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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, 2020**

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, 2020 (the “**Reporting Period**”) which were prepared in accordance with the International Financial Reporting Standards. 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, 2020 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 28, 2020

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

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

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

KPMG Huazhen LLP
8/F, KPMG Tower E2, Oriental Plaza, 1 East Chang'an Avenue, Dongcheng District, Beijing, PRC

International Auditor

KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

Legal Advisors

Legal Advisors as to PRC Laws

King & Wood Mallesons
17-18/F, East Tower, World Financial Center, 1 Dongsanhuan Zhonglu, Chaoyang District, 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 Advisors as to Hong Kong Laws

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

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Domestic Shares Trustee Agency

China Securities Depository and Clearing Corporation Limited
23/F, Tower B, Investment Plaza, No. 27 Jin Rong Street, Xi Cheng District, Beijing, China

H Share Stock Code

1216

Preference Share Stock Code

4617

Investor's Enquiry

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Summary of Accounting Information and Financial Indicators

For the six months ended June 30,			
	2020	2019	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	8,220.5	7,591.7	8.3
Net fee and commission income	1,158.6	995.1	16.4
Operating income	10,591.7	9,657.5	9.7
Operating expenses	(3,069.5)	(3,331.4)	(7.9)
Impairment losses on assets	(5,120.7)	(3,700.2)	38.4
Profit before tax	2,386.5	2,625.9	(9.1)
Net profit	2,026.0	2,078.8	(2.5)
Net profit attributable to equity shareholders of the Bank	1,972.0	2,074.5	(4.9)
Calculated on a per share basis (RMB)			Rate of change (%)
Net assets per share attributable to equity shareholders of the Bank ⁽¹⁾	2.40	2.31	3.9
Earnings per share ⁽²⁾	0.10	0.10	–
Profitability Indicators (%)			Change
Return on average total assets ⁽³⁾	0.57	0.65	(0.08)
Return on average equity ⁽⁴⁾	8.28	9.05	(0.77)
Net interest spread ⁽⁵⁾	2.44	2.58	(0.14)
Net interest margin ⁽⁶⁾	2.53	2.64	(0.11)
Net fee and commission income to operating income	10.94	10.30	0.64
Cost-to-income ratio ⁽⁷⁾	28.09	33.65	(5.56)

Summary of Accounting Information and Financial Indicators

	June 30, 2020	December 31, 2019	Change over the end of last year
(in millions of RMB, unless otherwise stated, except percentages)			
Capital adequacy ratio indicators ⁽⁸⁾(%)			Change
Calculated based on the Administrative Measures for the Capital of Commercial Banks			
Core tier-one capital adequacy ratio	8.53	8.51	0.02
Tier-one capital adequacy ratio	10.30	10.31	(0.01)
Capital adequacy ratio	13.00	13.02	(0.02)
Total equity to total assets	8.13	8.15	(0.02)
Asset quality indicators (%)			Change
Non-performing loan ratio ⁽⁹⁾	2.27	2.23	0.04
Allowance coverage ratio ⁽¹⁰⁾	151.39	151.77	(0.38)
Allowance to gross loan ratio ⁽¹¹⁾	3.43	3.39	0.04
Other indicator (%)			
Loan-to-deposit ratio	80.70	77.71	2.99
Scale indicators			Rate of change (%)
Total assets	723,807.7	709,885.0	2.0
Of which: Net loans and advances to customers	328,766.6	291,230.1	12.9
Total liabilities	664,936.2	652,054.0	2.0
Of which: deposits from customers	423,720.6	389,731.5	8.7
Share capital	20,075.0	20,075.0	—
Equity attributable to shareholders of the Bank	57,756.9	56,744.7	1.8
Non-controlling interests	1,114.6	1,086.3	2.6
Total equity	58,871.5	57,831.0	1.8

Summary of Accounting Information and Financial Indicators

- (1) Calculated by dividing equity attributable to equity holders 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 the Reporting Period.
- (2) The ratio of net profit (net of dividends of preference shares distributed during the year) attributable to shareholders of the Bank to weighted average number of ordinary shares.
- (3) Represents net profit for the period as a percentage of average balance of total assets at the beginning and the end of the period.
- (4) 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.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities, calculated based on daily average of the interest-earning assets and the interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the average interest-earning assets, and based on daily average interest-earning assets.
- (7) Calculated by dividing operating expenses after deduction of taxes and surcharges by operating income.
- (8) 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.
- (9) Calculated by dividing total non-performing loans and advances by gross loans and advances to customers. Gross loans and advances to customers are exclusive of accrued interest.
- (10) Calculated by dividing allowance for impairment losses on loans and advances to customers by total non-performing loans. Total allowance for impairment losses on loans and advances to customers included allowance for impairment losses on loans at amortized cost and allowance for impairment losses on loans at fair value through other comprehensive income.
- (11) Calculated by dividing allowance for impairment losses on loans and advances to customers by gross loans and advances to customers.

Management Discussion and Analysis

1. Past Economic and Financial Environment and Future Prospects

During the Reporting Period, the impact of the novel coronavirus pneumonia outbreak on global economic growth appeared. As the resumption of work and production progressed, the economic indicators of some economies gradually improved. The economic growth of major economies declined in the first quarter, and the economic growth of the United States, the Eurozone, Japan, and the United Kingdom were all negative. As many countries announced the gradual relaxation of epidemic prevention and control measures in phases and regions and promoted the resumption of work and production, the economy showed signs of improvement. The International Monetary Fund (IMF) once again decreased its forecast 2020 global economy growth rate to -4.9% in June. The novel coronavirus pneumonia outbreak will continue to affect the global economy, and a deep global economic recession is inevitable.

During the Reporting Period, China's economy fell first and then rose, with the epidemic prevention and control situation continued to improve, the main indicators showed recovery growth, the economic operation recovered steadily, and the overall social development was stable. In the first half of 2020, the GDP was RMB45,661,400 million, representing a year-on-year decrease of 1.6%. Among them, the first quarter fell by 6.8% year-on-year, and the second quarter increased by 3.2%. Economic growth turned from negative to positive in the second quarter. The rate of decline in the real income of residents narrowed. The national per capita disposable income was RMB15,666, which actually decreased by 1.3%, and the rate of decrease was 2.6 percentage points lower than in the first quarter. Market sales have gradually improved. The total retail sales of consumer goods was RMB17,225,600 million, representing a year-on-year decrease of 11.4%, and the rate of decline narrowed by 7.6 percentage points from the first quarter. The decline in fixed asset investment has significantly narrowed. The national fixed asset investment (excluding farmers) was RMB28,160,300 million, representing a year-on-year decrease of 3.1%. The import and export of goods was better than expected. The total import and export volume of goods was RMB14,237,900 million, representing a year-on-year decrease of 3.2%, and the rate of decline narrowed by 3.3 percentage points from the first quarter. With the effective control of the epidemic and the restoration of economic activities, China has become the first major economy to resume growth since the outbreak.

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During the Reporting Period, the positive and stable trend of development in the economy of Henan Province has continued to expand. The resumption of work and production and business has been vigorously promoted, production demand has gradually improved, and the growth rate of major economic indicators has steadily rebounded. In the first half of 2020, the provincial GDP was RMB2,560,846 million, representing a year-on-year decrease of 0.3% and an increase of 6.4 percentage points from the first quarter, which was 1.3 percentage points higher than the national level. The fixed asset investment continued to rebound and increased by 2.6%. Market sales continued to improve. The total retail sales of consumer goods was RMB1,009,018 million, representing a year-on-year decrease of 11.3%, and the rate of decline narrowed by 10.6 percentage points from the first quarter. Residents' income continued to grow. The per capita disposal residents' income was RMB11,429.60, representing a year-on-year increase of 2.6% and an increase of 0.3 percentage point from the first quarter.

During the Reporting Period, the Central Bank intensified counter-cyclic adjustments and maintained prudent monetary policies in a more flexible and appropriate manner. According to the phased characteristics of epidemic prevention and control and resumption of work and production, the Central Bank flexibly grasped the intensity, rhythm, and focus of control, in order to create a suitable monetary and financial environment for the "Six Stability" and "Six Guarantees". The liquidity remained reasonably abundant with the balance of broad money (M2) amounting to RMB213.5 trillion, representing a year-on-year increase of 11.1%. Loans recorded rapid growth with the balance of RMB and foreign currency loans of financial institutions reaching RMB171.3 trillion, representing a year-on-year increase of 13.0%. Public financing saw a significant growth with the scale of existing public financing amounting to RMB271.8 trillion, representing a year-on-year increase of 12.8%. Based on market supply and demand, the RMB exchange rate fluctuated in both directions and remained basically stable at an appropriate and balanced level. In the next step, the prudent monetary policy will be more flexible, appropriate, and precise, so as to maintain reasonably abundant liquidity, handle the relationship between stable growth, employment protection, structural adjustment, risk prevention and inflation control, and achieve a long-term balance between stable growth and risk prevention.

Management Discussion and Analysis

2. Overall Operation Overview

During the Reporting Period, faced with severe epidemic situation and complicated economic condition, the Bank proactively implemented digital transformation under the guidance of the “Three Major Strategies”, deeply promoted practice of “Internetization and Ruralization of Banking Services (上網下鄉)”, insisted on improving capabilities, focused on principal businesses and the overall situation of epidemic prevention and control, and actively performed social responsibility. The Bank has fully demonstrated the responsibility of the local corporate bank, and achieved good results in various tasks. The Bank became China Top 500 on The Fortune once again, which is the only city commercial bank in Henan on the list; it was listed as the World’s Best Banks by Forbes, which is one of the four domestic city commercial banks on the list.

Operating results remained stable and business scale grew steadily. The Bank continued to implement the concept of high-quality development, focused on optimizing structure, making up for shortcomings, and strengthening capabilities to achieve steady growth in operating performance. Firstly, the operating profits remained stable and the cost control effect was prominent. During the Reporting Period, the Bank recorded operating income of RMB10,592 million, representing a year-on-year increase of RMB934 million or 9.7%. Profit before provision was RMB7,507 million, representing a year-on-year increase of RMB1,181 million or 18.7%. The Bank continuously enhanced its product application and created a diversified revenue structure. The Bank recorded non-interest income of RMB2,371 million, representing a year-on-year increase of RMB305 million or 14.8%. The Bank continued to strengthen management on pricing and effectively control the cost of liabilities. The net interest margin and net interest spread were 2.53% and 2.44%, respectively, maintaining the leading level in industry. At the same time, the Bank actively fostered a culture of increasing revenue and reducing expenditure, and took multiple measures to strictly control costs and expenditures. The cost-to-income ratio decreased to 28.09% from 33.65% in the same period of last year, representing a year-on-year decrease of 5.56 percentage points. Secondly, the scale of business grew steadily, and the capital structure continued to optimize. As at June 30, 2020, the Bank’s total assets increased by RMB13,923 million or 2.0% to RMB723,808 million from the beginning of the year. The total loans (excluding accrued interest) amounted to RMB337,610 million, representing an increase of RMB38,405 million, or 12.8% as compared to the beginning of the year, which was 3.6 percentage points higher than the average level of Henan Province. The balance of deposits (excluding accrued interest) amounted to RMB418,356 million, representing an increase of RMB33,310 million or 8.7% as compared to the beginning of the year. The Bank strengthened asset and liability management and further optimized its asset and liability structure. The total loans with high yield (excluding accrued interest) accounted for 46.6% of the total assets, representing an increase of 4.5 percentage points as compared with the beginning of the year. Among them, personal loans accounted for 47.9% of the total loans, representing an increase of 4.0 percentage points as compared with the beginning

Management Discussion and Analysis

of the year. The capital-light development model is beginning to show results. The low-cost general deposits (excluding accrued interest) accounted for 62.9% of the total liabilities, representing an increase of 3.8 percentage points as compared with the beginning of the year. The high-cost interbank liabilities (including interbank deposits issued) accounted for 27.6% of the total liabilities, representing a decrease of 2.2 percentage points as compared with the beginning of the year.

