau (許昌市財政局)	State-owned Shares	252,020,004	1.26%
Total			6,221,691,596	30.99%

Changes in Share Capital and Information on Shareholders

3 Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares

So far as is known to the Bank and the Directors, as of 30 June, 2019, substantial shareholders of the Bank and other persons (other than Directors, Supervisors and chief executive officers of the Bank) who had interests and short positions in the Shares and underlying Shares of the Bank which were required to be notified to the Bank or the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the SFO were as follows:

Name of Shareholder	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
Henan Investment Group Co., Ltd. (河南投資集團有限公司) ⁽³⁾	Domestic Shares	Beneficial owner	1,407,285,479 (L)	8.64	7.01
Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) ⁽⁴⁾	Domestic Shares	Beneficial owner	1,156,751,425(L)	7.11	5.76
	Domestic Shares	Interest in controlled corporation	54,695,401(L)	0.34	0.27
Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) ⁽⁵⁾	Domestic Shares	Interest in controlled corporation	1,299,627,447 (L)	7.98	6.48
China Create Capital Limited	H Shares	Beneficial owner	342,682,000(L)	9.03	1.71
Zhong Sheng Capital (Hongkong) Co., Limited	H Shares	Beneficial owner	214,168,000(L)	5.64	1.07
TIAN KUN INVESTMENT LIMITED ⁽⁶⁾	H Shares	Beneficial owner	1,001,000,000(L)	26.38	4.99
YINGCHUANG INTERNATIONAL INVESTMENT LIMITED ⁽⁶⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
Zhongchuang Investment (Holdings) Limited ⁽⁶⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
Ruipei Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Class of Shares	Nature of interests	Number of Shares ⁽¹⁾	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽²⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽²⁾
China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
China Minsheng Investment Group (中國民生投資股份有限公司) ⁽⁶⁾	H Shares	Interest in controlled corporation	1,001,000,000(L)	26.38	4.99
AMTD Group Company Limited ⁽⁷⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
L.R.Capital Management Company (Cayman)Limited ⁽⁷⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	573,964,000(L)	15.12	2.86
Guangzhou Rural Commercial Bank CO., LTD.	H Shares	Held Security Interest in Shares	303,000,000(L)	7.98	1.51
GOLD LEADING CAPITAL LIMITED	H Shares	Held Security Interest in Shares	573,964,000(L)	15.12	2.86
CITIC Securities Company Limited ⁽⁸⁾	H Shares	Interest in controlled corporation	221,593,927(L)	5.84	1.10
	H Shares	Interest in controlled corporation	221,593,927(S)	5.84	1.10
DBS Group Holdings Ltd. ⁽⁹⁾	H Shares	Interest in controlled corporation	882,393,350(L)	23.25	4.40
	H Shares	Interest in controlled corporation	882,393,350(S)	23.25	4.40

Notes:

- (1) (L) represents the long position, (S) represents short position.
- (2) As of June 30, 2019, the number of total issued ordinary Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- (3) Henan Investment Group Co., Ltd. (河南投資集團有限公司) is wholly-owned by the Henan Provincial Development and Reform Commission (河南省發展和改革委員會).

Changes in Share Capital and Information on Shareholders

- (4) Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) directly holds 1,156,751,425 Domestic Shares of the Bank (long positions) and indirectly holds 54,695,401 Domestic Shares of the Bank (long positions) through its controlled corporations, including 23,146,265 Domestic Shares of the Bank (long positions) directly held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), 9,961,851 Domestic Shares of the Bank (long positions) indirectly held by Yongcheng Coal and Electricity Group (Kaifeng) Tower Investment Co., Ltd. (永城煤電集團(開封)鐵塔投資有限公司) through Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) and 21,587,285 Domestic Shares of the Bank (long positions) directly held by Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司), respectively. Therefore, by virtue of the SFO, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Jingchuang Industry Co., Ltd. (永城精創實業有限公司), Kaifeng Iron Tower Rubber (Group) Co., Ltd. (開封鐵塔橡膠(集團)有限公司) and Shangqiu Tianlong Investment Co., Ltd. (商丘天龍投資有限公司).
- (5) Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is wholly-owned by the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會). Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) indirectly holds 1,299,627,447 Domestic Shares of the Bank (long positions) through its controlled corporations, including 1,211,446,826 Domestic Shares of the Bank (long positions) directly and indirectly held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), 23,548,264 Domestic Shares of the Bank (long positions) directly held by Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), 15,621,486 Domestic Shares of the Bank (long positions) directly held by Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and 49,010,871 Domestic Shares of the Bank (long positions) indirectly held by Henan Energy and Chemical Construction Group Co., Ltd. (河南能源化工建設集團有限公司) through its controlled corporation, namely Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司), respectively. Therefore, by virtue of the SFO, Henan Energy and Chemical Group Co., Ltd. (河南能源化工集團有限公司) is deemed to be interested in the Domestic Shares (long positions) held by Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), Anyang Chemical Engineering Group Co., Ltd. (安陽化學工業集團有限責任公司), Henan Energy and Chemical Engineering Group Finance Co., Ltd. (河南能源化工集團財務有限公司) and Henan Guolong Mineral Construction Co., Ltd. (河南國龍礦業建設有限公司).
- (6) China Minsheng Investment Group (中國民生投資股份有限公司), through its controlled corporations, namely China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipai Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED, is indirectly interested in 1,001,000,000 H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED. Therefore, by virtue of the SFO, each of China Minsheng Investment Group (中國民生投資股份有限公司), China Minsheng Investment Group Futurelife Co., Ltd. (中民未來控股集團有限公司), Ruipai Investment (Shanghai) Co., Ltd. (芮沛投資(上海)有限公司), Zhongchuang Investment (Holdings) Limited and YINGCHUANG INTERNATIONAL INVESTMENT LIMITED is deemed to be interested in the H Shares of the Bank (long positions) held by TIAN KUN INVESTMENT LIMITED.

Changes in Share Capital and Information on Shareholders

- (7) L.R. Capital Management Company (Cayman) Limited, through its controlled corporations, namely L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited, is indirectly interested in 482,288,000 H Shares of the Bank (long positions) held by AMTD Asia Limited. Therefore, by virtue of the SFO, each of L.R. Capital Management Company (Cayman) Limited, L.R. Capital Financial Holdings Limited, AMTD Group Company Limited and AMTD Asia (Holdings) Limited is deemed to be interested in the H Shares of the Bank (long positions) held by AMTD Asia Limited.
- (8) CITIC Securities Company Limited, through its controlled corporations, namely CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited, indirectly holds 221,593,927 H Shares of the Bank (long positions) and 221,593,927 H Shares of the Bank (short positions) directly held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. Therefore, by virtue of the SFO, each of CITIC Securities Company Limited, CITIC Securities International Company Limited, CLSA B.V. and CITIC CLSA Global Markets Holdings Limited is deemed to be interested in the H Shares of the Bank (long positions) and H Shares of the Bank (short positions) held by CSI Capital Management Limited and CSI Financial Products Limited, respectively. CITIC Securities Company Limited holds underlying Shares of the Bank (long positions and short positions) in derivative interests, including the underlying 221,593,927 H Shares (long position) derived from listed derivatives of the convertible instruments, and the underlying 221,593,927 H shares (short positions) derived from cash-settled non-listed derivatives.
- (9) DBS Bank Ltd. is directly interested in 882,393,350 H Shares of the Bank (long positions) and 882,393,350 H Shares of the Bank (short positions). DBS Bank Ltd is whole owned by DBS Group Holdings Ltd. Therefore, by virtue of the SFO, DBS Group Holdings Ltd. is deemed to be interested in the 882,393,350 H Shares of the Bank (long positions) and 882,393,350 H Shares of the Bank (short positions) held by DBS Bank Ltd.

Save as disclosed above, none of the substantial Shareholders or other persons had, as of June 30, 2019, any interests or short positions in the Shares or underlying Shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

4 Shareholders Holding 5% or More of the Total Ordinary Share Capital

Please refer to “Changes in Share Capital and Information on Shareholders” for the details of Shareholders with an interest in 5% or more of the share capital of the Bank.

Changes in Share Capital and Information on Shareholders

5 Information on Substantial Shareholders in Accordance with Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》)

Pursuant to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, in addition to the aforesaid three shareholders, namely Henan Investment Group Co., Ltd. (河南投資集團有限公司), Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司) and TIAN KUN INVESTMENT LIMITED, the following three shareholders are also the substantial shareholders of the Bank.

- (1) Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司), which holds 753,000,000 Domestic Shares of the Bank. The company was incorporated in Jinshui District, Zhengzhou City, Henan Province on October 24, 2001, with a registered capital of RMB850 million. The business scope of the company includes investment and investment service management, information technology consulting service, corporate planning management, project planning management, electronic network engineering service (excluding projects subject to state approval), etc. During the Reporting Period, Mr. LI Xipeng, a non-executive director of the Bank, is the chairman and legal representative of the company, which is actually owned by Mr. LI Xipeng and his spouse, Ms. Shu Pujuan.
- (2) Zhengzhou Kangqiao Real Estate Development Co., Ltd. (鄭州康橋房地產開發有限責任公司), which holds 553,109,303 Domestic Shares of the Bank. The company was incorporated in Erqi District, Zhengzhou City, Henan Province on January 20, 2010, with a registered capital of RMB100 million. The business scope of the company includes real estate development and sales, house tenancy, etc. During the Reporting Period, Ms. LI Weizhen, a shareholder Supervisor of the Bank, is the general accountant of the company.
- (3) Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司), which holds 200,000,000 Domestic Shares of the Bank. The company was incorporated in Luolong District, Luoyang City, Henan Province on November 4, 2005, with a registered capital of RMB300 million. The business scope of the company includes the construction and operation of long-distance natural gas pipelines, and the research, development, construction and operation of pipeline liquefied gas and other petroleum and natural gas utilization projects. (For items requiring approval for the above scope, no operation shall be permitted before approval is obtained). During the Reporting Period, Mr. LI Wanbin, a Supervisor of the Bank, is the actual controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is actually controlled by Mr. LI Wanbin, holds 207,657,871 Domestic Shares of the Bank.

Changes in Share Capital and Information on Shareholders

6 Equity Pledge and Freeze

As of the end of the Reporting Period, to the knowledge of the Bank, the Bank's 6,759,028,701 Domestic Shares have a pledge, accounting for 33.67% of the total number of the issued ordinary Shares (of which, the Domestic Shares pledged by the Bank's substantial Shareholders accounted for 9.96% of the total number of the issued ordinary Shares). In addition to that, there are still 918,544,270 Domestic Shares which are judicially frozen (of which, the Domestic Shares of the Bank's substantial Shareholders involved in judicial freeze accounted for 1.00% of the total number of the issued ordinary Shares).

7 Purchase, Sale or Redemption of Listed Securities of the Bank

The Bank and its subsidiaries did not purchase, sell or redeem any listed securities of the Bank for the six months ended June 30, 2019.

8 Non-public Issuance of Offshore Preference Shares

8.1 The Issuance and Listing of Offshore Preference Shares

To supplement the Bank's capital for diversification, further enhance the Bank's capital strength and enhance its ability to resist risks, according to the approvals of the China Banking Regulatory Commission Henan Supervision Bureau (Yu Yin Jian Fu [2018] No. 120) and the China Securities Regulatory Commission (Zheng Jian Xu Ke [2018] No. 1343), the Bank issued USD1,395 million non-cumulative perpetual Offshore Preference Shares on November 21, 2018. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on November 22, 2018 (stock name: ZYBNK 18USDPREF, stock code: 04617). The Offshore Preference Shares will have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares that have been issued is 69,750,000, and will be issued fully paid in U.S. dollars.

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the offering of the Offshore Preference Shares will amount to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank's additional Tier 1 capitals, to increase the Bank's Tier 1 capital adequacy ratio and optimize the capital structure, which is consistent with the specific use disclosed earlier. For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcement of the Bank published on the website of Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

Changes in Share Capital and Information on Shareholders

8.2 Number of Offshore Preference Shareholders and Particulars of Shareholding

At the end of the Reporting Period, the Bank had one offshore preference shareholder.

The shareholdings of the top 10 offshore preference shareholders (or proxies) of the Bank are set out in the table below (the following data are based on the register of offshore preference shareholders as at June 30, 2019):

Name of shareholder	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period (shares)	Shareholding percentage (%)	Total shareholdings (shares)	Number of shares subject to restrictions on sales (shares)	Number of pledged or locked-up shares (shares)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	69,750,000	100%	69,750,000	–	Unknown

Notes:

1. The number of Offshore Preference Shares held by the shareholder was recorded according to the register of holders of the Offshore Preference Shares of the Bank.
2. As the Offshore Preference Shares were issued through a private offering in the overseas market, information of nominees of the allotted investors was recorded on the register of holders of the Offshore Preference Shares.

Changes in Share Capital and Information on Shareholders

8.3 Profit Distribution of the Offshore Preference Shares

Dividends of preference shares would be paid in cash by the Bank to preference shareholders. Each dividend will be payable annually in arrear on the dividend payment date. The first dividend payment date will be November 21, 2019. During the Reporting Period, the Offshore Preference Shares issued by the Bank were not yet due for dividend distribution, and no dividends on Offshore Preference Shares have been distributed.

As considered and approved at the meeting of the Board of the Bank held on August 29, 2019, the Bank will distribute the dividends on the Offshore Preference Shares pursuant to the terms of the Offshore Preference Shares. The total dividends on the Offshore Preference Shares distributed by the Bank amounts to US\$86,800,000, of which US\$78,120,000 will be paid to the holders of Offshore Preference Shares at a coupon dividend rate of 5.60%, and US\$8,680,000 will be withheld as the income tax at a rate of 10% pursuant to relevant laws and regulations. The dividend period is from and including November 21, 2018 to but excluding November 21, 2019, the dividend payment date will be November 21, 2019 and the recipients are holders of Offshore Preference Shares whose names appeared on the register of members of the Bank as at the close of business of the clearing system on November 20, 2019. Announcement on payment of a dividend for the Offshore Preference Shares has been published by the Bank separately on August 29, 2019.

8.4 Other Information on the Offshore Preference Shares

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored, and there was no occurrence of any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares. 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 conform to the requirements as equity instruments, and will be calculated as equity instruments.

Directors, Supervisors, Senior Management and Employees

Current Directors, Supervisors and Senior Management

The constitution of the Board of Directors, the Board of Supervisors and the senior management of the Bank as of the date of this report were as follows:

The Board of Directors of the Bank consisted of a total of eleven members, including four executive Directors, namely Mr. DOU Rongxing, Mr. WANG Jiong, Mr. LI Yulin and Mr. WEI Jie; three non-executive Directors, namely Mr. LI Qiaocheng, Mr. LI Xipeng and Mr. MI Hongjun; and four independent non-executive Directors, namely Ms. PANG Hong, Mr. LI Hongchang, Mr. JIA Tingyu and Mr. CHAN Ngai Sang Kenny.

The Board of Supervisors of the Bank consisted of nine Supervisors, including two Shareholder representative Supervisors, namely Ms. LI Weizhen and Mr. LI Wanbin; four external Supervisors, namely Mr. LI Xiaojian, Mr. HAN Wanghong, Mr. SUN Xuemin and Mr. Pan Xinmin; and three employee representative Supervisors, namely Mr. HAO Jingtao, Ms. JIA Jihong and Mr. ZHANG Yixian.

The senior management of the Bank consisted of ten members, namely Mr. WANG Jiong, Mr. LI Yulin, Mr. LIU Kai, Mr. ZHAO Weihua, Mr. ZHOU Litao, Mr. LIU Qingfen, Mr. YAO Hongbo, Mr. ZHANG Ke, Mr. ZHANG Yixian and Ms. ZHANG Yi.

Changes in Directors, Supervisors and Senior Management during the Reporting Period

Changes in Directors

During the Reporting Period, there was no change in the Directors of the Bank.

Directors, Supervisors, Senior Management and Employees

Changes in Supervisors

On March 28, 2019, Mr. HAO Jingtao and Ms. JIA Jihong were elected as the Chairman and Vice Chairman of the Board of Supervisors of the Bank by the seventh meeting of the second session of the Board of Supervisors. Please refer to the announcement dated March 28, 2019 of the Bank for details.

On January 17, 2019, Mr. ZHAO Ming, the shareholder representative Supervisor of the Bank, resigned as a shareholder representative supervisor and a member of the supervision committee under the Board of Supervisors of the Bank as he intended to concentrate on other business commitments. On the same day, the Bank held the sixth meeting of the second session of the Board of Supervisors, at which Mr. PAN Xinmin was elected as a candidate of external Supervisor of the Bank, and then he was appointed by the shareholders as an external Supervisor of the second session of the Board of Supervisors at the 2018 annual general meeting of the Bank. Please refer to the announcement dated January 17, 2019 and May 20, 2019 of the Bank for details.

Changes in Senior Management

On May 16, 2019, Henan Office of CBIRC approved the qualification of Mr. YAO Hongbo as assistant to the president of the Bank.

Securities Transactions by Directors, Supervisors and Relevant Employees

As of June 30, 2019, the Bank has adopted the Model Code as the code of conduct for securities transactions of the Bank by all Directors and Supervisors. The Bank has also put in place guidelines in respect of dealings in securities of the Company, which terms are no less exacting than those of the Model Code, for the relevant employees (as defined in the Listing Rules). Having made specific enquiries to all Directors and Supervisors regarding their compliance with the Model Code, each of the Directors and Supervisors confirmed that those standards as provided thereunder have been complied with during the first half of 2019. Having made specific enquiries to the relevant employees regarding their compliance with the guidelines of dealing in securities of the Company, the Bank is not aware of any incompliance with the guidelines.