Practiced inclusive finance by reducing fees and offering benefits and performed social responsibilities through taking various measures. The Bank deeply optimized financial supply, improved the quality and efficiency of financial services, gave full play to the role of financial support, strongly supported the resumption of work and production, and empowered Henan's economic and social development. Firstly, the Bank responded quickly and strengthened financial support for epidemic prevention and control. The Bank established a multi-level green financial service channel, implemented innovative and efficient differentiated credit policies, and provided special refinancing related to epidemic prevention of a total of RMB2,779 million to key enterprises, the amount of which ranked first among banks in Henan Province, effectively ensuring financial support for enterprises to produce epidemic materials. Targeted at companies and individual businesses that were experiencing temporary difficulties due to the epidemic, the Bank deferred principal and interests repayment, insisted on not drawing out loans, continuously lending, and not suppressing loans, and assisted 822 small and micro corporate customers. Secondly, the Bank accelerated innovation and supported enterprises to resume work and production. In terms of products, based on the "short, urgent and frequent" financing needs of small and micro enterprises, the Bank took the lead in the industry to launch an unsecured online loan product "Zhongyuan Jushang Kuaidai (中原聚商快贷)", which has the characteristics of online application, system real-time approval, pure credit, fast receipt, low interest rate, and borrowing and repaying at any time, thus effectively improving the availability of loans for small and micro enterprises. The Bank identified the pain points of self-employed businesses and innovatively launched exclusive credit loan products such as resumption loans, home loans, and land mortgage loans to help the "night economy (夜经济)" and "shop economy (小店经济)". According to different customer demand scenarios, the Bank iteratively launched smart renewal products for perpetual loan, provided differentiated loan renewal solutions, simplified the loan renewal process, and saved customers the cost of capital turnover. In terms of services, the Bank held an online signing ceremony to support the resumption of work and production, introducing "financial water (金融活水)" for the resumption of work and production. The Bank has strengthened the application of transaction banking products, actively repaired the upstream and downstream supply chains of enterprises, and helped enterprises restore production capacity. In the first half of the year, the cumulative business financing volume reached RMB59,183 million. The Bank made full use of innovative tools to successfully issue Henan Province's first epidemic prevention and control bonds and inter-bank deposit certificates for epidemic prevention and control, which significantly reduced corporate financing costs. Thirdly, the Bank reduced fees and offered benefits, and brought financial

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water directly to small and micro businesses. The Bank actively promoted the reform of the loan prime rate (LPR) with average interest rate of newly issued loans fell by about 50BPs, and differentiated pricing of inclusive small and micro loans, with the lowest interest rate reaching 3.6%. The Bank implemented fee reduction and exemption policies, clarified preferential measures for service charges for small and micro customers, waived handling fees for small and micro enterprise credit certificates, overdraft services of legal person accounts, and increased support for small and micro customers. Fourthly, the Bank helped farmers online, and focused on diversified rural services. The Bank innovatively developed the rural online comprehensive service platform “Village Online” (鄉村在線), which integrates rural party building, rural governance, and villagers’ life services, and superimposed agricultural products display, e-commerce services, medical insurance and other modules in addition to financial services to create rural pan-finance ecosphere. As of June 30, 2020, the Bank had established 130 county-level sub-branches, 53 township sub-branches, and 4,460 rural inclusive financial service stations and farmers-benefiting payment service outlets within the province, which have covered 70% of the towns in 18 cities in Henan Province, benefiting more than 10 million rural residents. Fifthly, the Bank exerted multi-line efforts to support major strategies across the province. Focusing on major national and provincial strategies such as the development of Zhengzhou into a national central city, the ecological protection and high-quality development of the Yellow River Area, the Bank increased support for key projects, and focused on supporting the construction of energy, transportation, water conservancy and other infrastructure and projects related to education, health care and other livelihoods. The Bank has provided financial support for the economic development of the province through the investment and financing model of “commercial bank + investment bank + investment”.

The digital transformation has achieved outstanding results and our high-quality development has gradually paid off. Firstly, the three major transformation projects continued to deepen, and customer service capabilities continued to improve. In terms of big data-driven marketing, the Bank continued to broaden the use case implementation channels, achieved full-channel reach of use cases to customers, and carried out large-scale promotion of big data use cases. 15 new use cases were added, 26 use cases were implemented, and the cumulative effect of use cases was RMB9,180 million. The core competitiveness of data-driven marketing has gradually formed. In terms of digital product creation, the Bank established a closed-loop management mechanism for the full life cycle of products, launched and built a product management platform, carried out optimization of customer experience for key products, solidified three major product innovation tracks, and realized product innovation iterations. In terms of the digital marketing system linked to the head office and branches, the branches completed the digital transformation of 18 branches and 466 sub-branches. The branches clarified the management position of the retail supervisor. The head office continued to do a good job in business planning, one-page tool promotion and overall management of activities, and the digital application capabilities of the head office and branches continued to improve. Secondly, the development

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capability was continuously enhanced, and the business structure was continuously optimized. The retail marketing business focused on “customer-oriented” (以客戶為中心), optimized and enriched “non-contact services” (非接觸式服務), promoted multi-dimensional cooperation and innovation of products, channels, and customer groups. Its integrated development capabilities based on scenarios were significantly enhanced, business-driven model combining online and offline were further deepened, and market recognition and influence were further enhanced. As of June 30, 2020, the Bank had 15,792,900 customers, representing an increase of 846,700 as compared with the beginning of the year. Among which, the number of effective customers was 6,396,300, representing an increase of 1,948,600 as compared to the beginning of the year; the number of our mobile banking users amounted to 6,751,800, representing an increase of 694,600 as compared to the beginning of the year; our monthly active users in mobile banking reached 1,806,200, and the monthly active degree (月活躍度) increased 64.2% as compared with the corresponding period of the previous year. Total personal loans (excluding accrued interest) amounted to RMB161,696 million, representing an increase of RMB30,271 million, or 23.0% as compared to the beginning of the year. The personal deposit balances (excluding accrued interest) amounted to RMB194,611 million, representing an increase of RMB20,603 million, or 11.8% as compared to the beginning of the year. The increase in deposits and loans of the retail banking business exceeded the company’s business, the business structure continued to optimize, and the business development trend was good. Operating income from retail banking business accounted for 31.1%, representing an increase of 1.8 percentage points as compared to the corresponding period of the previous year. The contribution of retail banking business has steadily increased. The company’s business has steadily promoted the hierarchical operation of strategic customers, institutional customers, small and micro customers, and transaction banking customers, and promoted the transformation of customer service from credit extension-driven to service-driven, and the market response speed and professional service capabilities have been significantly improved. The transaction banking segment actively promoted the online, digital, and scenario-based development of supply chain financing, and launched the public resource trading center electronic guarantee service. The service realized multiple functions such as electronic signatures and automatic form filling, making guarantees issuance in as quick as 2 minutes possible, which took the lead in the industry; the Bank independently developed an innovative product, the ZY Bank e Linkage (原銀e鏈), which can connect upstream and downstream enterprises in the supply chain and solve the financing difficulties of upstream and downstream enterprises. Investment banking continued to promote the transformation of traditional investment banks into investment banks with integrated service; with the first asset securitisation of subsidized housing in the central region implemented; the Bank ranked first in the industry in Henan Province in terms of the number of standardized syndicated transactions; vigorously promoted overseas financing, listing in Hong Kong and cross-border mergers and acquisitions of comprehensive financial services; and constantly explored innovative business models and service models. Financial market business effectively responded to market fluctuations, adjusted business

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strategies in a timely manner, steadily promoted the transformation of net wealth management and increased product scale, achieved full coverage of financial market institutional client types, with RMB business continued to be at the forefront of the market, and foreign currency market transactions became new engine of business growth. During the Reporting Period, operating income was RMB1,950 million, representing an increase of 10.2%. The Bank was honored with “The Most Progressive Member of Forward Exchange and Swap in the Interbank Foreign Exchange Market (銀行間外匯市場最大進步遠掉會員)”, “X-Repo Active Trader in the First Quarter of 2020 (2020年一季度X-Repo活躍交易商)”, and “Excellent Market Maker of 2019 (2019年度優秀做市交易商)”, and was highly recognized by the market peers.

The construction of the digital risk control system was strengthened, and the risk management capability was continuously enhanced. Firstly, the Bank spared no efforts to fight the tough battle of “reducing old and controlling new”. The Bank focused on key areas and key projects, strengthened the main responsibility, enhanced supervision and assessment, and advanced the resolution of problem loans in an orderly manner; actively implemented regulatory requirements, and included all loans overdue for more than 60 days in non-performing loans with non-performing loan rate amounted to 2.27%. The asset quality became more stable. Since the establishment of the Bank, the non-performing loan rate of newly issued loans has maintained an excellent level of less than 1%, making a positive contribution to regional economic and financial stability. Secondly, the Bank continued to improve digital risk control capabilities. The Bank steadily promoted the construction of a new generation of credit system, promoted the construction of risk management data marts, optimized non-zero risk models, continued to improve the intelligent risk control capabilities of zero loan products, and basically completed the development of online approval models for products such as perpetual loans for small and micro enterprises, government procurement loans, and credit cards. The Bank strengthened the full life cycle management of risk models, standardized the model verification process, accelerated the model iteration speed, strengthened the closed-loop management of risk control model building, verification and optimization, and realized the transformation from a strategic model to a digital model. Thirdly, the Bank solidly improved the level of fine credit management. The Bank strengthened credit concentration management, adjusted the asset structure layout, optimized the retail credit risk decision-making mechanism, established a measurement basis for the management of public credit portfolio management, and solidified the cornerstone of stable business development.

Management Discussion and Analysis

3. Analysis on Income Statement

For the six months ended June 30, 2020, the Bank recorded profit before provision of RMB7,507 million, representing a year-on-year increase of 18.7%, and recorded net profit of RMB2,026 million, representing a year-on-year decrease of 2.5%.

	For the six months ended June 30,			
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Interest income	15,270.2	14,337.1	933.1	6.5%
Interest expense	(7,049.7)	(6,745.4)	(304.3)	4.5%
Net interest income	8,220.5	7,591.7	628.8	8.3%
Fee and commission income	1,296.8	1,103.0	193.8	17.6%
Fee and commission expense	(138.2)	(107.9)	(30.3)	28.1%
Net fee and commission income	1,158.6	995.1	163.5	16.4%
Net trading gains	337.2	40.4	296.8	734.7%
Net gains arising from investments securities	783.1	962.6	(179.5)	(18.6%)
Other operating income ⁽¹⁾	92.3	67.7	24.6	36.3%
Operating income	10,591.7	9,657.5	934.2	9.7%
Operating expenses	(3,069.5)	(3,331.4)	261.9	(7.9%)
Impairment losses on assets	(5,120.7)	(3,700.2)	(1,420.5)	38.4%
Share of losses of joint ventures	(15.0)	—	(15.0)	N/A
Operating profit	2,386.5	2,625.9	(239.4)	(9.1%)
Profit before taxation	2,386.5	2,625.9	(239.4)	(9.1%)
Income tax	(360.5)	(547.1)	186.6	(34.1%)
Net profit	2,026.0	2,078.8	(52.8)	(2.5%)
Net profit attributable to equity shareholders of the Bank	1,972.0	2,074.5	(102.5)	(4.9%)
Non-controlling interests	54.0	4.3	49.7	1,155.8%

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

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

For the six months ended June 30, 2020, the Bank recorded net interest income of RMB8,221 million, representing an increase of RMB629 million or 8.3% as compared to the same period of last year. Among this, a growth of net interest income of RMB1,859 million as compared to the same period of last year was attributable to the expansion of the Bank's business scale and a decrease in net interest income of RMB1,230 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, 2019 and 2020.

For the six months ended June 30,						
	2020			2019		
	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾	Average balance	Interest income/expense	Average yield/cost ⁽¹⁾
(in millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	318,157.5	9,014.1	5.67%	273,224.9	8,593.7	6.29%
Investment securities and other financial assets ⁽²⁾	211,573.7	4,299.8	4.06%	207,855.1	4,684.5	4.51%
Finance lease receivables	29,760.3	1,114.6	7.49%	–	–	–
Deposits with central bank	36,064.0	266.2	1.48%	43,400.0	323.6	1.49%
Deposits with bank and other financial institutions	12,385.8	81.2	1.31%	17,659.4	168.6	1.91%
Financial assets held under resale agreements	17,133.7	143.2	1.67%	19,929.4	243.1	2.44%
Placements with banks and other financial institutions	24,039.4	351.1	2.92%	12,714.0	323.6	5.09%
Total interest-earning assets	649,114.4	15,270.2	4.70%	574,782.8	14,337.1	4.99%

Management Discussion and Analysis

For the six months ended June 30,

	2020			2019		
	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	402,891.9	3,964.7	1.97%	374,270.6	3,540.4	1.89%
Financial assets sold under repurchase agreements	33,339.2	305.8	1.83%	26,093.1	366.7	2.81%
Placements from banks and other financial institutions	31,052.8	444.7	2.86%	12,648.0	285.2	4.51%
Borrowings from central bank	22,757.1	326.7	2.87%	9,288.9	140.2	3.02%
Deposits from banks and other financial institutions	52,368.0	700.8	2.68%	49,018.7	774.4	3.16%
Debt securities issued ⁽³⁾	80,429.9	1,307.0	3.25%	88,026.1	1,638.5	3.72%
Total interest-bearing liabilities	622,838.9	7,049.7	2.26%	559,345.4	6,745.4	2.41%
Net interest income		8,220.5			7,591.7	
Net interest spread⁽⁴⁾			2.44%			2.58%
Net interest margin⁽⁵⁾			2.53%			2.64%

Notes:

- (1) Calculated by dividing interest income/expense by average balance.
- (2) Such interest-earning assets consist of financial assets at amortized cost and financial assets at fair value through other comprehensive income.
- (3) Mainly consists of interbank deposits issued, financial bonds and tier-two capital bonds.
- (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	1,413.3	(992.9)	420.4
Investment securities and other financial assets	83.8	(468.5)	(384.7)
Finance lease receivables	1,114.6	—	1,114.6
Deposits with the Central Bank	(54.7)	(2.7)	(57.4)
Deposits with banks and other financial institutions	(50.3)	(37.1)	(87.4)
Financial assets held under resale agreements	(34.1)	(65.8)	(99.9)
Placements with banks and other financial institutions	288.3	(260.8)	27.5
Changes in interest income	2,760.9	(1,827.8)	933.1

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	270.7	153.6	424.3
Financial assets sold under repurchase agreements	101.8	(162.7)	(60.9)
Placements from banks and other financial institutions	415.0	(255.5)	159.5
Borrowings from the Central Bank	203.3	(16.8)	186.5
Deposits from banks and other financial institutions	52.9	(126.5)	(73.6)
Debt securities issued	(141.4)	(190.1)	(331.5)
Changes in interest expense	902.3	(598.0)	304.3

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

3.2 Interest Income

For the six months ended June 30, 2020, the Bank's interest income increased by RMB933 million or 6.5% to RMB15,270 million as compared to the same period last year, primarily attributable to the increase in the volume of loans and advances to customers.

3.2.1 Interest income from loans and advances to customers

For the six months ended June 30, 2020, the Bank's interest income from loans and advances to customers increased by RMB420 million or 4.9% to RMB9,014 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 product innovation and real economy. The average balance of loans increased from RMB273,225 million to RMB318,158 million.

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	2020 Interest income	Average yield	Average balance	2019 Interest income	Average yield
(in millions of RMB, except percentages)						
Corporate loans	146,785.7	4,444.3	6.06%	134,985.6	4,297.2	6.37%
Discounted bills	25,713.8	420.8	3.27%	24,244.1	493.8	4.07%
Personal loans	145,658.0	4,149.0	5.70%	113,995.2	3,802.7	6.67%
Total	318,157.5	9,014.1	5.67%	273,224.9	8,593.7	6.29%

Management Discussion and Analysis

3.2.2 Interest income from investment securities and other financial assets

For the six months ended June 30, 2020, the Bank's interest income from investment securities and other financial assets decreased by RMB385 million or 8.2% to RMB4,300 million as compared to the same period last year, primarily attributable to the decrease of 0.45 percentage point in the average yield of investment securities and other financial assets. The decrease in the average yield was primarily resulted by market factors, the yield of new investment securities and other financial assets was lower than the same period last year.

3.2.3 Interest income from finance lease receivables

For the six months ended June 30, 2020, the Bank's interest income from finance lease receivables was RMB1,115 million, which mainly represented the income generated by the Bank's subsidiary AB Leasing Co., Ltd. from January to June 2020.

3.2.4 Interest income from deposits with the central bank

For the six months ended June 30, 2020, the Bank's interest income from deposits with the central bank decreased by RMB57 million or 17.7% to RMB266 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 continuous reduction of deposit reserve rate by the People's Bank of China.

3.2.5 Interest income from deposits with banks and other financial institutions

For the six months ended June 30, 2020, the Bank's interest income from deposits with banks and other financial institutions decreased by RMB88 million to RMB81 million from RMB169 million for the six months ended June 30, 2019, primarily attributable to the decrease in the average balance of deposits with banks and other financial institutions. The decrease in the average balance of deposits with banks and other financial institutions was primarily attributable to the decrease in market interest rates and the Bank decreased deposits with banks and other financial institutions.

Management Discussion and Analysis

3.2.6 Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements decreased by RMB100 million from RMB243 million for the six months ended June 30, 2019 to RMB143 million for the six months ended June 30, 2020, primarily attributable to the decrease in the average yield of financial assets held under resale agreements of 0.77 percentage point under the influence of market price.

3.2.7 Interest income from placements with banks and other financial institutions

For the six months ended June 30, 2020, our interest income from placements with banks and other financial institutions had a year-on-year increase of RMB28 million or 8.5% to RMB351 million, primarily attributable to the increase in the average balance of placements with banks and other financial institutions.

3.3 Interest Expense

For the six months ended June 30, 2020, the Bank's interest expense increased by RMB304 million or 4.5% to RMB7,050 million as compared to the same period last year, primarily attributable to the increase in the volume of deposits from customers and average cost.

3.3.1 Interest expense on deposits from customers

For the six months ended June 30, 2020, the Bank's interest expense on deposits from customers increased by RMB424 million or 12.0% to RMB3,965 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 through continuously diversifying application scenarios, expanding the scope of our customer acquisition and business interactions and enriching product system. We managed to improve service quality, expand channels for our services and effectively boosted 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 intensified competition in the deposit market.

Management Discussion and Analysis

For the six months ended June 30,						
	Average balance	2020 Interest expense	Average cost	Average balance	2019 Interest expense	Average cost
(in millions of RMB, except percentages)						
Corporate deposits						
Demand	125,095.0	448.0	0.72%	124,399.9	425.0	0.68%
Time	89,550.7	1,016.8	2.27%	82,730.4	929.5	2.25%
Sub-total	214,645.7	1,464.8	1.36%	207,130.3	1,354.5	1.31%
Personal deposits						
Demand	47,205.2	101.7	0.43%	39,528.9	97.6	0.49%
Time	141,041.0	2,398.2	3.40%	127,611.4	2,088.3	3.27%
Sub-total	188,246.2	2,499.9	2.66%	167,140.3	2,185.9	2.62%
Total deposits from customers	402,891.9	3,964.7	1.97%	374,270.6	3,540.4	1.89%

3.3.2 Interest expense on deposits from banks and other institutions

For the six months ended June 30, 2020, the Bank's interest expense on deposits from banks and other financial institutions decreased by RMB74 million or 9.5% to RMB701 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 market interest rates.

3.3.3 Interest expense on debt securities issued

For the six months ended June 30, 2020, the Bank's interest expense on debt securities issued decreased by RMB332 million or 20.2% to RMB1,307 million as compared to the same period last year, primarily attributable to the decrease in market interest rates which resulted in lower interest rate and volume of interbank deposits than that of last year.

Management Discussion and Analysis

3.3.4 Net interest spread and net interest margin

The Bank's net interest spread decreased from 2.58% for the corresponding period of last year to 2.44% for the current period, while the Bank's net interest margin decreased from 2.64% for the corresponding period of last year to 2.53% for the current period. The decreases in net interest spread and net interest margin were primarily attributable to (i) the increase in the average cost of deposits affected by the intensified market competition and other factors; (ii) the notable decline in lending rates after the loan prime rate (LPR) reform; (iii) the decrease in the average yield of investment securities and other financial assets as a result of the overall decline in market interest rates; and (iv) the Bank comprehensively lowered loan interest rate in order to reduce fees and offer benefits to customers. The Bank will further focus on the regulatory orientation, adjust the asset/liability structure in due course and strengthen the risk pricing management to effectively control the cost of liabilities.

3.4 Non-interest income

3.4.1 Net fee and commission income

For the six months ended June 30, 2020, the Bank's net fee and commission income increased by RMB164 million or 16.4% to RMB1,159 million as compared to the same period last year, primarily attributable to the Bank's continuous expansion of its intermediate businesses, service channel and the business volume based on its concept of serving the real economy and meeting the financial needs of consumers.

Management Discussion and Analysis

	For the six months ended June 30,			
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Fee and commission income				
Bank card service fees	287.9	137.1	150.8	110.0%
Settlement and clearing service fees	171.5	228.4	(56.9)	(24.9%)
Agency service income	66.9	60.8	6.1	10.0%
Underwriting service income	277.5	164.6	112.9	68.6%
Acceptance and guarantee service fees	68.3	48.8	19.5	40.0%
Advisory and consulting fees	88.6	68.9	19.7	28.6%
Custodial service fees	107.9	238.2	(130.3)	(54.7%)
Wealth management business fees	228.2	156.2	72.0	46.1%
Sub-total	1,296.8	1,103.0	193.8	17.6%
Fee and commission expenses	(138.2)	(107.9)	(30.3)	28.1%
Net fee and commission income	1,158.6	995.1	163.5	16.4%

For the six months ended June 30, 2020, the Bank realized bank card service fees income of RMB288 million, representing an increase of RMB151 million as compared to the same period last year, primarily because the Bank continued to develop its credit card business and diversify products offerings, leading to the rapid growth of installment business and consumption transaction and driving the growth of related fee income.

For the six months ended June 30, 2020, the Bank realized wealth management business fees income of RMB228 million, representing an increase of RMB72 million as compared to the same period last year, primarily attributable to the Bank's continued improvement of product systems and customer service capability and increase in the size of issuance of wealth management products.

For the six months ended June 30, 2020, the Bank realized underwriting service income of RMB278 million, representing an increase of RMB113 million as compared to the same period last year, primarily attributable to the rapid growth of the bond underwriting business since the Bank obtained qualification of B-Class lead underwriter.

Management Discussion and Analysis

3.4.2 Net trading gains

For the six months ended June 30, 2020, the Bank's net trading gains were RMB337 million, representing an increase of RMB297 million as compared to the same period last year, primarily attributable to the fluctuation of exchange rates under the influence of global economy.

3.4.3 Net gains arising from investment securities

For the six months ended June 30, 2020, the Bank's net gains arising from investment securities amounted to RMB783 million, representing a decrease of RMB180 million as compared to the same period last year, primarily attributable to the decrease in gains of financial investments at fair value through profit or loss for the current period.

3.5 Operating expenses

For the six months ended June 30, 2020, the Bank's operating expenses decreased by RMB262 million or 7.9% to RMB3,070 million as compared to the same period last year, primarily attributable to the Bank strengthened cost control by proactively adopting the cost-light operation model, and continuously promoted the transformation of business development model and marketing driven model, therefore effectively controlled cost expenditure.

For the six months ended June 30,				
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	1,389.9	1,415.4	(25.5)	(1.8%)
Staff welfare	140.1	117.8	22.3	18.9%
Social insurance and annuity	94.6	241.4	(146.8)	(60.8%)
Housing fund	97.1	84.9	12.2	14.4%
Employee education expenses and labor union expenses	55.8	49.2	6.6	13.4%
Others ⁽¹⁾	25.6	31.6	(6.0)	(19.0%)
Sub-total of staff costs	1,803.1	1,940.3	(137.2)	(7.1%)
Tax and surcharges	94.2	82.1	12.1	14.7%
Depreciation and amortisation	542.4	548.7	(6.3)	(1.1%)
Other general and administrative expenses	629.8	760.3	(130.5)	(17.2%)
Total	3,069.5	3,331.4	(261.9)	(7.9%)

Management Discussion and Analysis

Note:

(1) Primarily included expenses relating to dispatched staff.

For the six months ended June 30, 2020, staff costs decreased by RMB137 million or 7.1% to RMB1,803 million as compared to the same period last year, primarily because the Bank implemented the policy of periodic reduction in social insurance contributions which resulted in the decrease of social insurance contributions of employees. Staff costs represented the largest component of the Bank's operating expenses, and accounted for 58.7% and 58.2% of the total operating expenses for the six months ended June 30, 2020 and for the six months ended June 30, 2019, respectively.

For the six months ended June 30, 2020, depreciation and amortisation expenses decreased by RMB6 million or 1.1% to RMB542 million as compared to the same period last year, primarily because the Bank continued to reduce the proportion of non-interest earning assets, which led to reduction of depreciation and amortization expenses.

For the six months ended June 30, 2020, tax and surcharges amounted to RMB94 million, representing an increase of RMB12 million or 14.7% as compared to the same period last year. The increase was primarily due to the increase in operating income of the Bank.