Directors, Supervisors, Senior Management and Employees

Interests and Short Positions of Directors, Supervisors and Chief Executive Officers in the Shares, Underlying Shares and Debentures

As of June 30, 2019, the Directors, Supervisors and chief executive officers of the Bank who had interests and short positions in the Shares, underlying Shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank under Section 352 of the SFO, or which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code were as follows:

Interests in Shares of the Company (Long Positions)

Name	Class of Shares	Nature of interests	Number of Shares	Approximate percentage of the total issued share capital of the relevant class of the Bank (%) ⁽¹⁾	Approximate percentage of the total issued share capital of the Bank (%) ⁽¹⁾
Mr. WEI Jie	Domestic Shares	Beneficial owner	500,000	0.00	0.00
Mr. LI Xipeng ⁽²⁾	Domestic Shares	Interest in controlled corporation	753,000,000	4.63	3.75
Ms. JIA Jihong	Domestic Shares	Beneficial owner	2,472	0.00	0.00
Mr. LI Wanbin ⁽³⁾	Domestic Shares	Interest in controlled corporation	407,657,871	2.50	2.03

Notes:

- (1) As of June 30, 2019, the number of total issued ordinary Shares of the Bank was 20,075,000,000, including 16,280,000,000 Domestic Shares and 3,795,000,000 H Shares.
- (2) Mr. LI Xipeng and his spouse hold 100% equity interest in Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司). Therefore, by virtue of the SFO, Mr. LI Xipeng is deemed to be interested in the 753,000,000 Domestic Shares of the Bank (long positions) directly held by Henan Shengrun Holdings Group Co., Ltd. (河南盛潤控股集團有限公司).
- (3) Mr. LI Wanbin is the actual controller of Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司). Therefore, by virtue of the SFO, Mr. LI Wanbin is deemed to be interested in the 407,657,871 Domestic Shares of the Bank (long positions) directly held by Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司) and Henan Zongheng Gas Pipeline Co., Ltd. (河南縱橫燃氣管道有限公司).

Directors, Supervisors, Senior Management and Employees

Employees' Remuneration Policies and Training Programs

Employees' Remuneration Policies

The Bank has 13,361 employees in total. The Group's remuneration policies for its employees are set up by the Board of Directors and its subordinate special committees. As of June 30, 2019, there were no material changes in the remuneration policies and training programs of the Bank. Details of the remuneration of the Bank's employees are set out in the note "operating expenses" to the financial statements.

Training Programs

The Bank upholds a people-oriented management philosophy and takes "implementing innovation-driven strategies and enhancing the quality and efficiency of training on management" with a focus on training system building and annual training plan formulation, and provides training programs to its employees at various levels, with high frequency, through multiple channels and in multiple forms on the basis of its business development strategies and staff training plans, with an aim to enhance the overall quality, professional capabilities and management skills of its staff in a continuous and comprehensive manner, to build up a professional team specializing in business operations and management, and to drive the rapid and healthy development of its businesses. The Bank manages its training programs based on a three-tier training management mechanism comprising "head office, branch, sub-branch (sector)" under the "standardized principles and planning, and hierarchical management and implementation" to establish a professional sequence training system based on employee competency model. During the Reporting Period, the Bank organized 97 tier 1 trainings in various categories in total. The aggregated number of staff trained was 19,050 with 1.39 trainings per person. 18 branches of the Bank completed 1,346 training programs with the training duration of 721 days in total and aggregated number of staff trained of 67,657 and 6.01 trainings per person. Our training has basically reached full staff coverage and provides strong human resources protection for the business development of the Bank.

Directors, Supervisors, Senior Management and Employees

Basic Information of Institutions under the Bank

Sequence	Region	Name of the Branch	Business Address (PRC)	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No. 23 Shangwu Waihuan Road, Zhengdong New District CBD, Zhengzhou, Henan Province	Directly in charge of 2 sub-branch institutions
2	Zhengzhou, Henan	Zhengzhou	No. 219 Jinshui Road, Jinshui District, Zhengzhou City, Henan Province	In charge of one business department, 37 sub-branch institutions
3	Kaifeng, Henan	Kaifeng	No. 246, West Daliang Road, Kaifeng City, Henan Province	In charge of one business department, 33 sub-branch institutions
4	Xinyang, Henan	Xinyang	1/F, Approval Centre, Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 28 sub-branch institutions
5	Anyang, Henan	Anyang	Northwest Corner, Intersection of Wenfeng Avenue and Guangming Road, Wenfeng district, Anyang City, Henan Province	In charge of one business department, 26 sub-branch institutions
6	Hebi, Henan	Hebi	1/F, Finance Centre, Qishui Avenue, Qibin District, Hebi City, Henan Province	In charge of one business department and 16 sub-branch institutions
7	Luohe, Henan	Luohe	Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 19 sub-branch institutions
8	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Nanyang City, Henan Province	In charge of one business department, 44 sub-branch institutions

Directors, Supervisors, Senior Management and Employees

Sequence	Region	Name of the Branch	Business Address (PRC)	Remarks
9	Pingdingshan, Henan	Pingdingshan	Northwest Corner, Intersection of Zhongxing Road and Zhannan Road, Zhanhe District, Pingdingshan City, Henan Province	In charge of one business department, 11 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Puyang City, Henan Province	In charge of one business department, 23 sub-branch institutions
11	Sanmenxia, Henan	Sanmenxia	No. 64, Middle Xiaoshan Road, Sanmenxia City, Henan Province	In charge of one business department, 27 sub-branch institutions
12	Shangqiu, Henan	Shangqiu	Northeast Corner, Shangzi Plaza, Shangqiu City, Henan Province	In charge of one business department, 47 sub-branch institutions
13	Xinxiang, Henan	Xinxiang	No.559 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department, 35 sub-branch institutions
14	Xuchang, Henan	Xuchang	East Jianan Avenue, Xuchang City, Henan Province(On the west to the Bureau of Finance)	In charge of one business department, 28 sub-branch institutions
15	Zhoukou, Henan	Zhoukou	MOCO New world Business Office Building, 150m east of the intersection of Qingfeng Road and Zhoukou Avenue, Zhoukou City, Henan Province	In charge of one business department, 27 sub-branch institutions
16	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Zhumadian City, Henan Province	In charge of one business department, 38 sub-branch institutions
17	Jiaozuo, Henan	Jiaozuo	No.479, Renmin Road, Jiefang District, Jiaozuo City, Henan Province	In charge of one business department, 8 sub-branch institutions
18	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department, 2 sub-branch institutions
19	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 3 sub-branch institutions

Compliance with the Corporate Governance Code

As of June 30, 2019, the Bank has been in compliance with all the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Listing Rules, and most of the recommended best practices have been adopted by the Bank.

Information Regarding the Convening of the Shareholders' General Meetings

One Shareholders' general meeting was held during the Reporting Period.

On May 20, 2019, the Bank held the 2018 annual general meeting in Zhengzhou, Henan, at which 12 proposals were considered and approved, including “the Work Report of the Board of Directors for 2018”, “the Work Report of the Board of Supervisors for 2018” and “the Final Financial Accounts for 2018”.

Information Regarding the Convening of Meetings of the Board of Directors and its Special Committees

During the Reporting Period, the second session of Board of Directors convened four meetings, at which 41 proposals were considered and approved. The special committees under the Board of Directors held eight meetings, including one meeting of the strategy and development committee, one meeting of the audit committee, one meeting of the risk management committee, one meeting of the nomination and remuneration committee and four meetings of the related party transactions control committee, at which 26 proposals in total were considered and approved.

Corporate Governance

Information Regarding the Convening of Meetings of the Board of Supervisors and its Special Committees

During the Reporting Period, the second session of Board of Supervisors held three meetings, at which 30 proposals were considered and approved. The special committees under the Board of Supervisors held five meetings, including three meetings of the nomination committee and two meetings of the supervision committee, at which 17 proposals in total were considered and approved.

Public Float

Based on the information available in the public and so far as our directors concerned, as of the date of this report, the Bank had maintained sufficient public float in compliance with the minimum requirement of the Hong Kong Listing Rules and the exemption granted by the Hong Kong Stock Exchange upon the Bank's listing.

Internal Control

Based on the principles of full coverage, checks and balance, prudence and compatibility, the Bank has established a relatively scientific and standardized internal control system in accordance with relevant laws and regulations, such as the Commercial Banking Law of the PRC (《中華人民共和國商業銀行法》) and the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), and the relevant requirements of the Hong Kong Stock Exchange, aiming to ensure the consistent compliance with relevant laws, regulations and rules of the PRC, the application of the Bank's development strategies and the accomplishment of its operating objectives, the accuracy and completeness of the Bank's financial information and other management information, and the effectiveness of the risk management of the Bank.

The Bank continues to implement and optimize the defense mechanism comprising of three lines for internal control. The first line of defense consists of various branches and operating units, which are the owners of, and are accountable for risks and controls, and have to undertake self-risk control functions in the course of their business operation, including the formulation and implementation of policies, business examination, the reporting of control deficiencies and the organization of rectification measures. The second line of defense consists of the internal control and risk management departments at all levels, which are responsible for the overall planning, organizing and implementing, and examining and assessing of risk management and internal control. The third line of defense consists of the audit and supervision departments, which are responsible for performing internal audit on the adequacy and effectiveness of the internal control and risk management, taking disciplinary actions against staff in violation of regulations or disciplinary rules, carrying out case investigations and promoting management accountability.

During the Reporting Period, the Bank had, followed on the principle of “prudential operation with risk-based supervision”, continued to improve internal control compliance and enhance the effectiveness of management tools for operational risks, optimize and upgrade the information integration system for internal control, compliance and operational risk management, and to realize the effective integration of internal control management, compliance risk management and operational risk management. The Bank continued to optimize its regulatory framework by establishing a three-tier system comprising of basic norms, administrative measures and operational rules. For the purpose of operational management and to meet the need of business development, the Bank also introduced an internal control system covering all of its businesses such as credit business, counter business, financial markets business, financial accounting, information systems and intermediate business and management lines, and established a mechanism to assess internal control system. The Bank continued to modify and improve its internal control system in accordance with the changing requirements of the external laws and regulations and the regulatory requirements, to ensure compliance with external laws and regulations and regulatory requirements, and to provide a basis and support for the Bank’s operational management, business operations and effective risk prevention and control.

The Bank continued to promote the culture building of internal control compliance and actively organized compliance training courses and campaigns for all of its staff, with a view to refine its long-term policy on compliance education, and further enhance the effectiveness of its internal control system through continuous organization of case study discussions and compliance training courses and campaigns.

Important Events

1 Use of Proceeds

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading System on November 21, 2018, the gross proceeds from the offering of the Offshore Preference Shares amounted to approximately RMB9,688 million. The proceeds raised from the issuance of the Offshore Preference Shares (after deducting the issuance expenses) were all used to replenish the Bank's additional Tier 1 capitals as of the end of the Reporting Period, to increase the Bank's Tier 1 capital adequacy ratio and optimize the capital structure, which is consistent with the specific use disclosed earlier.

2 Profits and Dividends

During the Reporting Period, the Board has not recommended the payment of any interim dividend for the six months ended June 30, 2019. The final dividend for the year ended December 31, 2018 has been approved by the 2018 annual general meeting of the Bank. A dividend of RMB0.35 (tax included) per ten shares will be paid. The above cash dividend has been paid since June 28, 2019.

3 Material Connected Transactions

As of the end of the Reporting Period, there had not been any material connected transactions entered into between the Bank and its connected persons.

4 Material Litigations and Arbitrations

4.1 Litigations against the Xinxiang branch in relation to alleged lending and borrowing

As of June 30, 2019, the Group received 49 cases filed against the Xinxiang branch for alleged lending and borrowing raised by 43 plaintiffs demanding the Xinxiang branch to repay alleged loan principal of approximately RMB219.0 million with accrued interest. Among the 49 cases, 9 cases involved an amount over RMB10.0 million with an aggregate loan principal of approximately RMB123.9 million.

As of June 30, 2019, plaintiff's claims had been rejected in 3 effective judgements, and plaintiff has withdrew the suit of 2 cases, 11 cases had been appealed upon receipt of first judgements, while 33 cases were still pending for first judgements or under retrial. Plaintiff's claims had been rejected in 15 of these 33 cases at the first judgements, and the Group has not received the appellate petition of the plaintiffs.

4.2 Litigation against the Puyang branch in relation to alleged lending and borrowing

In July 2016, the plaintiff of the case filed a lawsuit against the Puyang branch of the Bank for alleged lending and borrowing. On June 21, 2017, the Puyang branch received the judgement of second instance from Puyang Intermediate People's Court, in which the court determining that, the Puyang branch shall be liable for the compensations up to half of the principal and accrued interest that the Borrower could not repay. The Puyang branch of the Bank has applied for retrial before the Henan High People's Court. As of June 30, 2019, the Henan High People's Court ruled that the Puyang branch would not be liable after the retrial.

4.3 Property rights dispute of Zhoukou branch

In April 2016, the plaintiff of the case filed a lawsuit against the Zhoukou branch for property rights dispute. Zhoukou Intermediate People's Court determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. In September 2016, the Zhoukou branch appealed to the Henan High People's Court. In December 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Zhoukou Intermediate People's Court re-examined and determined that the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. As of June 30, 2019, Zhoukou branch had once again appealed to the Henan High People's Court. The Henan High People's Court has not yet heard the case, and the Zhoukou branch and the plaintiff are currently in the process of negotiating the mediation.

Important Events

4.4 Litigation against Lushi Zhongyuan County Bank Co., Ltd. in relation to alleged lending and borrowing

Lushi Zhongyuan County Bank was sued in April 2015 for cases regarding alleged lending and borrowing. In April 2016, Luoyang Intermediate People's Court rendered judgment of first instance, in which Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest, which later appealed to Henan High People's Court. In May 2017, Henan High People's Court quashed the judgment of first instance and remitted the case to the court of first instance for retrial. In December 2018, Luoyang Intermediate People's Court re-examined and determined that Lushi Zhongyuan County Bank shall repay the borrowings and the accrued interest. As of June 30, 2019, Lushi Zhongyuan County Bank had once again appealed to the Henan High People's Court and the trial of Henan High People's Court has been held.

5 Penalties for the Bank and its Directors, Supervisors and Senior Management

During the Reporting Period, none of the Bank, the Bank's Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the CSRC or any public censure by any stock exchange or any punishment by any other regulatory authorities which would have a material impact on the operation of the Bank.

6 Performance of Commitments by the Bank and Shareholders with 5% or more of Shares

The Bank's Substantial Shareholders, their related parties and persons acting in concert have issued to the Bank a statement on the conditions and requirements for investment in the Bank, a statement on the equity relationship, a statement on the tax situation, a statement on the purpose of the shareholding and the source of funds, a statement on non-occurrence of non-compliance related party transactions, a statement on non-significant violations, a statement on the authenticity of materials, a statement on compliance holdings, and a statement on equity status and shareholder performance. They have also made commitment on compliance with laws and regulations, the Bank's Articles of Association and other relevant provisions, legal exercise of rights and performance of obligations and other matters.

7 Material Contracts and their Performance

During the Reporting Period, the Bank was not involved in any material contracts to be performed.

8 Material Investment, Acquisitions and Disposals of Assets and Business Mergers

On February 19, 2019, the Bank and Henan Wansong Construction Engineering Co., Ltd., as an Independent Third Party, entered into the Equity Transaction Agreement in respect of the acquisition of AB Leasing Co., Ltd. ("AB Leasing") with Chengdu Rural Commercial Bank Co., Ltd. and Anbang Life Insurance Co., Ltd., at a total consideration of RMB4,735 million. The Bank will hold 90% the share capital of AB Leasing, at a consideration of RMB4,262 million. Upon the Acquisition, AB Leasing will become a non-wholly owned subsidiary of the Bank and its accounts will be consolidated into the accounts of the Group.

As completion of the Acquisition is on the condition (including but not limited to) that approvals from relevant regulatory authorities and China Banking and Insurance Regulatory Commission or filings in relation to the Acquisition have been obtained or made, the Acquisition may or may not proceed.

Save as the above, during the Reporting Period, the Bank was not engaged in any material acquisition or disposal of material assets or business mergers.

9 Implementation of Share Incentive Scheme during the Reporting Period

During the Reporting Period, the Bank had not implemented any share incentive scheme.

10 Appointment and Dismissal of Auditors

After consideration and approval in the 2018 annual general meeting convened on May 20, 2019, the Bank re-appointed KPMG Huazhen LLP and KPMG as our domestic and international auditors in 2019, respectively, with the term of office shall expire on the end of the next annual general meeting of the Bank.

11 Events After the End of the Reporting Period

As of the date of this interim report, there are no significant events after the Reporting Period which are required to be disclosed.