For the six months ended June 30, 2020, other general and administrative expenses decreased by RMB131 million or 17.2% to RMB630 million as compared to the same period last year. Other general and administrative expenses primarily include interest expenses on lease liabilities, property management fees, office expenses, business marketing expenses and others.

Management Discussion and Analysis

3.6 Impairment Losses

For the six months ended June 30, 2020, the Bank's impairment losses increased by RMB1,421 million or 38.4% to RMB5,121 million as compared to the same period last year, primarily because the Bank further increased provisions for asset impairment in light of the pandemic, which laid a solid foundation for provision and proactively reduced risks in a forward-looking basis.

	For the six months ended June 30,			
	2020	2019	Change	Rate of change
	(in millions of RMB, except percentages)			
Loans and advances to customers	2,869.2	2,618.0	251.2	9.6%
Investment securities and other financial assets ⁽¹⁾	1,737.4	965.1	772.3	80.0%
Finance lease receivables	243.6	–	243.6	N/A
Other assets ⁽²⁾	270.5	117.1	153.4	131.0%
Total impairment losses	5,120.7	3,700.2	1,420.5	38.4%

Notes:

- (1) The impairment losses on assets include impairment losses on financial investments at amortized cost and financial investments at fair value through other comprehensive income.
- (2) The impairment losses on assets 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 assets, repossessed assets, fixed assets, interests receivable and other receivables.

Management Discussion and Analysis

3.7 Income tax expense

For the six months ended June 30, 2020, the Bank's income tax decreased by RMB187 million to RMB361 million, primarily attributable to the decrease in the Bank's operating profits.

	For the six months ended June 30,			
	2020	2019	Change	Rate of change
(in millions of RMB, except percentages)				
Current income tax	1,321.1	1,048.9	272.2	26.0%
Deferred income tax	(960.6)	(501.8)	(458.8)	91.4%
Total income tax expenses	360.5	547.1	(186.6)	(34.1%)

4. Analysis on the Major Items of Balance Sheet

4.1 Assets

As of June 30, 2020, the Bank's total assets increased by RMB13,923 million or 2.0% to RMB723,808 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 45.4% and 33.9% of the Bank's total assets as of June 30, 2020, respectively.

Management Discussion and Analysis

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

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Gross loans and advances to customers	339,973.0	47.0%	301,001.5	42.4%
Allowance for impairment losses	(11,206.4)	(1.6%)	(9,771.4)	(1.4%)
Loans and advances to customers, net	328,766.6	45.4%	291,230.1	41.0%
Finance lease receivables	30,200.8	4.2%	27,859.0	3.9%
Investment securities and other financial assets	245,440.8	33.9%	252,067.8	35.5%
Financial assets held under resale agreements	21,472.9	3.0%	16,838.6	2.4%
Cash and deposits with central bank	47,929.2	6.6%	72,118.6	10.2%
Deposits with banks and other financial institutions	9,382.9	1.3%	10,873.9	1.5%
Placements with banks and other financial institutions	21,679.2	3.0%	20,039.0	2.8%
Derivative financial assets	19.0	0.0%	15.1	0.0%
Interest in joint venture	1,080.6	0.1%	1,095.6	0.2%
Other assets ⁽¹⁾	17,835.7	2.5%	17,747.3	2.5%
Total assets	723,807.7	100.0%	709,885.0	100.0%

Note:

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

Management Discussion and Analysis

4.1.1 Loans and advances to customers

As of June 30, 2020, the Bank's gross loans and advances to customers (excluding accrued interest) increased by RMB38,405 million or 12.8% to RMB337,610 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.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate loans	146,249.2	43.0%	141,808.7	47.1%
Personal loans	161,695.7	47.6%	131,424.7	43.7%
Discounted bills	29,665.3	8.7%	25,971.3	8.6%
Sub-total	337,610.2	99.3%	299,204.7	99.4%
Accrued interest	2,362.8	0.7%	1,796.8	0.6%
Total loans and advances to customers	339,973.0	100.0%	301,001.5	100.0%

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(1) Corporate loans

As of June 30, 2020, the Bank's corporate loans increased by RMB4,441 million or 3.1% to RMB146,249 million as compared to the end of last year, representing 43.3% of the Bank's gross loans to customers (excluding accrued interest), primarily attributable to the Bank increased its support 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Unsecured loans	11,100.5	7.6%	10,551.0	7.4%
Guaranteed loans	62,463.5	42.7%	64,210.8	45.3%
Collateralised loans	42,055.8	28.8%	40,541.9	28.6%
Pledged loans	30,629.4	20.9%	26,505.0	18.7%
Total corporate loans	146,249.2	100.0%	141,808.7	100.0%

Management Discussion and Analysis

(2) Personal loans

As of June 30, 2020, the Bank's personal loans increased by RMB30,271 million or 23.0% to RMB161,696 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Personal residential mortgage loans	90,107.6	55.8%	69,705.2	53.0%
Personal business loans	33,491.6	20.7%	27,311.7	20.8%
Personal consumption loans	27,535.7	17.0%	25,209.9	19.2%
Credit card loans	10,560.8	6.5%	9,197.9	7.0%
Total personal loans	161,695.7	100.0%	131,424.7	100.0%

(3) Discounted bills

As of June 30, 2020, the Bank's discounted bills increased by RMB3,694 million or 14.2% to RMB29,665 million as compared to the end of last year, which primarily attributable to the Bank's continuous offer of short-term financing per customers' demand.

Management Discussion and Analysis

4.1.2 Investment securities and other financial assets

As of June 30, 2020, the Bank's net investment securities and other financial assets decreased by RMB6,627 million or 2.6% to RMB245,441 million as compared to the end of last year, primarily due to the decrease of investments in interbank deposits, wealth management products 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Financial investments at fair value through profit or loss	31,338.8	12.7%	42,185.5	16.8%
Financial investments at fair value through other comprehensive income	56,449.7	22.9%	52,672.3	20.9%
Financial investments at amortised cost	158,506.1	64.4%	156,651.5	62.3%
Total investment securities and other financial assets	246,294.6	100.0%	251,509.3	100.0%
Add: accrued interest	2,794.2		2,519.5	
Less: impairment provisions	(3,648.0)		(1,961.0)	
Net investment securities and other financial assets	245,440.8		252,067.8	

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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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Debt Securities				
PRC government bonds	51,283.1	20.9%	46,654.5	18.5%
Debt securities issued by PRC policy banks and other financial institutions	59,791.2	24.3%	70,441.7	27.9%
Debt securities issued by PRC corporate issuers	15,188.6	6.2%	13,391.8	5.3%
Sub-total	126,262.9	51.4%	130,488.0	51.7%
Other financial assets				
Wealth management products issued by other PRC commercial banks	7,764.1	3.2%	11,147.7	4.4%
Asset management plans	8,106.7	3.3%	8,283.7	3.3%
Trust plans	55,422.8	22.6%	56,859.1	22.6%
Others	45,090.1	18.4%	42,769.8	17.0%
Sub-total	116,383.7	47.5%	119,060.3	47.3%
Accrued interest	2,794.2	1.1%	2,519.5	1.0%
Net investment securities and other financial assets	245,440.8	100.0%	252,067.8	100.0%

Management Discussion and Analysis

4.1.3 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; (v) finance lease receivables; and (vi) other assets.

As of June 30, 2020, the financial assets held under resale agreements increased by RMB4,634 million or 27.5% to RMB21,473 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 of market price and the allocation demand of assets and liabilities.

As of June 30, 2020, the total cash and deposits with the central bank decreased by RMB24,189 million or 33.5% to RMB47,929 million as compared to the end of last year, primarily attributable to the reduction of the deposit reserve ratio by the People's Bank of China.

As of June 30, 2020, the total deposits with banks and other financial institutions decreased by RMB1,491 million or 13.7% to RMB9,383 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 consideration of market price.

As of June 30, 2020, the total placements with banks and other financial institutions increased by RMB1,640 million or 8.2% from the end of last year to RMB21,679 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 consideration of market demand.

As of June 30, 2020, the balance of finance lease receivables increased by RMB2,342 million or 8.4% from the end of last year to RMB30,201 million, primarily because AB Leasing Co., Ltd. continued to increase its support for the development of the real economy and expanded business scale.

Management Discussion and Analysis

4.2 Liabilities

As of June 30, 2020, the Bank's total liabilities increased by RMB12,882 million or 2.0% to RMB664,936 million as compared to the end of last year.

	As of June 30, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Deposits from customers	423,720.6	63.7%	389,731.5	59.8%
Deposits from banks and other financial institutions	54,528.7	8.2%	61,578.1	9.4%
Debt securities issued	72,536.0	10.9%	79,720.4	12.2%
Financial assets sold under repurchase agreements	46,822.4	7.0%	66,544.9	10.2%
Placements from banks and other financial institutions	34,644.0	5.2%	28,058.7	4.3%
Borrowings from central bank	23,856.6	3.6%	16,644.8	2.6%
Tax payable	223.1	0.0%	799.9	0.1%
Derivated financial liabilities	132.6	0.0%	295.7	0.0%
Financial liabilities at fair value through profit or loss	—	—	20.4	0.0%
Other liabilities ⁽¹⁾	8,472.2	1.4%	8,659.6	1.4%
Total liabilities	664,936.2	100.0%	652,054.0	100.0%

Note:

- (1) Consist primarily of payment and collection clearance accounts, staff salaries payable, finance lease deposits payable, lease liability, other tax payable, dividends payable, provisions and other payables.

Management Discussion and Analysis

4.2.1 Deposits from customers

As of June 30, 2020, the Bank's total deposits from customers (excluding accrued interest) increased by RMB33,310 million or 8.7% to RMB418,356 million as compared to the end of last year. It was primarily attributable to the Bank's continued efforts to improve quality of financial service, which effectively boosted an increase in deposits.

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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate deposits				
Demand	143,100.0	33.8%	134,913.0	34.6%
Time	80,646.0	19.0%	76,125.3	19.5%
Sub-total	223,746.0	52.8%	211,038.3	54.1%
Personal deposits				
Demand	52,904.0	12.5%	49,483.3	12.7%
Time	141,706.6	33.4%	124,523.9	32.0%
Sub-total	194,610.6	45.9%	174,007.2	44.7%
Accrued interest	5,364.0	1.3%	4,686.0	1.2%
Total deposits from customers	423,720.6	100.0%	389,731.5	100.0%

Management Discussion and Analysis

4.2.2 Deposits from banks and other financial institutions

As of June 30, 2020, the Bank's balance of deposits from banks and other financial institutions decreased by RMB7,049 million or 11.4% to RMB54,529 million as compared to the end of last year, primarily because the Bank adjusted the size of deposits from banks and other financial institutions at the end of the Reporting Period according to market liquidity and the Bank's capital needs.

4.2.3 Placements from banks and other financial institutions

As of June 30, 2020, the Bank's balance of placements from banks and other financial institutions increased by RMB6,585 million or 23.5% from the end of last year to RMB34,644 million, primarily because the Bank adjusted the size of placements from banks and other financial institutions at the end of the Reporting Period according to market liquidity and the Bank's capital needs.

4.2.4 Debt securities issued

As of June 30, 2020, the Bank's balance of debt securities issued decreased by RMB7,184 million or 9.0% to RMB72,536 million as compared to the end of last year, primarily because the Bank adjusted the size of interbank deposits issued at the end of the Reporting Period according to market liquidity and the Bank's capital needs.

4.2.5 Financial assets sold under repurchase agreements

As of June 30, 2020, the Bank's balance of financial assets sold under repurchase agreements decreased by RMB19,723 million from RMB66,545 million at the end of last year to RMB46,822 million, primarily because the Bank decreased reverse repurchase business of the Central Bank at the end of the Reporting Period.

Management Discussion and Analysis

4.3 Shareholders' Equity

As of June 30, 2020, the Bank's total shareholders' equity increased by RMB1,041 million or 1.8% to RMB58,872 million as compared to the end of last year. The total equity attributable to shareholders of the Bank increased by RMB1,012 million or 1.8% to RMB57,757 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Share capital	20,075.0	34.1%	20,075.0	34.7%
Other equity instrument	9,632.8	16.4%	9,632.8	16.7%
Capital reserve	14,317.3	24.3%	14,317.3	24.8%
Surplus reserve	1,818.3	3.1%	1,818.3	3.1%
General reserve	8,934.9	15.2%	8,934.9	15.5%
Re-evaluation and impairment reserve	648.6	1.0%	705.1	1.1%
Retained earnings	2,330.0	4.0%	1,261.3	2.2%
Equity attributable to shareholders of the Bank	57,756.9	98.1%	56,744.7	98.1%
Non-controlling interests	1,114.6	1.9%	1,086.3	1.9%
Total shareholders' equity	58,871.5	100.0%	57,831.0	100.0%

Management Discussion and Analysis

5. 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, 2020	As of December 31, 2019
	(in millions of RMB)	
Credit commitments		
Loan commitments	20,793.3	20,392.3
Bank acceptance	49,980.9	45,126.6
Letters of credit	10,202.9	13,298.0
Letters of guarantees	3,955.3	3,983.3
Total	84,932.4	82,800.2

6. Analysis on Loan Quality

In the first half of 2020, in face of great influence brought by the pandemic and complex macro-economic situations at home and abroad, 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, 2020, the balance of non-performing loans of the Bank amounted to RMB7,652 million, representing an increase of RMB973 million as compared with the end of last year. The non-performing loan ratio was 2.27%, representing an increase of 0.04 percentage point as compared with the end of last year. Special mention loan accounted for 2.98%, representing a decrease of 0.53 percentage point as compared with the end of last year.

Management Discussion and Analysis

6.1 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Normal	319,895.1	94.75%	282,015.0	94.25%
Special mention	10,063.4	2.98%	10,511.0	3.51%
Substandard	3,736.9	1.11%	2,873.2	0.96%
Doubtful	2,685.3	0.80%	2,604.5	0.88%
Loss	1,229.5	0.36%	1,201.0	0.40%
Total loans and advances to customers	337,610.2	100.00%	299,204.7	100.00%
Non-performing loans and non-performing loan ratio ⁽¹⁾	7,651.7	2.27%	6,678.7	2.23%

Note:

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

Management Discussion and Analysis

6.2 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, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL amount	NPL ratio ⁽⁴⁾	Loan amount	% of total	NPL amount	NPL ratio
(in millions of RMB, except percentages)								
Corporate loans								
Short-term loans ⁽¹⁾	73,982.3	21.9%	3,451.4	4.67%	85,292.7	28.5%	4,650.8	5.45%
Medium-to-long-term loans ⁽²⁾	72,266.9	21.4%	2,375.7	3.29%	56,516.0	18.9%	455.3	0.81%
Sub-total	146,249.2	43.3%	5,827.1	3.98%	141,808.7	47.4%	5,106.1	3.60%
Personal loans								
Personal residential mortgage loans	90,107.6	26.7%	108.5	0.12%	69,705.2	23.3%	64.9	0.09%
Personal consumption loans	27,535.7	8.2%	279.7	1.02%	25,209.9	8.4%	193.6	0.77%
Personal business loans	33,491.6	9.9%	812.5	2.43%	27,311.7	9.1%	770.5	2.82%
Others ⁽³⁾	10,560.8	3.1%	149.9	1.42%	9,197.9	3.1%	69.6	0.76%
Sub-total	161,695.7	47.9%	1,350.6	0.84%	131,424.7	43.9%	1,098.6	0.84%
Discounted bills	29,665.3	8.8%	474.0	1.60%	25,971.3	8.7%	474.0	1.83%
Total	337,610.2	100.0%	7,651.7	2.27%	299,204.7	100.0%	6,678.7	2.23%

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) Others mainly include credit cards.
- (4) NPL ratio is calculated by dividing non-performing loans in each product type by gross loans in that product type.

Management Discussion and Analysis

As at the end of June 2020, the balance of corporate non-performing loans of the Bank amounted to RMB5,827 million, representing an increase of RMB721 million as compared with that of the end of last year. The non-performing loan ratio was 3.98%, representing an increase of 0.38 percentage point 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 in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans. In addition, the corporate customers who obtained loans from the Bank were mainly small and medium corporate clients with weak risk-resistance capacity, their repayment abilities were deteriorated by the operation difficulties as a result of pandemic and economic downside.

The balance of personal non-performing loans of the Bank amounted to RMB1,351 million, representing an increase of RMB252 million as compared with that of the end of last year. The non-performing loan ratio was 0.84%, which is the same as that at the end of last year. The increase in personal non-performing loans of the Bank was mainly because the Bank implemented more prudent five-category loan classification system in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans; in addition, repayment abilities of certain clients for personal loans were deteriorated as a result of decrease in income caused by pandemic. The Bank's non-performing loan ratio remained the same was mainly due to the fact that (i) the Bank continued to promote the digital transformation of retail business from focusing on the network service to services both online and offline. We attached great importance to customer experience, and strengthened customer acquisition through methods including mass acquisition, acquisition through scenario and online channel, and achieved desired results in the retail business transformation. As of June 30, 2020, the balance of personal loans amounted to RMB161,696 million, representing an increase of RMB30,271 million or 23.0% as compared with the end of last year; (ii) the Bank proactively resolved personal non-performing loans through verification, cash collection, restructuring and other means, and strictly prevented addition of new non-performing loans by strengthening the control over the whole process of risk management.

Management Discussion and Analysis

6.3 Distribution of Loans and Non-Performing Loans by Industry

	As of June 30, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL amount	NPL ratio ⁽¹⁾	Loan amount	% of total	NPL amount	NPL ratio
(in millions of RMB, except percentages)								
Leasing and business services	34,807.9	10.3%	12.5	0.04%	33,808.0	11.3%	92.6	0.27%
Manufacturing	27,246.7	8.1%	2,439.4	8.95%	26,562.4	8.9%	2,137.5	8.05%
Real estate	19,986.3	5.9%	390.4	1.95%	20,485.4	6.8%	412.0	2.01%
Wholesale and retail	15,448.4	4.6%	1,897.4	12.28%	16,748.1	5.6%	1,437.0	8.58%
Construction	13,160.9	3.9%	188.7	1.43%	11,638.6	3.9%	147.8	1.27%
Water, environment and public facility management	10,353.3	3.1%	9.0	0.09%	7,672.3	2.6%	55.4	0.72%
Electricity, gas and water production and supply	5,364.3	1.6%	67.7	1.26%	4,537.7	1.5%	53.7	1.18%
Agriculture, forestry, animal husbandry and fishery	3,688.4	1.1%	489.1	13.26%	3,765.1	1.3%	489.4	13.00%
Health, social security and social welfare	3,652.4	1.1%	–	0.00%	3,570.9	1.2%	–	0.00%
Education	3,199.5	0.9%	62.0	1.94%	3,186.4	1.1%	15.5	0.49%
Accommodation and catering	2,997.1	0.9%	86.5	2.89%	3,081.2	1.0%	65.5	2.13%
Transportation, storage and postal services	2,901.4	0.9%	129.9	4.48%	2,602.9	0.9%	112.2	4.31%
Mining	1,754.9	0.5%	6.4	0.36%	2,178.5	0.7%	43.8	2.01%
Others	1,687.7	0.4%	48.1	2.85%	1,971.2	0.6%	43.7	2.22%
Total corporate loans	146,249.2	43.3%	5,827.1	3.98%	141,808.7	47.4%	5,106.1	3.60%
Total personal loans	161,695.7	47.9%	1,350.6	0.84%	131,424.7	43.9%	1,098.6	0.84%
Discounted bills	29,665.3	8.8%	474.0	1.60%	25,971.3	8.7%	474.0	1.83%
Total	337,610.2	100.0%	7,651.7	2.27%	299,204.7	100.0%	6,678.7	2.23%

Note:

- (1) 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.

Management Discussion and Analysis

As of June 30, 2020, 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 8.95%, 12.28% and 13.26%, respectively, of which:

- (i) the balance of non-performing loans in the manufacturing industry increased by RMB302 million as compared with the end of last year, with an increase of 0.90 percentage point in non-performing loan ratio, mainly because the Bank implemented more prudent five-category loan classification system in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans; and repayment abilities of clients in manufacturing industry were deteriorated by the operation difficulties as a result of pandemic and economic downside.
- (ii) the balance of non-performing loans in the wholesale and retail industry increased by RMB460 million as compared with the end of last year, with an increase of 3.70 percentage points in non-performing loan ratio, which was mainly because the Bank implemented more prudent five-category loan classification system in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans; and operation situation of clients in wholesale and retail industry were deteriorated greatly by the pandemic and economic downside, which resulted in the increase of non-performing loan ratio in the industry.
- (iii) the balance of non-performing loans in the agriculture, forestry, animal husbandry and fishery industry decreased by RMB0.3 million as compared with the end of last year, with an increase of 0.26 percentage point in non-performing loan ratio, which was mainly because the Bank proactively resolved non-performing loans through verification, cash collection, restructuring and other means, and strictly prevented addition of new non-performing loans by strengthening the control over the whole process of risk management; and the Bank implemented more prudent five-category loan classification system in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans, which resulted in the increase of non-performing loan ratio.

Management Discussion and Analysis

6.4 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, 2020				As of December 31, 2019			
	Loan amount	% of total	NPL amount	NPL ratio ⁽¹⁾	Loan amount	% of total	NPL amount	NPL ratio
(in millions of RMB, except percentages)								
Unsecured loans	26,342.8	7.8%	761.3	2.89%	22,520.3	7.5%	88.3	0.39%
Guaranteed loans	71,547.8	21.2%	3,705.9	5.18%	74,808.3	25.0%	3,189.8	4.26%
Collateralised loans	180,737.8	53.5%	2,912.1	1.61%	151,601.1	50.7%	2,646.0	1.75%
Pledged loans	58,981.8	17.5%	272.4	0.46%	50,275.0	16.8%	754.6	1.50%
Total	337,610.2	100.0%	7,651.7	2.27%	299,204.7	100.0%	6,678.7	2.23%

Note:

- (1) Non-performing loan ratio is 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, 2020, the balance of our guaranteed non-performing loans increased by RMB516 million from the end of last year, representing an increase in non-performing loan ratio of 0.92 percentage point, mainly because (i) the Bank implemented more prudent five-category loan classification system in the first half of the year and categorized loans overdue for more than 60 days as non-performing loans; (ii) repayment abilities of certain customers of the Bank were deteriorated by the operation difficulties as a result of pandemic and economic downside.

As of June 30, 2020, the balance of our collateralised non-performing loans increased by RMB266 million from the end of last year, representing a decrease in non-performing loan ratio of 0.14 percentage point, primarily because (i) repayment abilities of certain customers of the Bank were deteriorated by the operation difficulties as a result of pandemic and economic downside; (ii) the Bank increased efforts in dealing non-performing assets in the first half the year, and proactively resolved non-performing loans through cash collection, verification, restructuring and other means.

Management Discussion and Analysis

6.5 Borrowers Concentration

As of June 30, 2020, 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, 2020, the loan balance of the top ten single borrowers (excluding group borrowers) of the Bank.

		As of June 30, 2020		
		Balance	% of total loans	% of net capital
Industry		(in millions of RMB, except percentages)		
Borrower A	Manufacturing	2,986.6	0.9%	4.2%
Borrower B	Real estate	1,649.9	0.5%	2.3%
Borrower C	Leasing and commercial services	1,280.0	0.4%	1.8%
Borrower D	Accommodation and catering	1,181.5	0.3%	1.7%
Borrower E	Leasing and commercial services	1,038.8	0.3%	1.5%
Borrower F	Water, environment and public facility management	999.0	0.3%	1.4%
Borrower G	Leasing and commercial services	890.0	0.3%	1.2%
Borrower H	Water, environment and public facility management	870.0	0.3%	1.2%
Borrower I	Leasing and commercial services	860.0	0.2%	1.2%
Borrower J	Leasing and commercial services	855.3	0.2%	1.2%
Total		12,611.1	3.7%	17.7%

As of June 30, 2020, the loan balance of the largest single borrower of the Bank was RMB2,987 million, accounting for 0.9% of the total amount of loans of the Bank, and the total amount of loans to the top ten single borrowers was RMB12,611 million, representing 3.7% of the total amount of loans of the Bank.

Management Discussion and Analysis

6.6 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, 2020		As of December 31, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Current loans	327,087.3	96.88%	289,262.4	96.68%
Overdue loans ⁽¹⁾				
Up to 3 months	4,664.0	1.38%	4,134.3	1.38%
Over 3 months up to 1 year	2,687.0	0.80%	2,841.3	0.95%
Over 1 year up to 3 years	2,122.3	0.63%	2,047.6	0.68%
Over 3 years	1,049.6	0.31%	919.1	0.31%
Sub-total	10,522.9	3.12%	9,942.3	3.32%
Total loans	337,610.2	100.00%	299,204.7	100.00%

Note:

- (1) Overdue loans represent the principal amount of the loans on which principal or interest is overdue.