Important Events

Review of the Interim Report

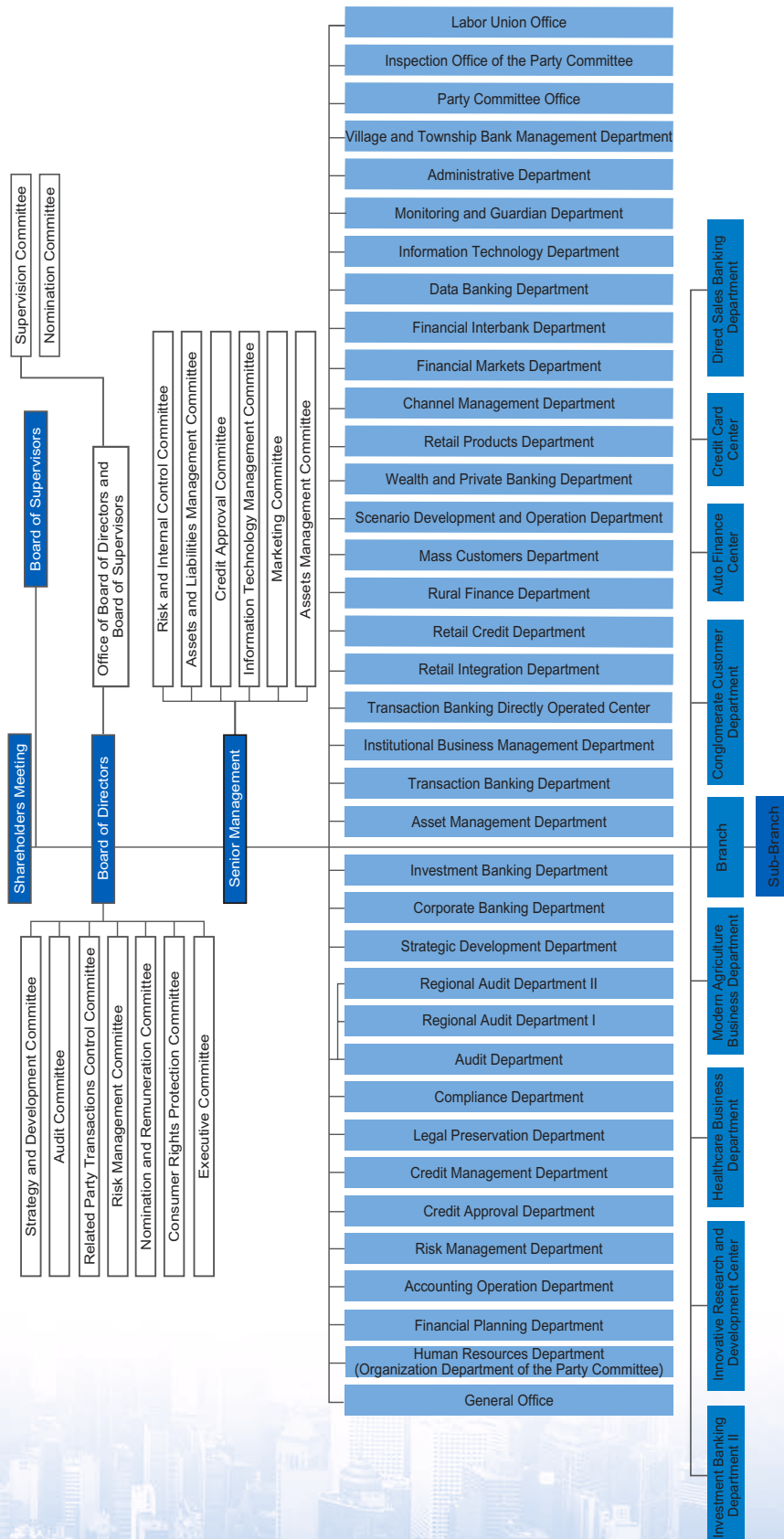
The interim financial statements disclosed in this report have not been audited. KPMG has reviewed the interim financial statements of the Bank for the six months ended June 30, 2019, which were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, pursuant to the International Standards on Review Engagements.

On August 28, 2019, the audit committee of the Bank has reviewed and confirmed the interim results announcement of the Group for the six months ended June 30, 2019, the 2019 interim report and the unaudited interim financial statements for the six months ended June 30, 2019 prepared in accordance with the requirements of the International Accounting Standards.

Interim Results

The interim results announcement of the Group for the six months ended June 30, 2019 has been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Bank's website (<http://www.zybank.com.cn>) on August 29, 2019.

Organizational Structure



Review Report to the Board of Directors

Review report to the board of directors of Zhongyuan Bank Co., Ltd.

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

Introduction

We have reviewed the interim financial report set out on page 93 to 214 which comprises the consolidated statement of financial position of Zhongyuan Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") as at June 30, 2019, the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months 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 an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institutes of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong 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 consolidated interim financial report as at June 30, 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG

Certificated Public Accountants

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

August 29, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2019 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30,	
		2019	2018
Interest income		14,337,053	11,935,358
Interest expense		(6,745,351)	(5,528,470)
Net interest income	4	7,591,702	6,406,888
Fee and commission income		1,103,048	699,965
Fee and commission expense		(107,909)	(56,860)
Net fee and commission income	5	995,139	643,105
Net trading gains/(losses)	6	40,385	(37,255)
Net gains arising from investment securities	7	962,610	517,125
Other operating income	8	67,676	52,023
Operating income		9,657,512	7,581,886
Operating expenses	9	(3,331,454)	(2,875,657)
Impairment losses on assets	10	(3,700,151)	(2,288,568)
Profit before tax		2,625,907	2,417,661
Income tax	11	(547,150)	(529,320)
Profit for the period		2,078,757	1,888,341
Net profit attributable to:			
Equity shareholders of the Bank		2,074,527	1,851,543
Non-controlling interests		4,230	36,798
Profit for the period		2,078,757	1,888,341
Basic and diluted earnings per share (in RMB)	12	0.10	0.09

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2019 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30, 2019	2018
Profit for the period		2,078,757	1,888,341
Other comprehensive income:			
<i>Other comprehensive income net of tax attributable to equity shareholders of the Bank</i>			
Items that may be reclassified subsequently to profit or loss			
– Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	32(a)	(138,749)	206,496
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	32(a)	(932)	14,901
Item that will not be reclassified subsequently to profit or loss			
– Remeasurement of net defined benefit liability	32(a)	–	(424)
<i>Other comprehensive income net of tax attributable to non-controlling interests</i>		(2,288)	427
Other comprehensive income, net of tax		(141,969)	221,400
Total comprehensive income		1,936,788	2,109,741
Total comprehensive income attributable to:			
Equity shareholders of the Bank		1,934,846	2,072,516
Non-controlling interests		1,942	37,225
Total comprehensive income		1,936,788	2,109,741

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated statement of financial position

at June 30, 2019 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2019	December 31, 2018
Assets			
Cash and deposits with central bank	13	61,770,524	64,544,522
Deposits with banks and other financial institutions	14	10,880,757	15,863,539
Placements with banks and other financial institutions	15	16,129,472	10,032,008
Derivative financial assets	16	37,117	43,096
Financial assets held under resale agreements	17	15,684,812	16,345,184
Loans and advances to customers	18	283,681,427	246,551,689
Financial investments:	19		
Financial investments at fair value through profit or loss		48,077,610	43,869,291
Financial investments at fair value through other comprehensive income		40,994,256	43,693,209
Financial investments at amortised cost		153,038,365	165,083,362
Property and equipment	21	4,035,022	4,115,409
Deferred tax assets	22	4,051,467	3,502,648
Goodwill	23	468,397	468,397
Other assets	24	13,175,898	6,331,915
Total assets		652,025,124	620,444,269
Liabilities and equity			
Liabilities			
Borrowing from the central bank		11,587,759	9,247,544
Deposits from banks and other financial institutions	25	28,242,034	60,801,955
Placements from banks and other financial institutions	26	18,436,564	12,729,210
Derivative financial liabilities	16	244,318	228,084
Financial assets sold under repurchase agreements	27	39,622,018	33,527,896
Deposits from customers	28	405,273,702	349,386,955
Income tax payable		1,172,172	1,054,847
Debt securities issued	29	85,066,884	93,277,576
Other liabilities	30	5,471,786	4,512,446
Total liabilities		595,117,237	564,766,513

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated statement of financial position

at June 30, 2019 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2019	December 31, 2018
Equity			
Share capital	31	20,075,000	20,075,000
Other equity instruments			
- Preference shares	34	9,632,791	9,632,791
Capital reserve	32	14,841,636	14,981,317
Surplus reserve	32	1,500,620	1,500,620
General reserve	32	7,884,326	7,884,326
Retained earnings		2,155,302	783,400
Total equity attributable to equity shareholders of the Bank		56,089,675	54,857,454
Non-controlling interests		818,212	820,302
Total equity		56,907,887	55,677,756
Total liabilities and equity		652,025,124	620,444,269

Approved and authorised for issue by the board of directors on August 29, 2019.

Dou Rongxing

Chairman of the Board
of Directors
Executive Director

Wang Jiong

President
Executive Director

Li Yulin

Vice President in charge of
accounting affairs

Zhang Yi

General Manager of the
Planning and Finance
Department

(Company chop)

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated statement of changes in equity

for the six months ended June 30, 2019 - unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank						Non-controlling interests	Total
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at December 31, 2017		20,075,000	13,535,519	1,258,065	6,386,313	4,014,023	45,268,920	821,691	46,090,611
Impact on initial application of IFRS 9		-	836,027	-	-	(2,479,306)	(1,643,279)	-	(1,643,279)
Balance at January 1, 2018		20,075,000	14,371,546	1,258,065	6,386,313	1,534,717	43,625,641	821,691	44,447,332
Changes in equity for the period:									
Net profit for the period		-	-	-	-	1,851,543	1,851,543	36,798	1,888,341
Other comprehensive income	32	-	220,973	-	-	-	220,973	427	221,400
Total comprehensive income		-	220,973	-	-	1,851,543	2,072,516	37,225	2,109,741
Capital contributed to subsidiary		-	(7,235)	-	-	-	(7,235)	7,235	-
Appropriation to surplus reserve	33	-	-	183,460	-	(183,460)	-	-	-
Appropriation to general reserve	33	-	-	-	255,309	(255,309)	-	-	-
Appropriation to shareholders	33	-	-	-	-	(1,425,325)	(1,425,325)	(17,614)	(1,442,939)
Balance at June 30, 2018		20,075,000	14,585,284	1,441,525	6,641,622	1,522,166	44,265,597	848,537	45,114,134

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated statement of changes in equity

for the six months ended June 30, 2019 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at July 1, 2018		20,075,000	–	14,585,284	1,441,525	6,641,622	1,522,166	44,265,597	848,537	45,114,134
Changes in equity for the period:										
Net profit for the period		–	–	–	–	–	563,033	563,033	(86,116)	476,917
Other comprehensive income		–	–	552,677	–	–	–	552,677	971	553,648
Total comprehensive income		–	–	552,677	–	–	563,033	1,115,710	(85,145)	1,030,565
Capital invested by other equity instrument holders	34	–	9,632,791	–	–	–	–	9,632,791	–	9,632,791
Purchase of non-controlling interests		–	–	(156,644)	–	–	–	(156,644)	65,144	(91,500)
Appropriation to surplus reserve	33	–	–	–	59,095	–	(59,095)	–	–	–
Appropriation to general reserve	33	–	–	–	–	1,242,704	(1,242,704)	–	–	–
Appropriation to shareholders		–	–	–	–	–	–	–	(8,234)	(8,234)
Balance at December 31, 2018		20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302	55,677,756

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated statement of changes in equity

for the six months ended June 30, 2019 - unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank						Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Retained earnings		
Balance at January 1, 2019		20,075,000	9,632,791	14,981,317	1,500,620	7,884,326	783,400	54,857,454	820,302 55,677,756
Changes in equity for the period:									
Net profit for the period		-	-	-	-	-	2,074,527	2,074,527	4,230 2,078,757
Other comprehensive income	32	-	-	(139,681)	-	-	-	(139,681)	(2,288) (141,969)
Total comprehensive income		-	-	(139,681)	-	-	2,074,527	1,934,846	1,942 1,936,788
Appropriation to shareholders	33	-	-	-	-	-	(702,625)	(702,625)	(4,032) (706,657)
Balance at June 30, 2019		20,075,000	9,632,791	14,841,636	1,500,620	7,884,326	2,155,302	56,089,675	818,212 56,907,887

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated cash flow statement

for the six months ended June 30, 2019 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2019	2018
Cash flows from operating activities		
Profit before tax	2,625,907	2,417,661
<i>Adjustments for:</i>		
Impairment losses on assets	3,700,151	2,288,568
Depreciation and amortisation	548,667	388,141
Depreciation of investment properties	2,189	3,827
Unrealised foreign exchange gains	(63,953)	(73,878)
Net gains on disposal of property and equipment	(5,158)	(2,424)
Net (gains)/losses of financial assets held for trading	(132,897)	18,245
Net losses arising from derivatives	156,465	92,888
Net gains arising from investment securities	(962,610)	(517,125)
Interest expense on debt securities issued	1,638,549	1,625,493
Interest expense on lease liabilities	46,828	—
	7,554,138	6,241,396
<i>Changes in operating assets</i>		
Net decrease in deposits with central bank	73,780	761,198
Net decrease/(increase) in deposits and placements with banks and other financial institutions	3,849,035	(158,527)
Net (increase)/decrease in financial assets held for trading	(3,047,483)	1,962,331
Net increase in loans and advances to customers	(39,328,361)	(21,847,012)
Net increase in derivative instruments	(134,254)	—
Net increase in other operating assets	(2,566,465)	(2,925,236)
	(41,153,748)	(22,207,246)

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated cash flow statement

for the six months ended June 30, 2019 - unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2019	2018
<i>Changes in operating liabilities</i>		
Net increase in borrowing from central bank	2,305,317	2,710,786
Net (decrease)/increase in deposits from banks and other financial institutions	(32,504,227)	4,914,028
Net increase in placements from banks and other financial institutions	5,644,263	6,002,441
Net increase/(decrease) in financial assets sold under repurchase agreements	6,105,069	(13,382,898)
Net increase in deposits from customers	55,165,038	32,151,164
Net increase in other operating liabilities	628,189	117,049
	37,343,649	32,512,570
Net cash flows generated from operating activities before income tax paid	3,744,039	16,546,720
Income tax paid	(978,644)	(1,005,427)
Net cash flows generated from operating activities	2,765,395	15,541,293
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	622,378,791	210,695,411
Proceeds from disposal of property and equipment and other assets	13,895	10,018
Payments on acquisition of investments	(608,664,243)	(211,156,137)
Prepayments on acquisition of subsidiary	(4,261,500)	–
Payments on acquisition of property and equipment and other assets	(314,304)	(220,252)
Net cash flows generated from/(used in) investing activities	9,152,639	(670,960)

The notes on pages 103 to 214 form part of this interim financial report.

Consolidated cash flow statement

for the six months ended June 30, 2019 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30, 2019	2018
Cash flows from financing activities			
Proceeds received from debt securities issued		56,189,464	45,737,974
Repayment of debt securities issued		(65,853,920)	(55,507,955)
Interest paid on debts securities issued		(184,786)	(552,044)
Capital element of lease liabilities paid		(95,968)	–
Interest element of lease liabilities paid		(25,711)	–
Dividends paid		(520,166)	(733,103)
Net cash flows used in financing activities		(10,491,087)	(11,055,128)
Effect of foreign exchange rate changes on cash and cash equivalents		10,003	14,181
Net increase in cash and cash equivalents	35(a)	1,436,950	3,829,386
Cash and cash equivalents as at January 1		55,712,428	43,080,066
Cash and cash equivalents as at June 30	35(b)	57,149,378	46,909,452
Interest received		13,598,595	12,139,275
Interest paid		(4,167,642)	(3,862,660)

The notes on pages 103 to 214 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background Information

The Bank was established in Zhengzhou, Henan Province, the People's Republic of China (the "PRC") on December 23, 2014 with the approval of the former China Banking Regulatory Commission (the former "CBRC"). Prior to its establishment, the banking business was carried out by thirteen city commercial banks (the "Predecessor Entities"), each being located in Henan Province.

Pursuant to the reorganization initiated by the People's Government of Henan Province (the "Henan Government"), the Bank was established through the merger and reorganization of the Predecessor Entities (the "Reorganization").

The Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license No. 410000100034311 from the State Administration for Industry and Commerce of the PRC. The Bank is regulated by China Banking Insurance Regulatory Commission (the "CBIRC") authorized by the State Council.

In July 2017, the Bank's H-shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 1216).

As at June 30, 2019, the Bank has 18 branches across Henan Province, 9 subsidiaries which are county banks and 1 subsidiary which is consumer finance company. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, financial market business and other banking services as approved by the CBIRC.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (the "IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Basis of preparation (Continued)

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institution of Certified Public Accountants.

The financial information relating to the financial year ended December 31, 2018 that is included in the interim financial report as comparative information does not constitute the Bank’s statutory annual financial statements for that financial year but is derived from those financial statements.

3 Changes in accounting policies

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

The changes in accounting policies are also expected to be reflected in the Group’s annual financial statements for the year ending December 31, 2019.

The IASB has issued a new IFRS, IFRS 16, *Leases* (“IFRS 16”), and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting policies (Continued)

IFRS 16 “Leases”

The Group has initially adopted IFRS 16 from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting mode for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Agreement contains a Lease* (“IFRIC 4”). The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

For a contract that contains a lease component, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group leases many assets, including properties, transportation, electronic equipment, and other office equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessee (Continued)

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The Group presents the right-of-use asset in other assets.

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment or whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Group presents the lease liability in other liabilities.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessee (Continued)

(i) Significant accounting policies (Continued)

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminated the lease.
- The Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

As a lessor

The Group lease out its investment property. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

Impacts on financial statements

(i) Impacts on transition

The Group elected to use the modified retrospective approach for the adoption of IFRS 16 and recognised right-of-use assets based on lease liabilities. Therefore, there was no adjustment to the opening balance of equity at January 1, 2019 and did not restate the comparative information.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 4.66%.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in accounting policies (Continued)

IFRS 16 “Leases” (Continued)

Impacts on financial statements (Continued)

(i) Impacts on transition (Continued)

	Impacts on financial statements
Operating lease commitments at December 31, 2018 as disclosed in the Group’s consolidated financial statements	1,124,625
Discounted using the incremental borrowing rate at January 1, 2019	941,085
Lease liabilities recognised at January 1, 2019	941,085
Right-of-use assets recognised at January 1, 2019	941,085

(ii) Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB 869.27 million of right-of-use assets and RMB 897.72 million of lease liabilities as at June 30, 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended June 30, 2019, the Group recognised RMB 129.01 million depreciation charges and RMB 46.83 million of interest costs from these leases.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Net interest income

	Six months ended June 30,	
	2019	2018
Interest income arising from		
Deposits with central bank	323,475	350,345
Deposits with banks and other financial institutions	168,609	159,230
Placements with banks and other financial institutions	323,640	31,622
Loans and advances to customers		
- Corporate loans and advances	4,297,201	3,512,279
- Personal loans and advances	3,802,735	2,390,197
- Discounted bills	493,759	188,708
Financial assets held under resale agreements	243,088	203,854
Financial investments	4,684,546	5,099,123
Sub-total	14,337,053	11,935,358
Interest expense arising from		
Borrowing from the central bank	(140,150)	(25,097)
Deposits and placements from banks and other financial institutions	(774,330)	(1,049,535)
Placements from banks and other financial institutions	(285,139)	(134,377)
Deposits from customers	(3,540,442)	(2,404,525)
Financial assets sold under repurchase agreements	(366,741)	(289,443)
Debt securities issued	(1,638,549)	(1,625,493)
Sub-total	(6,745,351)	(5,528,470)
Net interest income	7,591,702	6,406,888

Total interest income arising from financial investments that are not at fair value through profit or loss for the period ended June 30, 2019 amounted to RMB 14,337.05 million (six months ended June 30, 2018: RMB 11,802.69 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the period ended June 30, 2019 amounted to RMB 6,745.35 million (six months ended June 30, 2018: RMB 5,528.47 million).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Net fee and commission income

	Six months ended June 30,	
	2019	2018
Fee and commission income		
Custodial services fees	238,166	189,401
Settlement and clearing services fees	228,434	101,486
Underwriting fees	164,559	107,168
Wealth management business fees	156,204	113,213
Bank card services fees	137,102	26,795
Advisory and consulting fees	68,938	24,800
Agency services fees	60,807	71,991
Acceptance and guarantee services fees	48,838	65,111
Sub-total	1,103,048	699,965
Fee and commission expense	(107,909)	(56,860)
Net fee and commission income	995,139	643,105

6 Net trading gains/(losses)

	Note	Six months ended June 30,	
		2019	2018
Net gains/(losses) from debt securities	(a)	132,897	(18,245)
Net foreign exchange losses	(b)	(91,502)	(19,118)
Net (losses)/gains from interest rate swap		(1,010)	108
Total		40,385	(37,255)

- (a) Net gains/(losses) from debt securities include gains/(losses) arising from the buying and selling of, and changes in the fair value of debt securities held for trading.
- (b) Net foreign exchange losses mainly included gains or losses from foreign currency derivatives, the purchase and sale of foreign currency spot, and translation of foreign currency monetary assets and liabilities into Renminbi.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net gains arising from investment securities

	Note	Six months ended June 30,	
		2019	2018
Net gains of financial investments at fair value through profit or loss	(a)	855,624	472,625
Net gains of financial investments at fair value through other comprehensive income		107,372	30,724
Net (losses)/gains of financial investments at amortised cost		(387)	13,777
Other net gains/(losses)		1	(1)
Total		962,610	517,125

(a) Net gains of financial investments at fair value through profit or loss include the investment income and fair value changes of financial investments at fair value through profit or loss except for debt securities held for trading.

8 Other operating income

	Six months ended June 30,	
	2019	2018
Rental income	19,883	12,502
Net gains on disposal of property and equipment	5,158	2,424
Government grants	3,323	21,812
Others	39,312	15,285
Total	67,676	52,023

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	Six months ended June 30,	
	2019	2018
Staff costs		
– Salaries, bonuses and allowance	1,415,442	1,128,762
– Social insurance and annuity	241,430	201,218
– Staff welfare	117,791	108,882
– Housing allowance	84,947	71,958
– Employee education expenses and labor union expenses	49,174	38,451
– Others	31,565	46,169
Sub-total	1,940,349	1,595,440
Office expenses	500,927	517,277
Depreciation and amortisation	419,662	388,141
Depreciation charge for the right-of-use assets	129,005	–
Tax and surcharges	82,143	66,521
Interest expense on lease liabilities	46,828	–
Rental expenses	–	142,409
Other general and administrative expenses	212,540	165,869
Total	3,331,454	2,875,657

10 Impairment losses on assets

	Six months ended June 30,	
	2019	2018
Loans and advances to customers	2,617,968	1,932,551
Financial investments	965,050	306,248
Deposits with banks and other financial institutions	130	(57)
Placements with banks and other financial institutions	933	12
Financial assets held under resale agreements	1,125	(698)
Credit commitments	(11,135)	5,804
Others	126,080	44,708
Total	3,700,151	2,288,568

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

11 Income tax

(a) Income tax for the period:

	Note	Six months ended June 30, 2019	2018
Current tax		1,048,957	460,873
Deferred tax	22	(501,807)	68,447
Total		547,150	529,320

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

	Note	Six months ended June 30, 2019	2018
Profit before tax		2,625,907	2,417,661
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		656,477	604,415
Non-deductible expenses			
– Staff welfare expenses		3,547	5,335
– Others		4,042	675
Non-taxable income	(1)	(116,916)	(81,105)
Income tax		547,150	529,320

- (1) The non-taxable income mainly represents the interest income from the PRC government bonds and local government bonds.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Basic and diluted earnings per share

	Note	Six months ended June 30,	
		2019	
Net profit attributable to equity shareholders of the Bank		2,074,527	1,851,543
Weighted average number of ordinary shares (<i>in thousands</i>)	(a)	20,075,000	20,075,000
Basic and diluted earnings per share attributable to equity shareholders of the Bank (<i>in RMB</i>)		0.10	0.09

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

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

	Six months ended June 30,	
	2019	2018
Number of ordinary shares as at 1 January	20,075,000	20,075,000
Increase in weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	20,075,000	20,075,000

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Cash and deposits with central bank

	Note	June 30, 2019	December 31, 2018
Cash on hand		1,700,981	1,473,473
Deposits with central bank			
– Statutory deposit reserves	(a)	38,092,446	37,215,816
– Surplus deposit reserves	(b)	21,529,444	24,455,110
– Fiscal deposits		427,718	1,378,128
Sub-total		60,049,608	63,049,054
Accrued interest		19,935	21,995
Total		61,770,524	64,544,522

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

	June 30, 2019	December 31, 2018
Reserve ratio for RMB deposits	10.00%	11.00%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	June 30, 2019	December 31, 2018
Deposits in mainland China		
– Banks	6,827,545	10,057,066
– Other financial institutions	489,991	263,541
Sub-total	7,317,536	10,320,607
Deposits outside mainland China		
– Banks	3,527,317	5,484,680
Total	10,844,853	15,805,287
Accrued interest	37,488	59,706
Less: Provision for impairment losses	(1,584)	(1,454)
Net carrying amount	10,880,757	15,863,539

15 Placements with banks and other financial institutions

	June 30, 2019	December 31, 2018
Placements in mainland China		
– Banks	2,646,298	1,370,266
– Other financial institutions	13,112,614	8,507,675
Total	15,758,912	9,877,941
Accrued interest	393,047	175,621
Less: Provision for impairment losses	(22,487)	(21,554)
Net carrying amount	16,129,472	10,032,008

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

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

		June 30, 2019	
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	35,260,000	35,115	35,829
Foreign exchange forwards	14,518,959	517	208,489
Currency swaps	2,079,957	1,485	—
Total		37,117	244,318

		December 31, 2018	
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	29,238,000	43,096	43,669
Foreign exchange forwards	3,437,750	—	184,415
Total		43,096	228,084

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(Expressed in thousands of Renminbi, unless otherwise stated)

17 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	June 30, 2019	December 31, 2018
In mainland China		
– Banks	10,924,836	11,327,164
– Other financial institutions	4,755,786	5,009,446
Total	15,680,622	16,336,610
Accrued interest	6,172	9,431
Less: Provision for impairment losses	(1,982)	(857)
Net carrying amount	15,684,812	16,345,184

(b) Analysed by type of collateral held

	June 30, 2019	December 31, 2018
Debt securities	15,680,622	16,336,610
Accrued interest	6,172	9,431
Less: Provision for impairment losses	(1,982)	(857)
Net carrying amount	15,684,812	16,345,184

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers

(a) Analysed by nature

	June 30, 2019	December 31, 2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	137,814,526	130,175,627
Personal loans and advances		
– Residential mortgage	62,985,379	50,865,672
– Personal consumption loans	34,472,370	29,032,224
– Personal business loans	21,805,231	20,905,941
– Others	6,472,749	4,366,661
Sub-total	125,735,729	105,170,498
Accrued interest	1,975,294	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(10,097,787)	(9,313,961)
Sub-total	255,427,762	227,527,699
Loans and advances to customers measured at fair value through other comprehensive income		
Corporate loans and advances	9,520	105,230
Discounted bills	28,244,145	18,918,760
Sub-total	28,253,665	19,023,990
Net loans and advances to customers	283,681,427	246,551,689

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analysed by economic sector

	June 30, 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Renting and business activities	30,962,069	10.61%	15,406,547
Manufacturing	26,410,618	9.05%	8,851,336
Real estate	19,476,155	6.67%	14,865,858
Wholesale and retail trade	17,486,950	5.99%	7,737,413
Construction	11,558,391	3.96%	5,930,584
Water, environment and public utility	7,578,786	2.60%	3,015,350
Production and supply of electric power, gas and water	4,390,452	1.50%	1,063,457
Agriculture, forestry, animal husbandry and fishery	4,051,657	1.39%	1,035,682
Education	3,354,167	1.15%	1,555,148
Accommodation and catering	3,053,192	1.05%	1,689,529
Transportation, storage and postal services	2,648,554	0.91%	975,416
Mining	1,825,391	0.63%	262,247
Others	5,027,664	1.72%	1,517,324
Sub-total of corporate loans and advances	137,824,046	47.23%	63,905,891
Personal loans and advances	125,735,729	43.09%	98,681,496
Discounted bills	28,244,145	9.68%	21,934,040
Gross loans and advances to customers	291,803,920	100.00%	184,521,427

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(b) Analysed by economic sector (Continued)

	December 31, 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	29,135,108	11.45%	8,423,643
Renting and business activities	25,941,014	10.20%	11,763,228
Wholesale and retail trade	18,001,407	7.08%	7,734,830
Real estate	16,958,760	6.67%	13,764,111
Construction	9,885,250	3.89%	3,864,271
Water, environment and public utility	7,473,606	2.94%	2,804,550
Production and supply of electric power, gas and water	4,367,632	1.72%	1,082,464
Agriculture, forestry, animal husbandry and fishery	4,103,726	1.61%	963,814
Accommodation and catering	3,271,273	1.29%	1,807,094
Education	2,920,534	1.15%	1,349,180
Mining	2,157,823	0.85%	262,491
Transportation, storage and postal services	2,122,313	0.83%	1,029,095
Others	3,942,411	1.54%	1,166,488
Sub-total of corporate loans and advances	130,280,857	51.22%	56,015,259
Personal loans and advances	105,170,498	41.35%	81,387,437
Discounted bills	18,918,760	7.43%	13,265,203
Gross loans and advances to customers	254,370,115	100.00%	150,667,899

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(c) Analysed by type of collateral

	June 30, 2019	December 31, 2018
Unsecured loans	27,805,080	22,309,757
Guaranteed loans	79,477,413	81,392,459
Collateralised	135,519,680	115,649,217
Pledged	49,001,747	35,018,682
Gross loans and advances to customers	291,803,920	254,370,115
Accrued interest	1,975,294	1,495,535
Less: Provision for loans and advances to customers measured at amortised cost	(10,097,787)	(9,313,961)
Net loans and advances to customers	283,681,427	246,551,689

(d) Overdue loans analysed by overdue period

	June 30, 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	485,782	231,440	6,233	475,869	1,199,324
Guaranteed loans	1,763,874	1,363,386	996,900	89,349	4,213,509
Collateralised	1,110,722	1,064,170	931,150	333,353	3,439,395
Pledged	31,360	238,723	23,000	14,106	307,189
Total	3,391,738	2,897,719	1,957,283	912,677	9,159,417
As a percentage of gross loans and advances to customers	1.16%	0.99%	0.68%	0.31%	3.14%

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(d) Overdue loans analysed by overdue period (Continued)

	December 31, 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	341,175	145,091	5,280	475,637	967,183
Guaranteed loans	2,516,079	1,625,290	1,312,993	183,809	5,638,171
Collateralised	1,670,363	906,866	1,296,242	115,397	3,988,868
Pledged	271,262	25,300	14,356	9,635	320,553
Total	4,798,879	2,702,547	2,628,871	784,478	10,914,775
As a percentage of gross loans and advances to customers	1.89%	1.06%	1.03%	0.31%	4.29%

Overdue loans represented loan, of which the whole or part of the principal or interest were overdue for one day or more.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(e) Loans and advances and provision for impairment losses

- (i) As at June 30, 2019, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	June 30, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	247,440,932	9,820,824	6,288,499	263,550,255
Accrued interest	1,975,294	–	–	1,975,294
Less: Provision for impairment losses	(3,616,259)	(2,245,895)	(4,235,633)	(10,097,787)
Carrying amount of loans and advances to customers measured at amortised cost	245,799,967	7,574,929	2,052,866	255,427,762
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	27,779,684	–	473,981	28,253,665
Total carrying amount of loans and advances to customers	273,579,651	7,574,929	2,526,847	283,681,427

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

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

- (ii) **As at December 31, 2018, detailed information of loans and advances to customers and provision for impairment losses is as follows:**

	December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	219,650,701	9,933,139	5,762,285	235,346,125
Accrued interest	1,495,535	–	–	1,495,535
Less: Provision for impairment losses	(3,198,320)	(2,267,952)	(3,847,689)	(9,313,961)
Carrying amount of loans and advances to customers measured at amortised cost	217,947,916	7,665,187	1,914,596	227,527,699
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	18,548,918	1,091	473,981	19,023,990
Total carrying amount of loans and advances to customers	236,496,834	7,666,278	2,388,577	246,551,689

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses

(i) Movements of provision for impairment of loans and advances to customers measured at amortised cost:

	Six months ended June 30, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	3,198,320	2,267,952	3,847,689	9,313,961
Transferred:				
– to expected credit losses over the next 12 months	422,619	(412,590)	(10,029)	–
– to lifetime expected credit losses: not credit-impaired loans	(195,124)	692,768	(497,644)	–
– to lifetime expected credit losses: credit-impaired loans	(45,728)	(496,069)	541,797	–
Charge for the period	236,172	193,834	2,193,601	2,623,607
Recoveries	–	–	126,996	126,996
Write-offs	–	–	(1,966,777)	(1,966,777)
As at June 30	3,616,259	2,245,895	4,235,633	10,097,787

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

(i) Movements of provision for impairment of loans and advances to customers measured at amortised cost: (Continued)

	Year ended December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	1,774,462	1,004,139	4,886,086	7,664,687
Transferred:				
– to expected credit losses over the next 12 months	306,800	(63,528)	(243,272)	–
– to lifetime expected credit losses: not credit-impaired loans	(194,699)	378,318	(183,619)	–
– to lifetime expected credit losses: credit-impaired loans	(47,604)	(160,947)	208,551	–
Charge for the year	1,359,361	1,109,970	3,388,437	5,857,768
Transfer out	–	–	(15,412)	(15,412)
Recoveries	–	–	105,357	105,357
Write-offs	–	–	(4,298,439)	(4,298,439)
As at December 31	3,198,320	2,267,952	3,847,689	9,313,961

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(f) Movements of provision for impairment losses (Continued)

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

	Six months ended June 30, 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	20,003	–	355,486	375,489
Release for the period	(5,639)	–	–	(5,639)
As at June 30	14,364	–	355,486	369,850

	Year ended December 31, 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at January 1	8,321	1	142,194	150,516
Charge/(release) for the year	11,682	(1)	213,292	224,973
As at December 31	20,003	–	355,486	375,489

(g) Disposal of loans and advances to customers

In 2016, the Group disposed certain loans having credit enhancement support from the Henan Government as part of the Reorganization with gross amount of RMB 8,623.80 million to asset management companies and institutional investors at a consideration of RMB 8,270.01 million. As at June 30, 2019, the Group has received cash of RMB 7,000.67 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments

	Note	June 30, 2019	December 31, 2018
Financial investments at fair value through profit or loss	(a)	48,077,610	43,869,291
Financial investments at fair value through other comprehensive income	(b)	40,994,256	43,693,209
Financial investments at amortised cost	(c)	153,038,365	165,083,362
Total		242,110,231	252,645,862

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

	Note	June 30, 2019	December 31, 2018
Debt securities	(i)		
- Government		236,766	52,813
- Policy banks		822,866	420,676
- Banks and other financial institutions		7,780,391	6,236,589
- Corporate		824,590	4,153
Sub-total		9,664,613	6,714,231
Listed		241,010	56,968
Unlisted		9,423,603	6,657,263
Sub-total		9,664,613	6,714,231
Wealth management products issued by financial institutions		27,268,819	28,455,054
Investment management products managed by securities companies		6,022,830	5,998,555
Investment fund managed by public fund manager		4,182,518	2,701,451
Sub-total		37,474,167	37,155,060
Equity investments		938,830	—
Total		48,077,610	43,869,291

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 39(f)). No other investment were subject to material restrictions in the realization.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

	Note	June 30, 2019	December 31, 2018
Debt securities	(i)		
– Government		11,016,567	8,752,046
– Policy banks		16,556,197	14,634,462
– Banks and other financial institutions		8,738,931	10,148,454
– Corporate		3,395,311	5,321,131
Sub-total		39,707,006	38,856,093
Listed		11,366,392	9,046,714
Unlisted		28,340,614	29,809,379
Sub-total		39,707,006	38,856,093
Investment portfolio managed by financial institutions		696,705	4,115,759
Investment management products managed by trust plans		–	154,564
Sub-total		696,705	4,270,323
Accrued interest		566,649	542,897
Equity investments	(ii)	23,896	23,896
Total		40,994,256	43,693,209

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 39(f)). No other investment were subject to material restrictions in the realization.