As of June 30, 2020, the amount of overdue loans totaled RMB10,523 million, representing an increase of RMB581 million as compared with the end of last year. Overdue loans accounted for 3.12% of the total loans, representing a decrease of 0.20 percentage point as compared with the end of last year.

Management Discussion and Analysis

7. 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, 2020		For the six months ended June 30, 2019	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	5,315.1	50.2%	4,994.2	51.7%
Retail banking business	3,291.7	31.1%	2,830.9	29.3%
Financial markets business	1,950.4	18.4%	1,770.2	18.3%
Other businesses	34.5	0.3%	62.2	0.7%
Total operating income	10,591.7	100.0%	9,657.5	100.0%

8. Analysis on Capital Adequacy Ratio

The Bank continued to optimize its business structure and strengthen its capital management. As of June 30, 2020, the core tier-one capital adequacy ratio of the Bank was 8.53%, representing an increase of 0.02 percentage point as compared with that of the end of last year; the tier-one capital adequacy ratio and capital adequacy ratio of the Bank were 10.30% and 13.00%, respectively, representing a decrease of 0.01 percentage point and 0.02 percentage point, respectively, as compared with that of the end of last year. The Bank proactively implemented a capital-light development model, continued to optimize the risk-weighted assets structure to keep a stable capital adequacy ratio, which fulfilled the regulatory requirements stipulated in the Administrative Measures for the Capital of Commercial Banks (Provisional) issued by CBIRC.

Management Discussion and Analysis

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

	As of June 30, 2020	As of December 31, 2019
(in millions of RMB, except percentages)		
Share capital	20,075.0	20,075.0
Valid portion of capital reserve	14,588.7	14,657.9
Surplus reserve	1,818.3	1,818.3
General reserve	8,934.9	8,934.9
Retained earnings	2,330.0	1,261.3
Valid portion of minority interests	564.4	523.1
Total Core tier-one capital	48,311.3	47,270.5
Core tier-one capital deductions	(1,552.8)	(1,444.8)
Net core tier-one capital	46,758.5	45,825.7
Other tier-one capital	9,708.0	9,702.5
Net tier-one capital	56,466.5	55,528.2
Net tier-two capital	14,840.4	14,592.1
Net capital base	71,306.9	70,120.3
Total risk-weighted assets	548,407.6	538,420.8
Core tier-one capital adequacy ratio	8.53%	8.51%
Tier-one capital adequacy ratio	10.30%	10.31%
Capital adequacy ratio	13.00%	13.02%

9. BUSINESS REVIEW

9.1 Corporate Banking Business

Under the guidance of the “Three Major Strategies” (三大戰略), with its proactive implementation of “Internetization and Ruralization of Banking Services” (上網下鄉) and “Digital Transformation” (數字化轉型) and its adherence to the principle of serving real economy as a financial institution, the Bank has strived to maintain healthy, rapid and high-quality development of its business.

Management Discussion and Analysis

9.1.1 Corporate deposits

The Bank focused on building an endogenous growth mechanism for corporate deposits and optimizing the business structure of corporate deposits. The Bank provided corporate customers with cash management, active debt and other products, seized opportunities presented by the introduction of local debt policy and capital commitments, continuously deepened bank-government-enterprise cooperation, strengthened the building of basic customer base, optimized basic settlement services, and continuously improved the competitiveness of the corporate deposit business.

As of June 30, 2020, the time point balance of the Bank's corporate deposit was RMB223.746 billion, with an increase of RMB12.708 billion or 6.02% as compared to the beginning of the year. Daily average balance of the corporate deposit of the Bank was RMB214.646 billion, with an increase of RMB7.515 billion or 3.63% as compared to the beginning of the year.

9.1.2 Corporate loans

The Bank regarded serving the local economy and society as its foundation, adapted to the economic transformation and upgrading, seized the market opportunity in high-quality assets, and improved quality and efficiency to dig into key industries, create unique solutions, and explore the construction of the industry ecosystem. The Bank transformed its manner of serving customers from managing traditional assets to creating value, meeting customer needs, improving comprehensive contribution, and improving comprehensive financing service capabilities, in which it has achieved good market performance.

Management Discussion and Analysis

The Bank has implemented a regional strategy for financial services, focusing on the two major national strategic projects of “Ecological protection and high-quality development of the Yellow River Area and promoting the rise of the central region” (黃河流域生態保護及高質量發展、促進中部地區崛起), the Henan Province “982” Project, which is designed to make up for the shortcomings and the Henan Province key projects to provide financial support. During the Reporting Period, there were 221 major projects (an increase of risk exposure of more than RMB50 million) with a total amount of RMB26.95 billion.

As of June 30, 2020, the Bank’s corporate loan balance was RMB146.249 billion, an increase of RMB4.44 billion or 3.13% as compared to the beginning of the year.

9.1.3 Corporate customers

Based on the actual economic development of Henan Province, the Bank adhered to being customer-oriented, focused on the in-depth operation of customers, adopted customized service models and business strategies for different customer groups, and carried out category-based operations and classified policies targeting at strategic customers, institutional customers, and small and micro enterprise customers, to innovate customer service models, improve customer service capabilities, and promote the Company’s business transformation and development.

As of June 30, 2020, the number of corporate customers across the Bank reached 218,000 (including interbank customers), representing an increase of 13,000 from the beginning of the year.

9.1.3.1 Strategic customers

The Bank actively implemented category-based operations for corporate customers and transformed the strategic customer business strategy. By doing so, strategic customers, which served themselves on their own in the past, now are being served by the Bank. Through chain operations for strategic customers, dynamic circulation of group customer quotas, asset replacement circulation, and combination and matching, the Bank upgraded its financial services, realized a transformation from extensive management of strategic customers to refined management, and thus increasing the market share and comprehensive contribution in this regard.

Management Discussion and Analysis

As of June 30, 2020, the strategic customer coverage at the Bank's head office-level was 80%. The balance of credit assets accounted for 31.3% of the total assets, representing an increase of 2% from the beginning of the year. And the strategic customers' balance of corporate deposit increased by RMB2.08 billion or 7.7% as compared with the beginning of the year.

9.1.3.2 Institutional customers

The Bank actively fulfilled its duty of serving citizens, innovated its way of service, and deepened bank-government cooperation by focusing on the new trend of government's smart government needs, taking use of various public service scenarios such as non-tax payment, the collection of social security funds, public security, provident fund, tax, etc., and provide various electronic system products with comprehensive functions, efficient maintenance, and rapid iteration for the government to deepen the reform of "delegation of control and upgrading of service", optimize the business environment, improve public satisfaction, and lead the development of digital economy empowerment; seized major strategic business opportunities for rural revitalization. In response to policy hotspots such as rural collective property rights reform, county medical community construction, rural cultural tourism, it quickly responded to market needs, innovated and developed products based on specific business scenarios, and tapped the potential of county market.

As of June 30, 2020, the daily average balance of institutional deposits of the Bank was RMB89.262 billion, recording a decrease of RMB38.508 billion as compared to the beginning of the year. The number of institutional business agency qualification increased by 190 as compared with the beginning of the year.

Management Discussion and Analysis

9.1.3.3 Small and micro customers

The Bank pursued agile transformation, strengthened onlineization and data-based capabilities, and built mechanisms, created products, and distributed channels with the goal of “increment of customer base, expansion of customer coverage, cost reduction, and quality improvement” of small and micro financial services. To do this, first, the Bank continuously enriched its product line, strengthened technological empowerment, and accelerated the iterative optimization of mature standardized products such as government procurement loans and perpetual loans for small and micro enterprise. At the same time, in order to meet the contactless financial service needs of small and micro customers during epidemic prevention and control period, the Bank speeded up the launch of commercial super-V loans, which were pure credit online products based on tobacco procurement scenarios; second, it made full use of external policies, including special refinancing, deferred debt and interest payments to benefit small and micro enterprises; third, further innovated financial service models and strengthened its integration with Internet+ by using big data tools, to enrich customer acquisition methods, and making full use of online channels to provide private small and micro enterprises with efficient and convenient financial services.

As of June 30, 2020, the Bank's balance of loans extended to small and micro customers was RMB132.861 billion, serving more than 51,300 enterprises.

9.1.4. Bank's products

During the Reporting Period, the Bank innovated product strategies, optimized product functions, gradually formed a comprehensive product structure and improved service capabilities to enhance customer experience and satisfaction.

In terms of debt products, the Bank responded to customer needs efficiently, completed the development and launch of profit products and the service of assignment of certificates of deposit of large units, in order to improve the market competitiveness of its products. In terms of customer settlement services and liquidity management, the Bank complied with the requirements of the self-regulatory mechanism for interest rate pricing, continuously optimized cash management products, strengthened the use of product portfolio, and provided customers with settlement convenience.

Management Discussion and Analysis

In terms of investment banking products, the Bank actively expanded innovative business products such as underwriting debt financing instruments of non-financial enterprises, asset securitization, overseas financing, fund matching and financial advisory for listing in Hong Kong.

In terms of transaction banking products, centering on the strategy of building a “data-based bank, tech bank”, the Bank actively embraced digital transformation, focused on the creation of key products such as electronic guarantees and ZY e-chains, and launched three innovative models in the infrastructure field, therefore making continuous breakthroughs in key businesses.

While the product system continued to be enriched, the Bank, guided by its strategy of building a “data-based bank and tech bank”, has carried out digital transformation to accelerate the onlineization and scenarioization of the Company’s products and services, and continue to enhance the competitiveness of the Company’s products.

9.1.5 Investment banking

During the Reporting Period, the Bank exerted lots of efforts in promoting its transformation from traditional investment banks to investment banks with integrated service on the basis of the stable development of investment banking services such as bonds underwriting, structural financing, equity financing, and financial advisory, expanding innovative business products and working to help epidemic prevention and control and the production resumption of enterprises. Since the Bank obtained the qualification of a Type B lead underwriter for non-financial corporate debt financing instruments from the National Association of Financial Market Institutional Investors in 2019, its bond underwriting business developed rapidly. During the Reporting Period, 7 debt financing instruments were successfully underwritten by the Bank, with an accumulated scale of RMB4.9 billion. The Bank also put on record of Beijing Financial Assets Exchange an accumulative amount of RMB1.33 billion of debt financing plans. It also led the issuance of Henan Province’s first epidemic prevention and control debt to help companies fight the epidemic and resume production. The Bank actively revitalized the resources of its peers, established a cooperation circle with other banking, insurance, trust, and leasing financial institutions, and provided comprehensive and multi-channel integrated financial services for large and medium-sized customers within the province through syndicated loans, joint investment, and fund matching. The Bank made full use of the advantages of innovative equity financing products to build bridges between enterprises and regulators, Shanghai and Shenzhen Stock

Management Discussion and Analysis

Exchanges and other capital markets to support capable enterprises in the province to log on to the Sci-tech Innovation Board and ChiNext; actively expanded the asset securitization business to provide comprehensive services including Pre-ABS investment, scheme design, and underwriting and issuance for leading enterprises inside and outside the province to meet their personalized financing needs of high-quality enterprises; continued to promote the construction of cross-border investment and financing cooperation platforms, vigorously advanced overseas financing and financial advisory services of listing in Hong Kong and cross-border M&A advisory financing services, and continued to explore innovative business models and service models.

9.1.6 Transaction banking

With the vision of “becoming a first-class transaction banking service provider with characteristic solutions”, the Bank’s transaction banking sector actively promoted the implementation of transaction banking innovation projects through a cross-functional team integrating business, technology and risk, focusing on characteristic industries, and extended services to upstream and downstream customers in the supply chain. As of June 30, 2020, the amount of transaction bank financing reached RMB59.2 billion, achieving an income from intermediary business of RMB206 million. There were 5,509 valid accounts, representing an increase of 1,800 over the same period and an increase of 387 over the beginning of the year, which showed the basic customer base continued to expand.

9.1.6.1 Cash management

Through independent research and development and product innovation, the Bank has established a relatively complete cash management product system and continued to promote the onlineization of business processes, which can provide comprehensive cash management service solutions for enterprises, governments and public institutions. During the Reporting Period, the Bank launched businesses like “Rural Collective Economic Organization Bookkeeping and Supervision”, “Township-level Management of Village Assets”, and “Street-level Management of Neighborhood Committee Assets” to assist community-level governments to strengthen financial and fund management. As of June 30, 2020, the Bank’s cash management business has driven an average daily deposit of RMB57.5 billion, representing an increase of 23% over the same period. The number of contracting groups to key product cash pool is 568, representing an increase of 154% over the same period.