(ii) The Group designates non-trading equity investments as financial investments at fair value through other comprehensive income. As at June 30, 2019, the fair value of such equity investments was RMB 23.90 million. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

- (iii) Movements of provision for impairment of financial investments at fair value through other comprehensive income is as follows:

	Six months ended June 30, 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	6,916	–	75,491	82,407
Charge for the period	3,691	–	1,016	4,707
Balance at June 30	10,607	–	76,507	87,114

	Year ended December 31, 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	21,472	–	–	21,472
Transfer:				
– to lifetime expected credit losses credit-impaired	(125)	–	125	–
(Release)/charge for the year	(14,431)	–	75,366	60,935
Balance at December 31	6,916	–	75,491	82,407

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(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(c) Financial investments at amortised cost

	Note	June 30, 2019	December 31, 2018
Debt securities	(i)		
– Government		21,506,323	19,818,153
– Policy banks		15,543,068	13,018,795
– Banks and other financial institutions		7,633,737	3,971,656
– Corporate		9,122,910	8,903,860
Sub-total		53,806,038	45,712,464
Listed		21,136,475	19,448,305
Unlisted		32,669,563	26,264,159
Sub-total		53,806,038	45,712,464
Investment management products managed by trust plans		70,347,424	90,128,796
Investment fund managed by private fund manager		16,097,246	18,321,803
Investment management products managed by securities companies		5,072,496	5,444,414
Debt investment plans		9,109,250	5,685,000
Investment fund managed by financial institutions		1,966,150	2,306,021
Sub-total		102,592,566	121,886,034
Accrued interest		1,601,727	1,486,487
Less: Provision for impairment losses	(ii)	(4,961,966)	(4,001,623)
Total		153,038,365	165,083,362

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 39(f)). No other investment were subject to material restrictions in the realization.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

(c) Financial investments at amortised cost (Continued)

- (ii) Movements of provision for impairment of financial investments at amortised cost is as follows:

	Six months ended June 30, 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	247,138	91,295	3,663,190	4,001,623
Transfers:				
– to expected credit losses over the next 12 months	43,197	(43,197)	–	–
– to lifetime expected credit losses credit-impaired	(2,403)	(37,675)	40,078	–
(Release)/charge for the period	(106,172)	(48)	1,066,563	960,343
Balance at June 30	181,760	10,375	4,769,831	4,961,966

	Year ended December 31, 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	260,342	95,627	3,876,780	4,232,749
Transfers:				
– to lifetime expected credit losses not credit-impaired	(2,415)	2,415	–	–
– to lifetime expected credit losses credit-impaired	(2,953)	(63,742)	66,695	–
(Release)/charge for the year	(7,836)	56,995	474,350	523,509
Write-offs	–	–	(754,635)	(754,635)
Balance at December 31	247,138	91,295	3,663,190	4,001,623

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(Expressed in thousands of Renminbi, unless otherwise stated)

20 Investment in subsidiaries

The Group's subsidiaries as at the end of the reporting period are as follows:

	Note	June 30, 2019	December 31, 2018
Xiping Fortune County Bank Co., Ltd. ("西平財富村鎮銀行股份有限公司")	(a)	176,686	176,686
Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("信陽平橋中原村鎮 銀行股份有限公司")	(b)	38,341	38,341
Qixian Zhongyuan County Bank Co., Ltd. ("淇縣中原村鎮銀行股份有限 公司")	(c)	41,531	41,531
Henan Xinxiang Xinxing County Bank Co., Ltd. ("河南新鄉新興村鎮銀行 股份有限公司")	(d)	150,306	150,306
Linzhou Zhongyuan County Bank Co., Ltd. ("林州中原村鎮銀行股份有限 公司")	(e)	29,771	29,771
Puyang Zhongyuan County Bank Co., Ltd. ("濮陽中原村鎮銀行股份有限 公司")	(f)	30,736	30,736
Lushi Zhongyuan County Bank Co., Ltd. ("盧氏中原村鎮銀行股份有限 公司")	(g)	32,497	32,497
Xiangcheng Huipu County Bank Co., Ltd. ("襄城匯浦村鎮銀行股份有限 公司")	(h)	28,250	28,250
Suiping Zhongyuan County Bank Co., Ltd. ("遂平中原村鎮銀行股份有限 公司")	(i)	35,084	35,084
Henan Zhongyuan Consumer Finance Corp., Ltd. ("河南中原消費金融股份有 限公司")	(j)	625,000	625,000
Total		1,188,202	1,188,202

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Investment in subsidiaries (Continued)

Notes:

- (a) Xiping Fortune County Bank Co., Ltd. ("Xiping Fortune") was incorporated on December 17, 2009 at Zhumadian, Henan Province, with registered capital of RMB 208.52 million. The principal activities of Xiping Fortune are the provision of corporate and retail banking services. The Bank holds 43.69% of equity interest of Xiping Fortune as at June 30, 2019 (2018: 43.69%). According to the acting in concert arrangement between the Bank and certain other shareholders with 23.95% equity interest of Xiping, Xiping Fortune was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (b) Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. ("Xinyang Pingqiao", formerly known as Xinyang Pingqiao Hengfeng County Bank Co., Ltd.) was incorporated on December 13, 2010 at Xinyang, Henan Province, with registered capital of RMB 83.52 million. The principal activities of Xinyang Pingqiao are the provision of corporate and retail banking services. The Bank holds 51.72% of equity interest and voting rights of Xinyang Pingqiao as at June 30, 2019 (2018: 51.72%).
- (c) Qixian Zhongyuan County Bank Co., Ltd. ("Qixian Zhongyuan", formerly known as Qixian Heyin County Bank Co., Ltd.) was incorporated on December 23, 2010 at Hebi, Henan Province, with registered capital of RMB 50.00 million. The principal activities of Qixian Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Qixian Zhongyuan as at June 30, 2019 (2018: 51%).
- (d) Henan Xinxiang Xinxing County Bank Co., Ltd. ("Xinxiang Xinxing") was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB 130.00 million. The principal activities of Xinxiang Xinxing are the provision of corporate and retail banking services. After purchased a portion of minority shareholders' right and interest amounting to RMB 91.50 million in November 26, 2018, the Bank holds 78.46% of equity interest and voting rights of Xinxiang Xinxing as at December 31, 2018 and June 30, 2019. According to the acting in concert arrangement between the Bank and certain other shareholders with 21.92% equity interest of Xinxiang Xinxing, Xinxiang Xinxing was deemed to be controlled by the Bank and was a subsidiary of the Bank since 2014.
- (e) Linzhou Zhongyuan County Bank Co., Ltd. ("Linzhou Zhongyuan", formerly known as Linzhou Defeng County Bank Co., Ltd.) was incorporated on September 30, 2011 at Linzhou, Henan Province, with registered capital of RMB 75.00 million. The principal activities of Linzhou Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Linzhou Zhongyuan as at June 30, 2019 (2018: 51%).
- (f) Puyang Zhongyuan County Bank Co., Ltd. ("Puyang Zhongyuan", formerly known as Puyang Heyin County Bank Co., Ltd.) was incorporated on March 16, 2012 at Puyang, Henan Province, with registered capital of RMB 58.75 million. The principal activities of Puyang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Puyang Zhongyuan as at June 30, 2019 (2018: 51%).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Investment in subsidiaries (Continued)

Notes: (Continued)

- (g) Lushi Zhongyuan County Bank Co., Ltd. ("Lushi Zhongyuan", formerly known as Lushi Defeng County Bank Co., Ltd.) was incorporated on May 15, 2012 at Sanmenxia, Henan Province, with registered capital of RMB 60.00 million. The principal activities of Lushi Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51% of equity interest and voting rights of Lushi Zhongyuan as at June 30, 2019 (2018: 51%).
- (h) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB 61.00 million. The principal activities of Xiangcheng Huipu are the provision of corporate and retail banking services. The Bank holds 41% of equity interest of Xiangcheng Huipu as at June 30, 2019 (2018: 41%). According to the acting in concert arrangement between the Bank and certain other shareholders with 10% equity interest of Xiangcheng Huipu, Xiangcheng Huipu was deemed to be controlled by the Bank and became a subsidiary of the Bank since 2015.
- (i) Suiping Zhongyuan County Bank Co., Ltd. ("Suiping Zhongyuan", formerly known as Suiping Hengsheng County Bank Co., Ltd.) was incorporated on March 12, 2012 at Zhumadian, Henan Province, with registered capital of RMB 56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest of Suiping Zhongyuan as at June 30, 2019 (2018: 51.02%).
- (j) Henan Zhongyuan Consumer Finance Corp., Ltd. ("Consumer Finance") was incorporated on December 29, 2016 at Zhengzhou, Henan Province, with registered capital of RMB 500.00 million. After the capital injection of RMB 300.00 million by the Bank on February 9, 2018, the registered capital of Consumer Finance increases to RMB 800.00 million, and the Bank holds 78.13% of equity interest and voting rights of Consumer Finance as at June 30, 2019 (2018: 78.13%).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
As at January 1, 2018	5,353,158	124,071	1,094,776	29,793	413,019	549,394	7,564,211
Additions	8,280	–	136,838	1,458	67,422	168,133	382,131
Disposals	(424,075)	(51,181)	(56,104)	(6,579)	(32,267)	–	(570,206)
Transfers out of construction in progress	–	–	–	–	–	(97,454)	(97,454)
As at December 31, 2018	4,937,363	72,890	1,175,510	24,672	448,174	620,073	7,278,682
Additions	33,962	–	52,197	23	3,222	92,525	181,929
Disposals	(11,756)	–	(1,448)	(1,422)	(2,169)	–	(16,795)
Transfers out of construction in progress	–	–	–	–	–	(8,162)	(8,162)
As at June 30, 2019	4,959,569	72,890	1,226,259	23,273	449,227	704,436	7,435,654
Accumulated depreciation							
As at January 1, 2018	(1,832,654)	(59,208)	(779,051)	(26,259)	(247,371)	–	(2,944,543)
Additions	(288,492)	(7,470)	(172,908)	(1,611)	(41,667)	–	(512,148)
Disposals	187,623	27,183	53,872	6,422	29,550	–	304,650
As at December 31, 2018	(1,933,523)	(39,495)	(898,087)	(21,448)	(259,488)	–	(3,152,041)
Additions	(136,936)	(2,189)	(84,028)	(509)	(21,755)	–	(245,417)
Disposals	4,248	–	1,245	1,386	1,174	–	8,053
As at June 30, 2019	(2,066,211)	(41,684)	(980,870)	(20,571)	(280,069)	–	(3,389,405)
Impairment							
As at January 1, 2018	(8,384)	–	(2,403)	(229)	(2,030)	–	(13,046)
Disposals	1,714	–	3	–	97	–	1,814
As at December 31, 2018	(6,670)	–	(2,400)	(229)	(1,933)	–	(11,232)
Disposals	–	–	5	–	–	–	5
As at June 30, 2019	(6,670)	–	(2,395)	(229)	(1,933)	–	(11,227)
Net book value							
As at December 31, 2018	2,997,170	33,395	275,023	2,995	186,753	620,073	4,115,409
As at June 30, 2019	2,886,688	31,206	242,994	2,473	167,225	704,436	4,035,022

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Property and equipment (Continued)

The carrying amount of the premises with incomplete title deeds as at June 30, 2019 was RMB891.20 million (December 31, 2018: RMB919.58 million). The Group is still in the progress of application for the outstanding title deeds for the above premises. The directors of the Bank expected that there would be no significant cost in obtaining the title deeds.

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

	June 30, 2019	December 31, 2018
Held in mainland China		
– Long-term leases (over 50 years)	749,481	772,547
– Medium-term leases (10 - 50 years)	1,554,088	1,581,666
– Short-term leases (less than 10 years)	583,119	642,957
Total	2,886,688	2,997,170

The net book value of investment properties at the end of the reporting period are analyzed by the remaining terms of the leases as follows:

	June 30, 2019	December 31, 2018
Held in mainland China		
– Medium-term leases (10 - 50 years)	31,206	33,395

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Deferred tax assets

(a) Analysed by nature

	June 30, 2019		December 31, 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets/(liabilities):				
Allowance for impairment losses	15,752,476	3,938,119	14,402,760	3,600,690
Accrued staff costs	1,338,788	334,697	1,060,780	265,195
Supplemental retirement benefits	103,104	25,776	112,208	28,052
Fair value changes of financial instruments	(270,264)	(67,566)	(613,856)	(153,464)
Deferred income	747,080	186,770	589,376	147,344
Assets appraisal and related depreciation	(1,698,428)	(424,607)	(1,776,440)	(444,110)
Others	233,112	58,278	235,764	58,941
Net balances	16,205,868	4,051,467	14,010,592	3,502,648

(b) Movement of the deferred tax

	Allowance for impairment losses	Staff cost payable	Supplemental retirement benefits	Change in fair value	Deferred income	Assets appraisal and related depreciation	Others	Net balance of deferred tax assets
January 1, 2018	2,628,036	212,321	30,754	137,765	107,458	(511,057)	38,099	2,643,376
Recognized in profit or loss	972,654	52,874	(2,702)	(127,984)	39,886	66,947	20,842	1,022,517
Recognized in other comprehensive income	-	-	-	(163,245)	-	-	-	(163,245)
December 31, 2018	3,600,690	265,195	28,052	(153,464)	147,344	(444,110)	58,941	3,502,648
Recognized in profit or loss	337,429	69,502	(2,276)	38,886	39,426	19,503	(663)	501,807
Recognized in other comprehensive income	-	-	-	47,012	-	-	-	47,012
June 30, 2019	3,938,119	334,697	25,776	(67,566)	186,770	(424,607)	58,278	4,051,467

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Goodwill

	Goodwill
Cost:	
At December 31, 2018 and June 30, 2019	468,397
Accumulated impairment losses:	
At December 31, 2018 and June 30, 2019	–
Carrying amount:	
At December 31, 2018 and June 30, 2019	468,397

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to three individual cash generating units (CGUs), including corporate banking, retail banking and financial markets business. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	June 30, 2019	December 31, 2018
Corporate banking	309,219	309,219
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	468,397	468,397

The recoverable amounts of corporate banking unit, retail banking unit and financial markets business unit have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 10.25% as at June 30, 2019 (December 31, 2018: 9.92%). Cash flows beyond five-year period are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate which is used are pre-tax and reflect specific risks relating to the CGUs.

At the end of the reporting period, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of each of these CGUs to exceed its recoverable amount.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets

	Note	June 30, 2019	December 31, 2018
Prepayments on acquisition of subsidiary	(a)	4,261,500	–
Reposessed assets		2,287,261	1,771,214
Advances for fiscal payments		1,288,271	–
Intangible assets	(b)	1,251,736	1,258,659
Receivables from disposal of loans	18(g)	1,158,302	1,200,317
Right-of-use assets	(c)	869,273	–
Leasehold improvements		541,945	569,133
Interests receivable	(d)	407,367	363,811
Other receivables		1,110,243	1,168,781
Total		13,175,898	6,331,915

(a) Prepayments on acquisition of subsidiary

On February 19, 2019, the Bank and Henan Wansong Construction Engineering Co., Ltd., as an Independent Third Party, entered into the Equity Transaction Agreement in respect of the acquisition of AB Leasing Co., Ltd. (“AB Leasing”) with Chengdu Rural Commercial Bank Co., Ltd. and Anbang Life Insurance Co., Ltd., at a total consideration of RMB 4,735 million. The Bank will hold 90% the share capital of AB Leasing, at a consideration of RMB 4,261.5 million. Upon the Acquisition, AB Leasing will become a non-wholly owned subsidiary of the Group and its accounts will be consolidated into the accounts of the Group.

As completion of the Acquisition is on the condition (including but not limited to) that approvals from relevant regulatory authorities and China Banking and Insurance Regulatory Commission or filings in relation to the Acquisition have been obtained or made, the Acquisition may or may not proceed.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets (Continued)

(b) Intangible assets

	June 30, 2019	December 31, 2018
Cost		
As at January 1	1,839,526	1,702,036
Additions	100,720	186,040
Disposals	–	(48,550)
As at June 30/December 31	1,940,246	1,839,526
Accumulated amortisation		
As at January 1	(570,460)	(427,459)
Additions	(107,643)	(187,436)
Disposals	–	44,435
As at June 30/December 31	(678,103)	(570,460)
Impairment		
As at January 1	(10,407)	(10,407)
Disposals	–	–
As at June 30/December 31	(10,407)	(10,407)
Net book value		
As at January 1	1,258,659	1,264,170
As at June 30/December 31	1,251,736	1,258,659

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets (Continued)

(c) Right-of-use assets

	Leased properties and buildings	Leased other equipments	Total
Cost			
As at January 1, 2019	925,273	15,812	941,085
Additions	56,660	533	57,193
As at June 30, 2019	981,933	16,345	998,278
Accumulated depreciation			
As at January 1, 2019	—	—	—
Additions	(126,468)	(2,537)	(129,005)
As at June 30, 2019	(126,468)	(2,537)	(129,005)
Impairment			
As at June 30, 2019	—	—	—
Net book value			
As at January 1, 2019	925,273	15,812	941,085
As at June 30, 2019	855,465	13,808	869,273

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Other assets (Continued)

(d) Interests receivable

	June 30, 2019	December 31, 2018
Interests receivable arising from:		
– Financial investments	128,954	138,629
– Loans and advances to customers	346,588	293,357
Total	475,542	431,986
Less: Provision for impairment losses	(68,175)	(68,175)
Net carrying amount	407,367	363,811

Interest receivable only includes interest that has been due for the relevant financial instruments but not yet received at the balance sheet date. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

25 Deposits from banks and other financial institutions

Analyzed by type of counterparty

	June 30, 2019	December 31, 2018
In mainland China		
– Banks	7,896,919	10,838,827
– Other financial institutions	19,986,338	49,548,657
Sub-total	27,883,257	60,387,484
Accrued interest	358,777	414,471
Total	28,242,034	60,801,955

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Placements from banks and other financial institutions

Analyzed by type of counterparty

	June 30, 2019	December 31, 2018
In mainland China		
– Banks	17,930,074	12,177,156
– Other financial institutions	293,620	200,000
Sub-total	18,223,694	12,377,156
Outside mainland China		
– Banks	68,747	271,022
Sub-total	18,292,441	12,648,178
Accrued interest	144,123	81,032
Total	18,436,564	12,729,210

27 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	June 30, 2019	December 31, 2018
In mainland China		
– Banks	32,626,897	32,593,388
– Other financial institutions	6,986,340	914,780
Sub-total	39,613,237	33,508,168
Accrued interest	8,781	19,728
Total	39,622,018	33,527,896

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Financial assets sold under repurchase agreements (Continued)

(b) Analysed by type of collateral held

	June 30, 2019	December 31, 2018
Debt securities	34,041,490	30,617,816
Discounted bills	5,571,747	2,890,352
Sub-total	39,613,237	33,508,168
Accrued interest	8,781	19,728
Total	39,622,018	33,527,896

28 Deposits from customers

	June 30, 2019	December 31, 2018
Demand deposits		
– Corporate deposits	134,090,281	127,739,658
– Personal deposits	44,943,071	40,566,809
Sub-total	179,033,352	168,306,467
Time deposits		
– Corporate deposits	49,463,676	38,988,002
– Personal deposits	133,127,289	107,070,420
Sub-total	182,590,965	146,058,422
Pledged deposits	39,511,717	31,633,015
Inward and outward remittances	217,999	191,091
Sub-total	401,354,033	346,188,995
Accrued interest	3,919,669	3,197,960
Total	405,273,702	349,386,955

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Debt securities issued

	Note	June 30, 2019	December 31, 2018
Interbank deposits issued	(a)	71,651,283	80,048,236
Financial bonds	(b)	2,999,192	2,999,102
Tier-two capital bonds	(c)	9,999,736	9,999,668
Sub-total		84,650,211	93,047,006
Accrued interest		416,673	230,570
Total		85,066,884	93,277,576

- (a) For the six months ended June 30, 2019, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB 57,050.00 million and duration between 1-12 months. The coupon rates ranged from 2.40% to 3.45% per annum.