Management Discussion and Analysis

9.1.6.2 Corporate electronic channels

First, the Bank constantly innovated the application scenarios of corporate electronic channels, reached customers through multiple channels, and used product creation thinking to understand customer needs. And it continued iterative optimization through methods such as peer analysis and online customer research to quickly respond to customer needs. As of June 30, 2020, there were 11,799 new corporate online banking customers, an increase of 9.1% from the beginning of the year, and 6,972 corporate mobile customers, an increase of 40.5% from the beginning of the year; second, customer activity continued to increase, and the number of electronic channel replacement rates was 94.92%, an increase of 1.56% over the same period of last year; the average customer activity in the first half of the year remained above 90%.

9.1.6.3 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. It served small, medium and micro customers in the industry chain, practiced inclusive finance to boost the real economy. Its financing business has raised RMB2.12 billion. It independently researched and developed innovative product ZY e-chain, which can connect upstream and downstream enterprises in the supply chain and solve their financing difficulties. Since the first order placed in March 2020, it has invested a total of RMB85.81 million in assets, benefiting nearly 50 upstream suppliers, presenting initial results of value contribution. It has been cooperated with 9 trading centers in the public resource trading center's electronic guarantee business, with a total amount of RMB94 million; it has benefited 46 suppliers by three business models in the infrastructure field with a total amount of RMB216 million.

Management Discussion and Analysis

9.1.6.4 Cross-border finance

The Bank actively implemented regulatory policy requirements, conducted solid business research, comprehensively promoted system construction, therefore successfully launching the cross-border financial blockchain platform and completing the first order, and successfully launching innovative businesses such as pending order settlement and export tax rebate pool financing. As of June 30, 2020, the international settlement of international business of the transaction banking reached US\$2.14 billion; the Bank issued approximately US\$580 million of letter credit for importation, with a year-on-year increase of 28%.

9.2 Retail Banking Business

During the Reporting Period, the Bank's retail business implemented thoroughly the Bank's "Three Major Strategies", "Internetization and Ruralization of Banking Services" and digital transformation, adhered to customer-centricity, deepened the digital transformation, and continuously promoted the continuous optimization of line agile organizations to promote the efficient operation of agile organizations. Through scientific resource allocation, it made every effort to support business development, further enhance the market competitiveness and brand image of the Bank's retail business, and successfully completed the budget targets for the first half of 2020.

9.2.1 Retail Deposits

During the Reporting Period, the Bank analyzed the opportunities and challenges brought about by the epidemic, clarified its responsibilities and objectives, marketing orientation, formulated practical and feasible measures, established online operation system and relevant specifications, and promoted the development of online operations focusing on "channels, products, users and activities". At the same time, it promoted big data use cases on a large scale, completed the launch and promotion of 26 big data use cases, highlighting the role of big data use cases in improving customer operations. It also adhered to being customer-centric, deepened the construction of the ecosystem, continuously released product innovation efficiency, and continued to improve sales capabilities.

Management Discussion and Analysis

As of June 30, 2020, the time point balance of savings deposits was RMB194.611 billion, representing an increase of RMB20.603 billion or 11.84% as compared to the end of last year. The daily average balance of savings deposits was RMB188.246 billion, representing an increase of RMB11.015 billion or 6.22% as compared to the end of last year. The balance of asset under management was RMB257.624 billion, representing an increase of RMB32.048 billion or 14.2% as compared with the end of last year.

9.2.2 Retail Loans

During the Reporting Period, the Bank thoroughly implemented the digital transformation strategy, continuously improved the onlineization of retail loan products, expanded service channels, so as to improve customer experience.

The Bank actively responded to the national policy guideline of “supporting small and micro businesses, giving benefits to small and micro businesses”; in order to meet the capital needs of Jushang merchants for daily operations, capital turnover, and expansion, it launched the innovative, unsecured pure credit product – “Jushang Loan(聚商快贷)”, the whole process of which can be handled through mobile bank and WeChat bank by customers themselves. After the product put online for 10 days, the number of marketing customers achieved more than 5,000, credit lines RMB150 million, and withdrawals more than RMB50 million.

Perpetual loan and mortgage business now can be handled online from incoming documents acceptance to notarization processing; customer data accumulation for car rental loan business optimized the car loan approval model, which has achieved automated approval. The Bank also introduced the big data use case of “Perpetual Loan” and “ZY e-New Customer Marketing” to comprehensively cover the key customer groups of retail loan products; strengthened the accumulation of private domain traffic to improve the referral of retail loan customers. Through all of these, the Bank effectively realized the rapid development of retail loan business.

The Bank insisted on paying equal emphasis on both business development and risk prevention and control. While accelerating the distribution of retail credit, it continued to optimize the approval model, the intelligent risk control system, strengthen post-loan management, and accelerate overdue collection and non-performing disposal, so as to achieve rapid, healthy and steady development of retail credit business.

Management Discussion and Analysis

As of June 30, 2020, the time point balance of the personal loans was RMB161.696 billion, representing an increase of RMB30.271 billion or 23.03% as compared to the end of last year; the daily average balance of personal loans was RMB145.658 billion, representing an increase of RMB21.183 billion or 17.02% as compared to the end of last year.

9.2.3 Personal customers

As of June 30, 2020, the Bank's customers reached 15,792,900 in total, representing an increase of 846,700 or 5.66% as compared with the end of last year, of which 6,396,300 were valid customers, representing an increase of 1,948,600 or 43.81% as compared with the end of last year.

9.2.3.1 Mass customers

As of June 30, 2020, the number of mass customers was 3,444,800, representing an increase of 463,400 over the previous year; the size of savings deposits was RMB142.036 billion, representing an increase of RMB15.321 billion over the previous year; the amount of assets under management (including savings) was RMB184.792 billion, representing an increase of RMB21.572 billion over the previous year. Among them, the amount of off-balance sheet assets under management exceeded RMB70 billion for the first time, reaching RMB71.938 billion, representing an increase of RMB12.442 billion from the previous year and an increase of RMB6.815 billion over the same period, showing that initial stage results were achieved through reshaping the retail business development logic by asset management. Focusing on the core customer operations of agency issuance, the number of agency development customers increased by 337,300 from the beginning of the year, representing an increase of 29.19% over the same period, and the assets under management (including savings) increased by RMB10.209 billion from the previous year, representing an increase of 47.21% over the same period; 26 big data use cases were launched, which have brought about RMB8.761 billion in asset management (including savings).

Management Discussion and Analysis

9.2.3.2 Wealth management & private banking customer groups

As of June 30, 2020, the number of wealth management & private banking customers was 29,300, representing an increase of 4,000 or 15.81% over the previous year; the amount of assets under management (including savings) was RMB72.393 billion, representing an increase of RMB13.056 billion or 22.00% over the previous year, of which the savings deposits of wealth management & private banking customers increased by RMB6.539 billion. The number of customers with a balance exceeding RMB3 million was 5,000, representing an increase of 1,000 over the previous year. The balance of off-balance sheet assets was RMB29.182 billion, representing an increase of RMB6.518 billion or 28.76% over the previous year; the business scale of high-net-worth exclusive products such as trust asset management has achieved leapfrog growth. In the first half of 2020, the amount of high-net-worth exclusive products sold was RMB4.85 billion, making the Bank No.1 among 31 banks in the province with a market share of 17.19%, according to the statistics of the Henan Provincial regulatory authority.

9.2.4 Scenario Development and Operation

During the Reporting Period, the Bank quickly adjusted the operation ideas of various scenarios in accordance with the changes in the epidemic prevention and control situation, and at the same time used big data use cases to carry out refined operations, which effectively improved the monthly activity of scenario users and customer conversion rate.

In terms of community products, the Bank launched the epidemic registration management system “One District One Code” during the epidemic prevention and control period to fully meet customer needs and effectively improve the informationization of epidemic prevention and control measures. As of June 30, 2020, there were a total of 102,475 communities included, covering 1,794 property management companies. The total number of users in the community is 3.94 million, with 3.58 million registered online users, 375,000 payment transactions, and a payment amount of RMB130 million. Among the registered users, 836,000 customers owned the card of our bank, of which 75,000 customers has effectively converted through the community scenario. The community scenario also drove 36,000 customers who did not use banking functions for a long time to use our services.

Management Discussion and Analysis

With regard to the Zhongyuan Foodie Map, there was a rapid transformation from serving customers “in the store” to “at customers’ home” during the epidemic prevention and control period; the two operating activities of “foodie helping farmers” and “foodie fighting the epidemic” were transformed into sustainable “direct mail from origin place of production” and “food to your home”, so as to meet the needs of merchants and consumers through the Bank’s channel advantages, customer base advantages and product bargaining advantages. As of June 30, 2020, the number of registered users of Zhongyuan Foodie Map reached 1,120,600, the number of monthly active users reached 254,000, and the number of customers converted through online operations reached 65,700; the total number of merchants with products sold on the platform reached 6,655. The total number of online transactions is 803,900, and the total transaction amount is RMB33,479,200. The Bank also launched the “Credit Card Wednesday Foodie Day” activity (recording a transaction amount of RMB29,522,600), and the “Foodie Helping Farmers” activity to conduct online sales of various agricultural products (recording a transaction amount of RMB493,700).

For small and micro merchants, Zhongyuan Jushang responded to environmental changes, quickly adjusted business operation ideas, continued to streamline operating procedures, and enriched online promotional tools for merchants; through rapid product iteration, event operations, merchant return visits, and data embedding, it continued to promote service upgrades, provide value-added services, credit support, and use big data use cases to conduct refined business operations. As of June 30, 2020, the number of registered merchants was 240,200, of which 106,000 were valid customers, and the effective rate was 50.21%. Deposits from these merchants were RMB7.095 billion, representing an increase of RMB1.775 billion from the beginning of the year. The balance of assets under management was RMB10.387 billion, representing an increase of RMB2.707 billion from the beginning of the year.

In terms of products in the education field, the campus health reporting system was launched; through key items such as lunch fees and extended service fees, 280 schools have been included and 8,071 wage cards have been issued. As of June 30, 2020, there were 587 new schools and educational institutions, reaching a total of 3,519; 347,000 new registered users, reaching a total of 717,000 registered users; and 542,000 new collections with an amount of RMB717 million, reaching a total of 950,000 receipts with an amount of RMB1.39 billion; the number of monthly active users was 137,000, with 13,500 newly converted customers; in terms of all-in-one card projects, 2 has been put online; a total of 101,000 cards were issued, including 20,000 valid users, accounting for 19.9%.

Management Discussion and Analysis

9.2.5 Mass Customer Service

During the Reporting Period, the Bank's mass customer business adhered to being customer-centric. Targeting at customer groups, focusing on key customer group acquisition and operation, it has followed the data-driven strategy, deepened customer operations, highlighted online operations, and continuously consolidated the retail customer base.

Focusing on key customer groups, the Bank made every effort to developing the agency business. On the one hand, it actively seized market opportunities and achieved batch acquisition of customers, and issued the "Marketing Guidelines for Anti-epidemic Credit Enterprises", covering 1,146 agency companies, reaching 113 potential agencies; on the other hand, it innovated the agency model of customer acquisition, optimized the process to enhance the experience, created an open financial ecosystem, and thus realizing the function of "online agreement signing and issuing + online collection of card issuance information and card issuance + inter-bank salary payment + loan issuance".

Through data empowerment, precision marketing of big data use cases, based on the results of big data business diagnosis and analysis, according to the full life cycle of customers, from new passenger boarding, existing customer promotion, cross-selling, customer referral, anti-churn, event-driven, product expiration and other dimensions, with the help of data-driven technology, the Bank has done a good job in in-depth customer operations. As of June 30, 2020, a total of 43.09 million potential sale clues had been delivered, resulting in a sales conversion of RMB141 billion and a boost in asset under management of RMB9.1 billion.

Highlighted online operations to promote online customers and activities. In order to realize the online operation of mass customers, the Bank formulated a "two-step" policy for online customer and business: launched a series of festivals and online activities at important time point for large groups of customers, achieving 6.366 million visits and participation of 817,000 person-times, product sales of RMB3.82 billion, and an increase in the balance of asset under management of RMB3.44 billion; for key customer groups, a series of activities were carried out in the shopping mall with accumulated reward points, achieving 30,560,400 visits and 989,400 participants, effectively reaching online customers, enhancing customer activity and driving value contribution.

Management Discussion and Analysis

Reshaped business logic to drive the balance growth in assets under management. To overcome the impact of the epidemic, the Bank oriented to customers, and through leveraging on digital transformation and a number of measures such as focusing on key aspects of risk assessment, increasing product supply, and using big data use cases for precision marketing, the Bank reshaped business logic to drive performance growth. 974,500 customers received risk assessment service, representing an increase of 370,000 from the beginning of the year. The risk assessment rate of new accounts increased from 3.83% at the beginning of the year to 74%.