In 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB 123,570.00 million and duration between 1-12 months. The coupon rates ranged from 2.40% to 5.15% per annum.

As at June 30, 2019, the fair value of interbank deposits issued was RMB 71,732.45 million (December 31, 2018: RMB 80,163.67 million).

- (b) Fixed rate financial bonds of RMB1.5 billion with a term of three years was issued in May 2018. The coupon rate is 4.79% per annum.

Fixed rate green financial bonds of RMB1.5 billion with a term of three years was issued in April 2018. The coupon rate is 4.70% per annum.

As at June 30, 2019, the fair value of financial bonds issued was RMB 3,082.36 million (December 31, 2018: RMB 3,054.75 million).

- (c) Fixed rate tier-two capital bonds of RMB 10 billion with a term of 10 years was issued by the Bank in September 2018. The coupon rate is 5.20% per annum.

As at June 30, 2019, the fair value of tier-two capital bonds issued was RMB 10,576.09 million (December 31, 2018: RMB 10,148.39 million).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Other liabilities

	Note	June 30, 2019	December 31, 2018
Accrued staff costs	(a)	1,857,841	2,029,884
Lease liabilities		897,717	—
Payment and collection clearance accounts		860,090	708,069
Dividend payable		678,565	492,074
Other tax payable		450,561	393,461
Provisions	(b)	86,995	112,104
Other payable		640,017	776,854
Total		5,471,786	4,512,446

(a) Accrued staff costs

	Note	June 30, 2019	December 31, 2018
Salary, bonuses and allowances payable		1,584,399	1,764,394
Social insurance payable		63,373	57,746
Housing allowances payable		3,072	1,013
Labor union fee, staff and workers' education fee		100,627	91,256
Supplementary retirement benefits payable	(1)	106,370	115,475
Total		1,857,841	2,029,884

(1) Supplementary retirement benefits payable

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Other liabilities (Continued)

(a) Accrued staff costs (Continued)

(1) Supplementary retirement benefits payable (Continued)

(i) The balances of supplementary retirement benefits of the Group are as follows:

	June 30, 2019	December 31, 2018
Present value of early retirement plan	97,481	106,702
Present value of supplementary retirement plan	8,889	8,773
Total	106,370	115,475

(ii) The movements of supplementary retirement benefits of the Group are as follows:

	June 30, 2019	December 31, 2018
As at January 1	115,475	125,687
Benefits paid during the period/year	(10,807)	(24,887)
Defined benefit cost recognised in profit or loss	1,702	14,078
Defined benefit cost recognised in other comprehensive income	—	597
As at June 30/December 31	106,370	115,475

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Other liabilities (Continued)

(a) Accrued staff costs (Continued)

(1) Supplementary retirement benefits payable (Continued)

(iii) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	June 30, 2019	December 31, 2018
Discount rate	3.00%	3.00%
Annual increase rate of internal salary	4.50%	4.50%
Supplementary retirement plan	June 30, 2019	December 31, 2018
Discount rate	3.75%	3.75%

(b) Provisions

	Note	June 30, 2019	December 31, 2018
Litigations and disputes provision		11,992	25,966
Credit commitments provision	(i)	75,003	86,138
Total		86,995	112,104

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Other liabilities (Continued)

(b) Provisions (Continued)

(i) Movements of credit commitments provision is as follows:

	Six months ended June 30, 2019			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	85,798	187	153	86,138
Transfers:				
– to expected credit losses over the next 12 months	153	(113)	(40)	–
– to lifetime expected credit losses: not credit-impaired loans	(5)	5	–	–
– to lifetime expected credit losses: credit-impaired loans	(1)	(57)	58	–
(Release)/charge for the period	(11,843)	419	289	(11,135)
Balance at June 30	74,102	441	460	75,003

	Year ended December 31, 2018			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	51,149	1,806	6	52,961
Transfers:				
– to expected credit losses over the next 12 months	54	(49)	(5)	–
– to lifetime expected credit losses: credit-impaired loans	–	(4)	4	–
Charge/(release) for the year	34,595	(1,566)	148	33,177
Balance at December 31	85,798	187	153	86,138

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Share capital

Authorised and issued share capital

	Number of shares	Amount
As at December 31, 2018	20,075,000	20,075,000
As at June 30, 2019	20,075,000	20,075,000

32 Reserves

(a) Capital reserve

	Note	June 30, 2019	December 31, 2018
Share premium		14,477,471	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	74,708	213,457
Impairment losses recognized in other comprehensive income	(ii)	456,964	457,896
Changes on remeasurement of defined benefit liabilities	(iii)	(3,267)	(3,267)
Changes in ownership in subsidiaries without changes in control		(164,240)	(164,240)
Total		14,841,636	14,981,317

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Reserves (Continued)

(a) Capital reserve (Continued)

(i) Investment revaluation

	June 30, 2019	December 31, 2018
As at January 1	213,457	(274,882)
Changes in fair value recognised in other comprehensive income	(40,803)	421,745
Transfer to profit or loss upon disposal	(144,196)	229,373
Less: Deferred income tax	46,250	(162,779)
As at June 30/December 31	74,708	213,457

(ii) Impairment reserve

	June 30, 2019	December 31, 2018
As at January 1	457,896	171,988
Impairment losses recognized in other comprehensive income	(932)	285,908
As at June 30/December 31	456,964	457,896

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Reserves (Continued)

(a) Capital reserve (Continued)

(iii) Deficit on remeasurement of net defined benefit liability

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

	June 30, 2019	December 31, 2018
As at January 1	(3,267)	(2,670)
Changes in fair value recognised in other comprehensive income	—	(597)
As at June 30/December 31	(3,267)	(3,267)

(b) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund. Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the PRC GAAP after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank may also appropriate discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Profit distribution

At the Bank's Annual General Meeting held on May 20, 2019, the shareholders approved the profit distribution plan for the year ended December 31, 2018:

- Appropriation of statutory surplus reserve amounted to RMB242.56 million;
- Appropriation of general reserve amounted to RMB1,498.01 million; and
- Declaration of cash dividend of RMB0.35 per 10 shares before tax and in aggregation amount of RMB702.63 million to all shareholders.

At the Bank's Annual General Meeting held on May 16, 2018, the shareholders approved the profit distribution plan for the year ended December 31, 2017:

- Appropriation of statutory surplus reserve amounted to RMB381.00 million;
- Appropriation of general reserve amounted to RMB1,251.54 million; and
- Declaration of cash dividend of RMB0.71 per 10 shares before tax and in aggregation amount of RMB1,425.33 million to all shareholders.

As at June 30, 2019, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB45.43 million to surplus reserve made by subsidiaries (December 31, 2018: RMB44.03 million).

According to the resolution on the distribution of dividends for overseas preference shares passed at the Board of Directors' meeting held on August 29, 2019 dividend to be distributed amounts to USD86.80 million (including tax), calculated at the initial annual payout ratio of 5.60% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date is November 21, 2019.

34 Other equity instruments

(a) Preference shares outstanding at the end of the year:

Financial instrument outstanding	Time issued	Classifications	Dividend yield ratio/ Interest rate	Issue price	Quantities	In original currency million	In RMB million	Maturity	Conversion conditions
Offshore preference shares	21/11/2018	Equity	5.60%	USD20/share	69,750,000	1,395	9,688	None	Mandatory conversion trigger events
Less: Issuing cost							(55)		
Book value							9,633		

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other equity instruments (Continued)

(b) Main clause

(i) Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread. The fixed spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares. Dividends will be paid annually.

If the Bank has distributable after-tax profit after making up for previous years' losses and contributing to the statutory reserve and general reserve, the Bank may pay dividends to the offshore preference shareholders in accordance with the articles of association of the Bank, provided that the capital adequacy ratio of the Bank meets regulatory requirements. The offshore preference shareholders shall rank in priority to the ordinary shareholders in terms of dividend distribution.

Any declaration and payment of all of the dividends on the offshore preference shares by the Bank will be determined by the board in accordance with the authorisation given by the general meeting. Any cancellation of all or part of the dividends on the offshore preference shares shall be subject to the consideration and approval by the general meeting. If the Bank cancels all or part of the distribution of dividends on the offshore preference shares, the Bank shall not distribute any dividends to the ordinary shareholders from the next day following the resolution being approved at the general meeting until the resumption of payment of dividends in full.

(ii) Dividend accumulation

The dividends on the offshore preference shares will be non-cumulative (namely, in the event of any cancellation by the Bank of all or part of the dividends on the offshore preference shares, any amount of dividends not paid to the offshore preference shareholders in full in the current period will not be accumulated to the following dividend periods).

(iii) Distribution of residual profits

After receiving the dividends at the prescribed dividend rate, the offshore preference shareholders shall not be entitled to any distribution of residual profits of the Bank together with the ordinary shareholders.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other equity instruments (Continued)

(b) Main clause (Continued)

(iv) Mandatory conversion trigger events

Upon the occurrence of an additional tier 1 capital trigger event (namely, the core tier 1 capital adequacy ratio of the Bank falling to 5.125% or below), the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all or part of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares in order to restore the core tier 1 capital adequacy ratio of the Bank to above 5.125%. In case of partial conversion, the offshore preference shares shall be converted ratably and on the same conditions. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances.

Upon the occurrence of a tier 2 capital trigger event, the Bank shall have the right to convert, without the approval of the offshore preference shareholders, all of the offshore preference shares then issued and outstanding into H Shares based on the aggregate value of such offshore preference shares. Upon conversion of the offshore preference shares into H Shares, such H Shares will not be converted back to preference shares under any circumstances. A tier 2 capital trigger event means the earlier of the following events: (1) the CBIRC having concluded that without a conversion or write-off of the Bank's capital, the Bank would become non-viable, and (2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

(v) Conditional redemption

From the fifth year following the date of issuance of the offshore preference shares, and subject to obtaining the approval of the former CBRC or its affiliates and the compliance with the relevant requirements, the Bank shall have the right to redeem all or part of the offshore preference shares. The redemption price of the offshore preference shares will be an amount equal to the issue price plus the amount of dividend declared but unpaid for the current period.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

35 Notes to the consolidated cash flow statement

(a) Net increase in cash and cash equivalents

	June 30, 2019	June 30, 2018
Cash and cash equivalents as at June 30	57,149,378	46,909,452
Less: Cash and cash equivalents as at January 1	55,712,428	43,080,066
Net increase in cash and cash equivalents	1,436,950	3,829,386

(b) Cash and cash equivalents comprise:

	June 30, 2019	June 30, 2018
Cash on hand	1,700,981	1,703,637
Deposits with the central bank	21,529,444	29,066,522
Deposits with banks and other financial institutions	9,298,704	5,113,378
Placements with banks and other financial institutions	8,939,627	874,799
Financial assets held under resale agreements	15,680,622	10,151,116
Total	57,149,378	46,909,452

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Related party relationships and transactions

(a) Relationship of related parties

(i) Major shareholders

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

Shareholding in the Bank:

	June 30, 2019	December 31, 2018
Henan Investment Group Co., Ltd.	7.01%	7.01%
Henan Energy and Chemical Engineering Group Co., Ltd. (*)	6.48%	6.48%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	5.76%	5.76%
Tian Kun Investment Ltd.	4.99%	4.99%
Henan Shengrun Holdings Co., Ltd.	3.75%	3.75%

* As at June 30, 2019, the interest in the Bank owned by Henan Energy and Chemical Engineering Group Co., Ltd. includes interests owned by Yongcheng Coal and Electricity Holdings Group Co., Ltd., Yongcheng Jingchuang Industry Co., Ltd., Shangqiu Tianlong Investment Co., Ltd., Kaifeng Tieta Rubber (Group) Co., Ltd., Anyang Chemical Engineering Group Co., Ltd., Henan Energy and Chemical Engineering Group Finance Co., Ltd., and Henan Guolong Mineral Construction Co., Ltd..

(ii) Subsidiaries of the Bank

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

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 36(a)(i) or their controlling shareholders.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Related party relationships and transactions (Continued)

(b) Related party transactions and balances

(i) Transactions between the Bank and major shareholders:

	Six months ended June 30,	
	2019	2018
Transactions during the period:		
Interest income	50,359	50,772
Interest expense	575	548
	June 30, 2019	December 31, 2018
Balances at the end of the period/ year:		
Financial investments	1,546,895	847,704
Loans and advances to customers	—	300,596
Deposits from customers	90,712	86,753
Deposits from banks and other financial institutions	5,220	—
	June 30, 2019	December 31, 2018
Balances of item off the consolidated statement of financial position outstanding at end of the period/year:		
Letters of credit	300,000	—

(ii) Transactions between the Bank and subsidiaries:

The subsidiaries of the Bank are its related parties. The transactions between the Bank and its subsidiaries and among the subsidiaries are eliminated on combination and therefore are not disclosed in this note.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Related party relationships and transactions (Continued)

(b) Related party transactions and balances (Continued)

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

	Six months ended June 30,	
	2019	2018
Transactions during the period:		
Interest income	71,789	199,177
Interest expense	59,680	72,708
Operation expenses	7,189	5,512
Balances at the end of the period/		
year:		
Loans and advances to customers	2,491,561	3,694,991
Financial investments	–	2,483,920
Right-of-use assets	44,558	–
Deposits from customers	5,060,221	4,354,197
Deposits from banks and other		
financial institutions	209,665	1,849,884
Lease liabilities	41,071	–
Balances of items off the		
consolidated statement of		
financial position outstanding at		
end of the period/year:		
Letters of credit	1,020,000	3,610,000
Bank acceptances	4,171,922	3,254,728
Letters of guarantees	1,500	1,500

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Related party relationships and transactions (Continued)

(c) Key management personnel

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

(i) Transactions between the Bank and key management personnel:

	Six months ended June 30,	
	2019	2018
Transactions during the period:		
Interest income	422	875
Interest expense	101	62
	June 30, 2019	December 31, 2018
Balances at the end of the period/ year:		
Loans and advances to customers	17,145	17,815
Deposits from customers	16,337	11,166

(ii) Key management personnel remuneration

The aggregate compensation of key management personnel is listed as follows:

	Six months ended June 30,	
	2019	2018
Salaries and other emoluments	6,301	5,981
Discretionary bonuses	3,717	3,408
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	1,408	1,522
Total	11,426	10,911

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

36 Related party relationships and transactions (Continued)

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

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	June 30, 2019	December 31, 2018
Aggregate amount of relevant loans outstanding at the end of the period/year	17,118	17,788
Maximum aggregate amount of relevant loans outstanding during the period/year	17,118	17,788

There were no amount due but unpaid at June 30, 2019 and December 31, 2018.

37 Fair value

(a) Methods and assumptions for measurement of fair value

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

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period.

(ii) Investments and other non-derivative financial assets

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(a) Methods and assumptions for measurement of fair value (Continued)

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

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period. The Group has established policies and internal controls with respect to the measurement of fair values, specify the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swaps contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows.

(b) Fair value measurement

(i) Financial assets

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

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

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values. The fair values of loans and advances to customers measured at fair value through other comprehensive income are based on valuation techniques.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(b) Fair value measurement (Continued)

(i) Financial assets (Continued)

Financial investments at fair value through other comprehensive income and financial investments at fair value through profit or loss are stated at fair value. The carrying amount of financial investments at amortised cost is the reasonable approximation of its fair value because, for example, it is short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and debt securities issued.

Financial liabilities designated at fair value through profit or loss are presented with fair value. The book value and fair value of debt securities issued are presented in Note 29. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

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

Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: Fair value measured using significant unobservable inputs

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

Financial investments

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

Loans and advances to customers

Discounted bills in loans and advances to customers are valued by using a discounted cash flow model. For the bank acceptance bills, the discounted rate is established based on the acceptors' credit risk and market transaction data; for the commercial acceptance bills, the discounted rate is established based on the interbank offered rates and spreads adjusted by credit risk and liquidity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps and foreign exchange forwards. The most frequently applied valuation techniques include discounted cash flow model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss	402,430	47,138,780	536,400	48,077,610
Derivative financial assets	–	37,117	–	37,117
Financial investments at fair value through other comprehensive income	–	40,970,360	23,896	40,994,256
Loans and advances to customers measured at fair value through other comprehensive income	–	28,253,665	–	28,253,665
Total	402,430	116,399,922	560,296	117,362,648
Liabilities				
Derivative financial liabilities	–	244,318	–	244,318

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss	–	43,869,291	–	43,869,291
Derivative financial assets	–	43,096	–	43,096
Financial investments at fair value through other comprehensive income	–	43,669,313	23,896	43,693,209
Loans and advances to customers measured at fair value through other comprehensive income	–	19,023,990	–	19,023,990
Total	–	106,605,690	23,896	106,629,586
Liabilities				
Derivative financial liabilities	–	228,084	–	228,084

- (i) During the reporting period, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

(ii) Movement in Level 3 financial instruments measured at fair value

The movement during the period ended June 30, 2019 and the year ended December 31, 2018 in the balance of Level 3 fair value measurements is as follows:

	Total gains or losses					Additions, issues, sales and settlement				June 30, 2019
	January 1, 2019	Transfer into Level 3	Transfer out of Level 3	Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements	
Assets										
Financial investments at fair value through profit or loss – equity investments	–	–	–	–	–	536,400	–	–	–	536,400
Financial investments at fair value through other comprehensive income – equity investments	23,896	–	–	–	–	–	–	–	–	23,896
Total	23,896	–	–	–	–	536,400	–	–	–	560,296

	Total gains or losses					Additions, issues, sales and settlement				
	January 1, 2018	Transfer into Level 3	Transfer out of Level 3	Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements	December 31, 2018
Assets										
Financial investments at fair value through other comprehensive income										
– equity investments	23,896	–	–	–	–	–	–	–	–	23,896
Total	23,896	–	–	–	–	–	–	–	–	23,896

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

During the period ended June 30, 2019 and the year ended December 31, 2018, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at June 30, 2019	Valuation techniques	Unobservable inputs
Financial investments at fair value through profit or loss – equity investments	536,400	Market comparison technique	Adjusted market multiple
Financial investments at fair value through other comprehensive income – equity investments	23,896	Market comparison technique	Adjusted market multiple

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	Fair value as at December 31, 2018	Valuation techniques	Unobservable inputs
Financial investments at fair value through other comprehensive income – equity investments	23,896	Market comparison technique	Adjusted market multiple

During the period ended June 30, 2019 and the year ended December 31, 2018, there were no significant changes in the valuation techniques.

As at June 30, 2019 and December 31, 2018, unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value on changes in unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 1 percent of change in fair value to reasonably possible alternative assumptions.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	June 30, 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments at fair value through profit or loss – equity investments	5,730	(5,730)	–	–
Financial investments at fair value through other comprehensive income – equity investments	–	–	239	(239)

	December 31, 2018			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments at fair value through other comprehensive income – equity investments	–	–	239	(239)

Notes to the Unaudited Interim Financial Report

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38 Entrusted lending business

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

	June 30, 2019	December 31, 2018
Entrusted loans	27,798,831	29,033,871
Entrusted funds	27,798,831	29,033,871

39 Commitments and contingent liabilities

(a) Credit commitments

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

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

	June 30, 2019	December 31, 2018
Bank acceptances	46,260,161	36,986,944
Letters of credit	15,875,954	11,444,126
Loan commitments	13,096,630	9,342,671
Letters of guarantees	3,118,335	2,902,950
Total	78,351,080	60,676,691

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities (Continued)

(a) Credit commitments (Continued)

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

(b) Credit risk-weighted amount

	June 30, 2019	December 31, 2018
Credit risk-weighted amount of contingent liabilities and commitments	32,844,049	29,522,574

The credit risk-weighted amount represents the amount calculated with reference to the guidelines issued by the CBIRC.

(c) Operating lease commitments

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	December 31, 2018
Within one year (inclusive)	238,730
After one year but within five years (inclusive)	634,664
After five years	251,231
Total	1,124,625

The Group is the lessee in respect of a number of properties, transport equipment, electronic equipment, and other office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach as at January 1, 2019, and recognised the present value of outstanding lease payments as lease liabilities (Refer to Note 3). From January 1, 2019 onwards, the present value of outstanding lease payments are recognised as lease liabilities in accordance with the requirement of IFRS 16 (Refer to Note 3 and Note 30).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities (Continued)

(d) Capital commitments

As at June 30, 2019 and December 31, 2018, the authorised capital commitments of the Group are as follows:

	June 30, 2019	December 31, 2018
Contracted but not paid for	426,841	434,240
Approved but not contracted for	11,877	16,994
Total	438,718	451,234

(e) Outstanding litigations and disputes

As at June 30, 2019, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB758.32 million (December 31, 2018: RMB842.30 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

(f) Pledged assets

(i) Assets pledged as collateral

	Note	June 30, 2019	December 31, 2018
For repurchase agreements			
– Discounted bills		5,571,747	2,892,287
– Financial investments at fair value through profit or loss	19(a)	2,552,806	4,766,872
– Financial investments at fair value through other comprehensive income	19(b)	14,891,592	8,124,400
– Financial investments at amortised cost	19(c)	18,470,602	18,832,927
Total		41,486,747	34,616,486

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Commitments and contingent liabilities (Continued)

(f) Pledged assets (Continued)

(i) Assets pledged as collateral (Continued)

Financial investments pledged by the Group as collaterals for liabilities which are for repurchase agreements.

(ii) Received pledged assets

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at June 30, 2019, the carrying amounts of the received pledged assets is RMB15,680.62 million (December 31, 2018: RMB16,336.61 million).

40 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities (Continued)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following tables set out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities, as well as an analysis of the line items in the consolidated statement of financial position in which relevant assets are recognized as at June 30, 2019 and December 31, 2018:

	June 30, 2019	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	37,474,167	37,474,167
Financial investments at amortised cost	98,526,971	98,526,971
Total	136,001,138	136,001,138

	December 31, 2018	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	37,155,060	37,155,060
Financial investments at fair value through other comprehensive income	154,564	154,564
Financial investments at amortised cost	118,708,580	118,708,580
Total	156,018,204	156,018,204

As at June 30, 2019 and December 31, 2018, the carrying amounts of the unconsolidated structural entities are equal to the maximum exposures.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities (Continued)

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

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at June 30, 2019 and December 31, 2018, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at June 30, 2019, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group, is RMB47,135.88 million (December 31, 2018: RMB42,090.83 million).

(c) Unconsolidated structure entities sponsored by the Group during the six months period which the Group does not consolidate and does not have an interest in as at June 30, 2018 and 2019

During the six months ended June 30, 2019, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after January 1, 2019, but matured before June 30, 2019, is RMB10,953.83 million (the six months ended June 30, 2018: RMB12,010.21 million).

41 Capital management

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management (Continued)

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

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

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

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

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

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management (Continued)

The Group's capital adequacy ratios as at June 30, 2019 and December 31, 2018 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the CBIRC are as follows:

	June 30, 2019	December 31, 2018
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,471,786	14,605,828
– Surplus reserve	1,500,620	1,500,620
– General reserve	7,884,326	7,884,326
– Retained earnings	2,155,302	783,400
– Qualifying portions of non-controlling interests	415,527	373,274
Core tier-one capital deductions		
– Goodwill	(468,397)	(468,397)
– Other intangible assets other than land use rights	(251,342)	(240,805)
Net core tier-one capital	45,782,822	44,513,246
Other tier-one capital	9,688,194	9,682,561
Net tier-one capital	55,471,016	54,195,807
Tier-two capital		
– Instruments issued and share premium	9,999,736	9,999,668
– Surplus provision for loan impairment	3,737,466	3,482,673
– Qualifying portions of non-controlling interests	110,807	99,540
Net capital base	69,319,025	67,777,688
Total risk-weighted assets	497,217,421	471,778,961
Core tier-one capital adequacy ratio	9.21%	9.44%
Tier-one capital adequacy ratio	11.16%	11.49%
Capital adequacy ratio	13.94%	14.37%

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting

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

Corporate banking

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

Retail banking

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

Financial markets business

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

Others

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

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

	Six months ended June 30, 2019				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	5,307,475	1,947,146	337,081	–	7,591,702
Internal net interest (expense)/ income	(985,592)	666,600	318,992	–	–
Net interest income	4,321,883	2,613,746	656,073	–	7,591,702
Net fee and commission income	665,080	216,284	113,775	–	995,139
Net trading gains	30,390	–	9,995	–	40,385
Net (losses)/gains arising from investment securities	(27,037)	–	989,647	–	962,610
Other operating income	3,850	916	727	62,183	67,676
Operating income	4,994,166	2,830,946	1,770,217	62,183	9,657,512
Operating expenses	(1,476,301)	(1,371,412)	(308,837)	(174,904)	(3,331,454)
Impairment losses on assets	(2,384,967)	(858,738)	(423,714)	(32,732)	(3,700,151)
Profit/(loss) before tax	1,132,898	600,796	1,037,666	(145,453)	2,625,907
Other segment information					
– Depreciation and amortization	301,931	133,930	109,130	3,676	548,667
– Capital expenditure	172,961	76,722	62,515	2,106	314,304

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	June 30, 2019				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Segment assets	345,607,652	168,587,310	131,448,178	2,330,517	647,973,657
Deferred tax assets	–	–	–	4,051,467	4,051,467
Total assets	345,607,652	168,587,310	131,448,178	6,381,984	652,025,124
Segment liabilities	191,859,463	215,151,398	185,536,984	2,569,392	595,117,237
Total liabilities	191,859,463	215,151,398	185,536,984	2,569,392	595,117,237

	Six months ended June 30, 2018				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	5,085,068	857,880	463,940	–	6,406,888
Internal net interest (expense)/ income	(1,325,687)	835,026	490,661	–	–
Net interest income	3,759,381	1,692,906	954,601	–	6,406,888
Net fee and commission income	486,511	72,545	84,049	–	643,105
Net trading gains/(losses)	8,606	–	(45,861)	–	(37,255)
Net gains arising from investment securities	5,515	–	511,610	–	517,125
Other operating income	1,566	485	531	49,441	52,023
Operating income	4,261,579	1,765,936	1,504,930	49,441	7,581,886
Operating expenses	(1,282,486)	(997,423)	(328,193)	(267,555)	(2,875,657)
Impairment losses on assets	(1,488,988)	(452,974)	(302,000)	(44,606)	(2,288,568)
Profit/(loss) before tax	1,490,105	315,539	874,737	(262,720)	2,417,661

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(Expressed in thousands of Renminbi, unless otherwise stated)

42 Segment reporting (Continued)

	Six months ended June 30, 2018				Total
	Corporate banking	Retail banking	Financial markets business	Others	
Other segment information					
– Depreciation and amortization	223,530	77,589	84,964	2,058	388,141
– Capital expenditure	126,843	44,028	48,213	1,168	220,252
	December 31, 2018				Total
	Corporate banking	Retail banking	Financial markets business	Others	
Segment assets	249,607,938	139,949,449	224,931,163	2,453,071	616,941,621
Deferred tax assets	–	–	–	3,502,648	3,502,648
Total assets	249,607,938	139,949,449	224,931,163	5,955,719	620,444,269
Segment liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513
Total liabilities	200,695,973	152,124,134	210,359,239	1,587,167	564,766,513

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management

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

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

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible departments for credit risk management include the Credit Approval Department, Credit Management Department, and Risk Management Department. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front office departments of branches carry out credit businesses according to the Group's risk management policies and procedures.

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit business (Continued)

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

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is an objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

Financial markets business

The Group sets credit limits for financial markets business operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

Credit risk management

After adopting IFRS 9 at January 1, 2018, the financial assets are categorised by the Group into the following stages to manage its financial assets' credit risk:

Stage 1

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Stage 2

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

Stage 3

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

Significant increase in credit risk

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

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

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the borrower's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the borrower's business conditions;
- Less value of the collaterals (for the collateral loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The borrower is more than 30 days past due.

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

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

Definition of "default" and "credit-impaired assets"

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Measurement of expected credit losses ("ECL")

The Group adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

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

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

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

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

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

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

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

Both the assessment of the significant increase in credit risk and the measurement of ECL involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and ECL of all asset portfolios, including GDP, industrial added value, CPI, etc.

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

(i) Maximum credit risk exposure

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

	At June 30, 2019			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)
Balance of financial assets that are assessed for expected credit losses over the next 12 months				
– Overdue but not credit-impaired	38,520	–	–	–
– Neither overdue nor credit-impaired	275,182,096	26,584,738	15,680,622	188,078,939
Sub-total	275,220,616	26,584,738	15,680,622	188,078,939
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses				
– Overdue but not credit-impaired	2,358,417	–	–	–
– Neither overdue nor credit-impaired	7,462,407	–	–	114,000
Sub-total	9,820,824	–	–	114,000
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses				
– Overdue and credit-impaired	6,762,480	19,027	–	8,609,376
– Credit-impaired but not overdue	–	–	–	–
Sub-total	6,762,480	19,027	–	8,609,376
Accrued interest	1,975,294	430,535	6,172	2,168,376
Less: Provision for impairment losses	(10,097,787)	(24,071)	(1,982)	(4,961,966)
Net value	283,681,427	27,010,229	15,684,812	194,008,725

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

	At December 31, 2018			
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments (*)
Balance of financial assets that are assessed for expected credit losses over the next 12 months				
– Overdue but not credit-impaired	27,136	–	–	–
– Neither overdue nor credit-impaired	238,172,483	25,664,201	16,336,610	201,605,544
Sub-total	238,199,619	25,664,201	16,336,610	201,605,544
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses				
– Overdue but not credit-impaired	4,651,373	–	–	479,900
– Neither overdue nor credit-impaired	5,282,857	–	–	114,500
Sub-total	9,934,230	–	–	594,400
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses				
– Overdue and credit-impaired	6,236,266	19,027	–	8,524,970
– Credit-impaired but not overdue	–	–	–	–
Sub-total	6,236,266	19,027	–	8,524,970
Accrued interest	1,495,535	235,327	9,431	2,029,384
Less: Provision for impairment losses	(9,313,961)	(23,008)	(857)	(4,001,623)
Net value	246,551,689	25,895,547	16,345,184	208,752,675

* As at June 30, 2019 and December 31, 2018, financial investments doesn't include financial investments at fair value through profit or loss and non-trading equity investments designated as financial investments at fair value through other comprehensive income.

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (Continued)

As at June 30, 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,860.36 million. The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,255.70 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at December 31, 2018, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,858.49 million. The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,175.66 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

The Group has none of rescheduled loans and advances to customers at June 30, 2019 and December 31, 2018.

(iv) Amounts due from banks and other financial institutions

The amounts due from banks and non-bank financial institutions including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions. Neither overdue nor credit-impaired amounts due from banks and non-bank financial institutions are rated with reference to major rating agencies accepted by the People's Bank of China.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(a) Credit risk (Continued)

(iv) Amounts due from banks and other financial institutions (Continued)

	June 30, 2019	December 31, 2018
Neither overdue nor credit-impaired		
Ratings		
– A to AAA	37,440,015	31,364,424
– unrated	5,255,026	10,876,307
Total	42,695,041	42,240,731

(v) Debt securities

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the reporting period are as follows:

	June 30, 2019	December 31, 2018
Neither overdue nor credit-impaired		
Ratings		
– AAA	3,496,104	3,622,616
– AA- to AA+	3,114,587	3,213,453
– A- to A+	140,136	–
– unrated	97,624,723	85,577,823
Total	104,375,550	92,413,892

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk

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

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk and Internal Control Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its financial markets business. The Financial Market Department is responsible for carrying out capital investments and transactions. The Finance Management Department is responsible for monitoring and managing the interest rate risk, the Transaction Banking Department is responsible for monitoring and managing the foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile for each period with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

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

Repricing risk

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

The Finance Management Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

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

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

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

	At June 30, 2019					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	60,049,608	–	–	–	1,720,916	61,770,524
Deposits with banks and other financial institutions	9,297,028	1,546,241	–	–	37,488	10,880,757
Placement with banks and other financial institutions	8,919,573	6,816,852	–	–	393,047	16,129,472
Derivative financial assets	–	–	–	–	37,117	37,117
Financial assets held under resale agreements	15,678,640	–	–	–	6,172	15,684,812
Loans and advances to customers <i>(Note (i))</i>	219,217,297	48,956,196	10,938,381	2,594,259	1,975,294	283,681,427
Financial investments	23,870,952	38,393,397	104,036,757	25,539,243	50,269,882	242,110,231
Others	–	–	–	–	21,730,784	21,730,784
Total assets	337,033,098	95,712,686	114,975,138	28,133,502	76,170,700	652,025,124
Liabilities						
Borrowing from the central bank	6,316,524	5,148,689	–	–	122,546	11,587,759
Deposits from banks and other financial institutions	21,805,257	6,078,000	–	–	358,777	28,242,034
Placement from banks and other financial institutions	12,888,104	5,404,337	–	–	144,123	18,436,564
Derivative financial liabilities	–	–	–	–	244,318	244,318
Financial assets sold under repurchase agreements	38,023,142	1,590,095	–	–	8,781	39,622,018
Deposits from customers	282,664,846	72,649,847	45,651,685	14,289	4,293,035	405,273,702
Debt securities issued	36,184,734	35,466,549	2,999,192	9,999,736	416,673	85,066,884
Others	–	–	–	–	6,643,958	6,643,958
Total liabilities	397,882,607	126,337,517	48,650,877	10,014,025	12,232,211	595,117,237
Asset-liability gap	(60,849,509)	(30,624,831)	66,324,261	18,119,477	63,938,489	56,907,887

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

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

	At December 31, 2018					
	Within three months	Three months to one year	One year to five years	More than five years	Non-interest bearing	Total
Assets						
Cash and deposits with the central bank	63,049,054	–	–	–	1,495,468	64,544,522
Deposits with banks and other financial institutions	12,163,833	3,640,000	–	–	59,706	15,863,539
Placement with banks and other financial institutions	1,284,259	8,572,128	–	–	175,621	10,032,008
Derivative financial assets	–	–	–	–	43,096	43,096
Financial assets held under resale agreements	16,335,753	–	–	–	9,431	16,345,184
Loans and advances to customers <i>(Note (i))</i>	189,569,543	41,484,016	12,045,207	1,957,388	1,495,535	246,551,689
Financial investments	27,299,327	51,472,113	104,468,466	23,483,385	45,922,571	252,645,862
Others	–	–	–	–	14,418,369	14,418,369
Total assets	309,701,769	105,168,257	116,513,673	25,440,773	63,619,797	620,444,269
Liabilities						
Borrowing from the central bank	2,425,026	6,734,870	–	–	87,648	9,247,544
Deposits from banks and other financial institutions	44,766,471	15,621,013	–	–	414,471	60,801,955
Placement from banks and other financial institutions	6,915,574	5,732,604	–	–	81,032	12,729,210
Derivative financial liabilities	–	–	–	–	228,084	228,084
Financial assets sold under repurchase agreements	33,508,168	–	–	–	19,728	33,527,896
Deposits from customers	208,323,343	77,870,839	59,426,076	6,712	3,759,985	349,386,955
Debt securities issued	29,891,305	50,156,931	2,999,102	9,999,668	230,570	93,277,576
Others	–	–	–	–	5,567,293	5,567,293
Total liabilities	325,829,887	156,116,257	62,425,178	10,006,380	10,388,811	564,766,513
Asset-liability gap	(16,128,118)	(50,948,000)	54,088,495	15,434,393	53,230,986	55,677,756

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

Notes:

- (i) As at June 30, 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB4,324.47 million (December 31, 2018: RMB5,990.55 million).
- (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at June 30, 2019, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group's net profit to decrease RMB628.64 million (December 31, 2018: RMB408.93 million), and the Group's equity to decrease RMB1,482.32 million (December 31, 2018: RMB1,176.28 million); a decrease in estimated interest rate of 100 basis points will cause the Group's net profit to increase RMB628.64 million (December 31, 2018: RMB408.93 million), and the Group's equity to increase RMB1,482.32 million (December 31, 2018: RMB1,176.28 million).

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

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

Foreign currency risk

The Group's currency risk mainly arises from foreign currency deposits with banks and other financial institutions and financial investments. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

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

	At June 30, 2019				Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	
Assets					
Cash and deposits with the central bank	61,632,564	137,007	212	741	61,770,524
Deposits with banks and other financial institutions	6,028,095	3,591,194	1,225,526	35,942	10,880,757
Placement with banks and other financial institutions	13,490,428	2,639,044	–	–	16,129,472
Financial assets held under resale agreements	15,684,812	–	–	–	15,684,812
Loans and advances to customers	281,010,170	2,671,257	–	–	283,681,427
Financial investments	230,551,535	8,480,503	3,078,193	–	242,110,231
Derivative financial assets	37,117	–	–	–	37,117
Others	21,407,974	322,810	–	–	21,730,784
Total assets	629,842,695	17,841,815	4,303,931	36,683	652,025,124
Liabilities					
Borrowing from the central bank	11,587,759	–	–	–	11,587,759
Deposits from banks and other financial institutions	26,165,256	2,044,053	119	32,606	28,242,034
Placement from banks and other financial institutions	17,879,713	556,851	–	–	18,436,564
Financial assets sold under repurchase agreements	39,622,018	–	–	–	39,622,018
Deposits from customers	405,273,702	–	–	–	405,273,702
Debt securities issued	85,066,884	–	–	–	85,066,884
Derivative financial liabilities	244,318	–	–	–	244,318
Others	6,567,692	70,259	5,860	147	6,643,958
Total liabilities	592,407,342	2,671,163	5,979	32,753	595,117,237
Asset-liability gap	37,435,353	15,170,652	4,297,952	3,930	56,907,887

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

The Group's currency exposures as at the end of the reporting period are as follows: (Continued)

	At December 31, 2018				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	64,460,865	82,122	259	1,276	64,544,522
Deposits with banks and other financial institutions	9,132,037	5,224,801	1,493,346	13,355	15,863,539
Placement with banks and other financial institutions	8,673,094	1,358,914	–	–	10,032,008
Financial assets held under resale agreements	16,345,184	–	–	–	16,345,184
Loans and advances to customers	244,394,350	2,157,339	–	–	246,551,689
Financial investments	241,605,981	9,375,101	1,664,780	–	252,645,862
Derivative financial assets	43,096	–	–	–	43,096
Others	14,197,891	217,853	2,625	–	14,418,369
Total assets	598,852,498	18,416,130	3,161,010	14,631	620,444,269
Liabilities					
Borrowing from the central bank	9,247,544	–	–	–	9,247,544
Deposits from banks and other financial institutions	59,773,200	1,022,624	53	6,078	60,801,955
Placement from banks and other financial institutions	11,292,933	1,436,277	–	–	12,729,210
Financial assets sold under repurchase agreements	33,527,896	–	–	–	33,527,896
Deposits from customers	349,386,955	–	–	–	349,386,955
Debt securities issued	93,277,576	–	–	–	93,277,576
Derivative financial liabilities	228,084	–	–	–	228,084
Others	5,500,411	36,291	30,444	147	5,567,293
Total liabilities	562,234,599	2,495,192	30,497	6,225	564,766,513
Asset-liability gap	36,617,899	15,920,938	3,130,513	8,406	55,677,756

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	June 30, 2019 Increase/ (decrease)	December 31, 2018 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	53,240	44,518
Down 100 bps change of foreign exchange rate	(53,240)	(44,518)

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB based on the closing rate of reporting date;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously;
- All the position will be held and keep unchanged after mature; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to sustain its asset business or meet repayment obligations. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Finance Management Department takes the lead to execute liquidity management policies and is responsible for formulating and revising the liquidity management strategies, and for identifying, measuring, monitoring and releasing the liquidity risk of the Bank. It is also responsible for managing and forecasting the working capital on a regular basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies. The Finance Market Department is responsible for performing the operation following the instructions of the Finance Management Department. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

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

	At June 30, 2019							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	38,520,164	23,230,425	19,935	-	-	-	-	61,770,524
Deposits with banks and other financial institutions	-	4,667,915	3,323,122	1,301,701	1,588,019	-	-	10,880,757
Placements with banks and other financial institutions	-	-	3,082,817	6,151,278	6,895,377	-	-	16,129,472
Derivative financial assets	-	-	1,719	2,162	33,236	-	-	37,117
Financial assets held under resale agreements	-	-	15,684,812	-	-	-	-	15,684,812
Loans and advances to customers	3,088,682	1,235,789	16,906,344	23,752,354	104,355,985	47,472,433	86,869,840	283,681,427
Financial investments	4,802,270	-	9,697,468	32,982,601	57,981,284	107,479,000	29,167,608	242,110,231
Others	17,679,317	-	-	334,697	177,482	3,539,288	-	21,730,784
Total assets	64,090,433	29,134,129	48,716,217	64,524,793	171,031,383	158,490,721	116,037,448	652,025,124

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	At June 30, 2019							Total
	Indefinite Note (i)	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Liabilities								
Borrowing from the central bank	-	-	1,689,835	4,740,722	5,157,202	-	-	11,587,759
Deposits from banks and other financial institutions	-	3,130,716	9,862,599	9,100,414	6,148,305	-	-	28,242,034
Placements from banks and other financial institutions	-	-	-	12,894,415	5,542,149	-	-	18,436,564
Derivative financial liabilities	-	-	1,738	2,207	240,373	-	-	244,318
Financial assets sold under repurchase agreements	-	-	36,781,075	1,250,848	1,590,095	-	-	39,622,018
Deposits from customers	-	189,975,136	16,108,607	27,663,765	81,957,366	89,536,224	32,604	405,273,702
Debt securities issued	-	-	10,701,402	25,483,332	35,883,222	2,999,192	9,999,736	85,066,884
Others	-	1,529,427	169,159	1,262,121	2,125,061	1,367,729	190,461	6,643,958
Total liabilities	-	194,635,279	75,314,415	82,397,824	138,643,773	93,903,145	10,222,801	595,117,237
Long/(short) position	64,090,433	(165,501,150)	(26,598,198)	(17,873,031)	32,387,610	64,587,576	105,814,647	56,907,887

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

				At December 31, 2018					
				Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total	
	Indefinite Note (i)	Repayable on demand	Within one month						
Assets									
Cash and deposits with the central bank	38,593,944	25,928,583	21,995	–	–	–	–	64,544,522	
Deposits with banks and other financial institutions	–	3,841,430	5,882,109	2,500,000	3,640,000	–	–	15,863,539	
Placements with banks and other financial institutions	–	–	1,439,292	20,588	8,572,128	–	–	10,032,008	
Derivative financial assets	–	–	715	4,195	38,186	–	–	43,096	
Financial assets held under resale agreements	–	–	16,345,184	–	–	–	–	16,345,184	
Loans and advances to customers	4,473,907	1,516,639	15,526,554	17,273,307	91,874,945	47,876,693	68,009,644	246,551,689	
Financial investments	5,284,704	–	4,865,093	39,146,250	70,620,864	106,161,325	26,567,626	252,645,862	
Others	10,915,721	–	–	265,195	52,821	3,184,632	–	14,418,369	
Total assets	59,268,276	31,286,652	44,080,942	59,209,535	174,798,944	157,222,650	94,577,270	620,444,269	
Liabilities									
Borrowing from the central bank	–	360,000	1,114,607	1,038,067	6,734,870	–	–	9,247,544	
Deposits from banks and other financial institutions	–	2,013,414	7,045,794	24,982,826	26,759,921	–	–	60,801,955	
Placements from banks and other financial institutions	–	–	–	6,959,891	5,769,319	–	–	12,729,210	
Derivative financial liabilities	–	–	66,660	122,716	38,708	–	–	228,084	
Financial assets sold under repurchase agreements	–	–	33,527,896	–	–	–	–	33,527,896	
Deposits from customers	–	176,913,402	13,934,004	19,983,040	78,604,284	59,945,510	6,715	349,386,955	
Debt securities issued	–	–	5,609,396	24,281,909	50,387,501	2,999,102	9,999,668	93,277,576	
Others	–	1,146,029	479,732	1,060,473	2,095,605	769,075	16,379	5,567,293	
Total liabilities	–	180,432,845	61,778,089	78,428,922	170,390,208	63,713,687	10,022,762	564,766,513	
Long/(short) position	59,268,276	(149,146,193)	(17,697,147)	(19,219,387)	4,408,736	93,508,963	84,554,508	55,677,756	

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43 Risk management (Continued)

(c) Liquidity risk (Continued)

Note:

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

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and loan commitments at the end of the reporting period:

	At June 30, 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	11,587,759	11,755,201	-	1,696,902	4,766,847	5,291,452	-	-
Deposits from banks and other financial institutions	28,242,034	28,385,776	3,131,304	9,876,751	9,152,376	6,225,345	-	-
Placements from banks and other financial institutions	18,436,564	18,643,309	-	-	12,920,691	5,722,618	-	-
Financial assets sold under repurchase agreements	39,622,018	39,638,322	-	36,783,831	1,255,574	1,598,917	-	-
Deposits from customers	405,273,702	413,960,088	190,000,313	16,148,598	27,793,181	83,120,623	96,857,550	39,823
Debt securities issued	85,066,884	91,270,743	-	10,720,781	25,633,219	36,823,081	5,887,131	12,206,531
Lease liabilities	897,717	1,002,338	-	24,247	55,982	172,460	561,320	188,329
Total non-derivative financial liabilities	589,126,678	604,655,777	193,131,617	75,251,110	81,577,870	138,954,496	103,306,001	12,434,683
Loan commitments	-	13,096,630	-	13,096,630	-	-	-	-

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

				At December 31, 2018				
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	9,247,544	9,302,414	360,298	1,119,506	1,044,875	6,777,735	–	–
Deposits from banks and other financial institutions	60,801,955	61,523,914	2,013,979	7,054,740	25,146,959	27,308,236	–	–
Placements from banks and other financial institutions	12,729,210	12,934,961	–	–	6,970,094	5,964,867	–	–
Financial assets sold under repurchase agreements	33,527,896	33,538,131	–	33,538,131	–	–	–	–
Deposits from customers	349,386,955	354,817,239	176,937,370	13,975,186	20,078,559	79,584,678	64,234,657	6,789
Debt securities issued	93,277,576	99,910,484	–	5,620,000	24,440,000	51,882,350	5,502,384	12,465,750
Total non-derivative financial liabilities	558,971,136	572,027,143	179,311,647	61,307,563	77,680,487	171,517,866	69,737,041	12,472,539
Loan commitments	–	9,342,671	–	9,342,671	–	–	–	–

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

The Group's derivatives include foreign exchange forwards and currency swaps which will be settled on a net basis, and interest rate swaps which will be settled on a gross basis.

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period:

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	At June 30, 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
Foreign exchange forwards	(207,972)	(211,835)	-	-	-	(211,835)	-	-
Currency swaps	1,485	12,500	-	-	-	12,500	-	-
Derivatives settled on gross basis								
Interest rate swaps								
- cash outflow	(35,829)	(36,416)	-	(1,740)	(2,216)	(32,460)	-	-
- cash inflow	35,115	35,690	-	1,722	2,171	31,797	-	-
Total	(207,201)	(200,061)	-	(18)	(45)	(199,998)	-	-

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(c) Liquidity risk (Continued)

	At December 31, 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Derivatives settled on net basis								
Foreign exchange forwards	(184,415)	(190,190)	–	(68,600)	–	(121,590)	–	–
Derivatives settled on gross basis								
Interest rate swaps								
– cash outflow	(43,669)	(44,283)	–	(721)	(4,261)	(39,301)	–	–
– cash inflow	43,096	43,703	–	716	4,216	38,771	–	–
Total	(184,988)	(190,770)	–	(68,605)	(45)	(122,120)	–	–

This analysis of the derivative financial instruments by contractual undiscounted cash flow might diverge from actual results.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Risk management (Continued)

(d) Operational risk

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

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

44 Comparative figurers

The Group has initially applied IFRS 16 at January 1, 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Possible impact of amendments, new standards and interpretations issued but not yet effected for the six months ended June 30, 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards and interpretations, which are not yet effective for the six months ended June 30, 2019, and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

Effective for accounting periods beginning on or after

Amendments to References to Conceptual Framework in IFRS standards	January 1, 2020
Amendments to IFRS 3, <i>Business combinations</i>	January 1, 2020
Amendments to IAS 1, <i>Presentation of financial statements</i>	January 1, 2020
Amendments to IAS 8, <i>Accounting policies, changes in accounting estimates and errors</i>	January 1, 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

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

1 Liquidity coverage ratio and leverage ratio

	June 30, 2019	Average for June 30, 2019
Liquidity coverage ratio (RMB and foreign currency)	126.60%	122.95%
	2018	Average for 2018
Liquidity coverage ratio (RMB and foreign currency)	124.73%	140.35%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80% and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

Leverage ratio

	June 30, 2019	December 31, 2018
Leverage ratio	7.74%	8.05%

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

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

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Net stable funding ratio

	June 30, 2019	March 31, 2019	December 31, 2018
Available stable funding	370,756,491	360,615,768	338,494,967
Required stable funding	349,604,632	322,461,449	313,264,357
Net stable funding ratio	106.05%	111.83%	108.05%

3 Currency concentrations

	June 30, 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	17,841,815	4,303,931	36,683	22,182,429
Spot liabilities	(2,671,163)	(5,979)	(32,753)	(2,709,895)
Net position	15,170,652	4,297,952	3,930	19,472,534

	December 31, 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	18,416,130	3,161,010	14,631	21,591,771
Spot liabilities	(2,495,192)	(30,497)	(6,225)	(2,531,914)
Net position	15,920,938	3,130,513	8,406	19,059,857

The Group has no structural position at the end of reporting periods.

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

4 International claims

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

International claims include amounts due from banks and other financial institutions and financial investments.

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

	June 30, 2019			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	4,739,305	—	7,714,037	12,453,342
North America	1,213	—	—	1,213
Others	19,630	—	—	19,630
	4,760,148	—	7,714,037	12,474,185

	December 31, 2018			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	7,640,569	—	8,388,540	16,029,109
North America	132,922	—	—	132,922
Others	9,027	—	—	9,027
	7,782,518	—	8,388,540	16,171,058

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Gross amount of overdue loans and advances

	June 30, 2019	December 31, 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	1,266,888	720,577
– between 6 months and 1 year (inclusive)	1,630,831	1,981,970
– over 1 year	2,869,960	3,413,349
Total	5,767,679	6,115,896
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.43%	0.28%
– between 6 months and 1 year (inclusive)	0.56%	0.78%
– over 1 year	0.99%	1.34%
Total	1.98%	2.40%

Definition of Terms

“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“Senior Management”	the senior management of the Bank
“Bank”, “Our Bank”, “Zhongyuan Bank”, or “we”, “us”	Zhongyuan Bank Co., Ltd., and except where the context indicates otherwise, with respect to the period before our Bank became the holding company of its present subsidiaries, all of its Subsidiaries and the businesses operated by its present subsidiaries or (as the case may be) their predecessors
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for and credited as paid up in Renminbi
“Group”	the Bank and its subsidiaries
“H Shares”	ordinary shares of RMB1.00 each in the ordinary share capital of the Bank, and listed on the Main Board
“HK\$”	the lawful currency of Hong Kong
“IAS”	International accounting standards and their interpretations
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock market operated by the Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM of the Stock Exchange

Definition of Terms

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report only and, excluding the Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Reporting Period”	the six months ended 30 June 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, including Domestic Shares and H Shares
“Shareholder(s)”	the holder(s) of the Shares of the Bank
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed to it under Section 2 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Supervisors”	the supervisors of the Bank
“CBIRC”	China Banking Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission, the former name of CBIRC
“CSRC”	China Securities Regulatory Commission
“CBIRC Henan Office”	China Banking Insurance Regulatory Commission Henan Office
“Zhongyuan Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消费金融股份有限公司)