9.2.6 Wealth and private banking

During the Reporting Period, the Bank's wealth and private banking business has always adhered to data-driven operation, proactively planned special customer groups, and at the same time used data thinking to do a good job in category-based operation and promotion of existing customers.

The Bank's wealth and private banking business focused on customer needs, constantly responded to market changes, and actively sought to develop business cooperation with excellent domestic and foreign cooperative institutions, thus gradually building a "3+1+N" high-net-worth exclusive product system based on "Best Selection", "Better Selection", and "Good Selection" and integrating domestic and foreign financial resources, the total sales volume in 2020 and the monthly sales volume in June of which continued to rank first among the province's 31 banks.

Focusing on key customer groups, big data marketing is fully leveraged. On the one hand, the Bank actively planned customer groups such as liquor distributors and medical and sanitary equipment distributors to seize market opportunities and achieve mass customer acquisition. On the other hand, the Bank innovated the private wealth customer acquisition model – accurately identifying target customer groups such as "high salary" group through big data analysis, carrying out joint marketing of headquarters and branches, and using the online + offline marketing model to integrate inter-bank resources to create an open financial ecosystem.

Management Discussion and Analysis

Empowered the building of a professional team by technology. The Bank's wealth and private banking business has formed a core team with many years of experience in investment banking, asset management, wealth management and risk management. All 18 branches have formed a wealth management high-level supporting team dedicated to high-end customers, serving all prefecture-level cities in Henan Province. At the same time, the Bank has actively explored the online sales of innovative high-net-worth products, optimized the process of customer risk rating and product risk disclosure, and put online the entire process of the Good Selection series of asset management agency products to ensure that the Bank could still provide customers with high-quality asset portfolio during the epidemic prevention and control period.

The non-financial high-end service system has been continuously improved, and special brand services such as Zhongyuan Famous Doctor(中原名醫堂) and Zhongyuan Happy Tour Future Leader Club(中原悦出行未來領袖俱樂部) met the diverse needs of customers. As of June 30, 2020, 5 online customer acquisition events and 4 offline events have been held.

9.2.7 Agriculture-related Business

During the Reporting Period, the Bank's agriculture-related business insisted on solving the problem of "Ruralization of Banking Services" with the "Internalization of Banking Services" thinking. At the same time, it was committed to serving rural governance and villagers with the Internet and big data. It also researched and developed a "village online" platform that integrated functions such as party building, village affairs, life, social interaction, e-commerce, and finance.

It built a comprehensive rural life service platform. By providing diversified services, it met the life and production needs of villagers. In view of the difficulty of paying fees, lack of channels to sell agricultural products, seeing a doctor, having access to legal consultation, employment information consultation, etc., functions such as water and electricity fees payment, agricultural product upward and tracing system, online medical value-added services, legal consultation, and employment information inquiry have been added.

Management Discussion and Analysis

It assisted the prevention and control of the epidemic to fulfill social responsibilities: actively collected clues to solve the problem of unsalable agricultural products, and continued to carry out agricultural sales promotion activities. As of June 30, 2020, a total of 79,500 kilograms of agricultural products have been sold, helping farmers increase income by more than RMB300,000, and a total of 2,214 customers and 1,699 effective accounts were newly added with an increase in assets of RMB130 million.

It assisted the resumption of work and production, and provided credit fund support: fully supported the resumption of work and production in the province during the epidemic prevention and control period, reduced the interest rate of newly issued loans by 300BPs, and carried out the interest reduction activities like “interest rate reduction war to fight epidemic” and “helping spring ploughing”. During the epidemic prevention and control period, an accumulative amount of RMB470 million of “Yu’nong Loan” was extended to nearly 20,000 rural households. As of June 30, 2020, “Yu’nong Loan” has issued a total of RMB1.175 billion and a pre-credit amount of RMB6.215 billion, serving approximately 124,300 rural households and approximately 500,000 rural people.

As of June 30, 2020, the Bank had established 130 county-level sub-branches (including subordinates of county-level sub-branches), 53 township sub-branches, and 4,460 rural inclusive financial service stations and farmers-benefiting payment service outlets within the province. At present, the inclusive financial service stations under operation have covered 70% of the towns in 18 cities in Henan Province, benefiting more than 10 million rural residents, and accepting 3,138,600 various transactions of rural residents in the province with an accumulative amount of RMB11.872 billion.

As of June 30, 2020, the balance of agriculture-related deposits was RMB25.59 billion, representing an increase of RMB6.67 billion or 35.3% from the end of last year, ranking first among 42 banks cooperating with Yinong Technology.

Management Discussion and Analysis

9.2.8 Credit Card Business

During the Reporting Period, the Bank insisted on paying equal attention to credit card issuance and operation, continued to build and optimize a customer-centric ecosystem, and improved the scenario-based and digital operation system. The Zhongyuan Bank-Ctrip co-branded platinum card and Silver Base co-branded card have been launched successively, using large platform traffic and characteristic cooperation implantation scenarios to gain customers. It also continuously explored customer needs, innovated ways of customer operations, and rapidly changed customer business models during the epidemic prevention and control period. Relying on online service models such as “keeping it fresh”, “foodies’ fight”, “food to your home” to meet people’s livelihood needs. To enrich the installment product system, it launched installment products such as “cash instalments”, Fenbei, and Yingcai jin, accurately identifying customer needs to carry out in-depth customer operations, and it took multiple measures to increase the proportion of interest-earning assets, further optimizing the income structure and improving credit card profitability. It continued to promote the construction of intelligent risk control system, strengthen data empowerment, and formulate differentiated risk pricing strategies, with an aim to further enhancing customer insight.

As of June 30, 2020, a total of 2,164,000 credit cards were issued, representing an increase of 166,300 as compared with the end of last year. A total of 1,477,900 cards were activated; the annual transactions amount totaled RMB38.26 billion, representing an increase of 58.85%. The total income was RMB312 million, representing an increase of 101.40%. The loan balance was RMB10.56 billion. Amongst them, the revolving loan was RMB8.545 billion, and the balance of installment loans was RMB2.015 billion.

Management Discussion and Analysis

9.3 Financial Market Business

9.3.1 Treasury business

During the Reporting Period, the Bank actively conducted monetary policy, assumed its own responsibilities to ensure the stable operation of the financial market, and continued to increase capital operations while maintaining the Bank's liquidity security to improve the efficiency of capital operations. In order to further play the role of "anti-epidemic" of finance in society, the Bank successfully issued a special inter-bank deposit certificate for epidemic prevention and control of RMB500 million, with an issuance interest rate of 10BPs lower than that of similar institutions in the market, becoming the first financial institution in Henan Province to successfully issue an epidemic prevention certificate of deposit, moving forward financial "anti-epidemic" work further.

During the Reporting Period, the Bank closely tracked market changes, actively seized opportunities at different time points, and adjusted the stock portfolio structure in a timely manner, so that bond investment income increased significantly year-on-year. At the same time, the Bank closely followed the pace of market innovation, actively applied for business qualifications, and put into operation the first batch of foreign currency repurchase transactions with domestic RMB bonds as collateral in the inter-bank market, which enriched foreign currency financing tools.

9.3.2 Interbank Business

The inter-bank business has always adhered to the business strategy of providing medium and long-term liquidity support for the whole bank, helping inter-bank customers to do a good job in product sales, optimizing the asset structure to support the real economy, adjusting the scale of assets to balance the surplus and shortage of funds, and improving product innovation and customer service capabilities while ensuring stable business growth, to effectively promote the deepening development and innovation transformation of inter-bank business.

Management Discussion and Analysis

During the Reporting Period, the Bank actively implemented various anti-epidemic financial policies. By relying on financial technology support, it provided online discount services for enterprises, especially for small, medium and micro enterprises. At the same time, by encouraging branches to actively apply for special rediscount quotas, the Bank helped small, medium and micro enterprises to reduce financing costs, and supported enterprises to resume production and work. At the end of the Reporting Period, the bill discount business recorded RMB31.478 billion, representing an increase of 20.63% over the same period of last year. Among them, the discounts handled through the Bank's online discount product "ZY e-Discount" accounted for 77% of the total discount volume.

During the Reporting Period, the Bank gave full play to the advantages as a leading participating institution of CFETS inter-bank depositors, guided customers to transfer from offline operation to online operation, reduced personnel flow and physical contact, improved business processing efficiency and safety, so as to help prevent and control the epidemic. At the same time, it provided liquidity support to small and medium-sized financial institutions through the online CFETS interbank deposit, fully demonstrating the Bank's responsibility as the leading participating institution of CFETS interbank depositors to pool financial strength, and jointly fight the epidemic. During the Reporting Period, the cumulative turnover of CFETS interbank deposits was RMB15.64 billion, representing an increase of RMB6.396 billion over the same period of last year, or 71%.

9.3.3 Asset Management

During the Reporting Period, the Bank's Dingsheng Wealth series of wealth management products recorded a stable performance, making the scale of wealth management steadily increase. At the end of the Reporting Period, the Bank's existing wealth management products totaled 316, with an existing scale of RMB70.828 billion, representing an increase of RMB9.787 billion or 16.03% from the beginning of the year.

During the Reporting Period, the Bank actively fulfilled its social responsibilities and took the lead in issuing the province's first charity and anti-epidemic public welfare financial management product. During the epidemic prevention and control period, a total of RMB287,200 was donated on behalf of clients through charity and anti-epidemic public welfare financial management product, which was specifically used for the prevention and control of the coronavirus epidemic. At the same time, it steadily advanced the transformation to net worth products by launching the new "T+1" cash management product "Xinyibao",

Management Discussion and Analysis

the long-term limited product “Shuang Nian Ying”, and the medium and long-term “Anxin” series of FOF products and “Wisdom” series of structured products, forming eight main product series, to meet the investment needs of multi-level and various types of customers for net-worth wealth management products. At the end of the Reporting Period, the balance of net-worth products was RMB48.672 billion, an increase of RMB16.868 billion or 53.04% from the beginning of the year, accounting for 68.72% of the total wealth management business, which increased by 16.62 percentage points from the beginning of the year.

9.4 Internet financial business

9.4.1 Mobile finance

During the Reporting Period, the Bank focused on the “mobile first” development strategy, adhered to being “customer-centric”, actively carried out omni-channel operation and management, and orderly promoted the construction of online and offline channel systems, refined online operation management, and strengthened online customer operation and service capabilities, comprehensively improved user experience, to assist the rapid development of the bank’s retail business.

9.4.1.1 Personal Online Banking

As of June 30, 2020, the Bank’s personal online banking attracted 28,200 new users, with the total number of users reaching 913,800. The total number of transactions reached 13,143,400, and the total transaction amount reached RMB69 million.

9.4.1.2 Mobile banking

During the Reporting Period, the Bank quickly improved its online service capabilities by launching functions such as the epidemic-related section, providing financial and life service support in donations, water and electricity fees payment, personal credit, medical care, etc., and building an online operation system of Zhongyuan Bank, so as to effectively guarantee customers’ daily needs. As of June 30, 2020, the Bank’s mobile banking users had attracted 694,600 new users, making the total number reaching 6,751,800; the total monthly active users increased by 411,200, with a total number of 1,806,200 users.

Management Discussion and Analysis

The Bank continuously improved the service capabilities of non-financial scenarios, optimized the management of mall orders, launched mall coupons and other functions, in order to provide customers with a secure and comfortable shopping platform, and create a comprehensive service atmosphere for mobile banking. As of June 30, 2020, the number of third-party sellers in the online integrated mall reached 126 and the number of orders effectively completed was 118,200, with an actual transaction amount of RMB1,471,600.

9.4.1.3 WeChat Banking

Based on the development of the epidemic and the urgent needs of customers, the Bank created an epidemic section to support the needs of epidemic-related materials in prefectures and cities; carried out platform-level private domain traffic marketing activities such as “matching wish to win bonuses”, which has attracted 214,000 participants, and 174,900 new fans participated in it. As of June 30, 2020, WeChat Bank had 3.9 million followers, an increase of 966,000 from the end of the previous year; the number of WeChat Bank’s users who link their WeChat accounts with their bank cards were 2.35 million, an increase of 867,000 from the end of the previous year; WeChat Bank’s monthly active accounts were 859,100, an increase of 341,800 compared with the end of the previous year.

9.4.1.4 ATM

The Bank’s self-service equipment includes automatic teller machine, smart teller machine, mobile PAD, CRS, etc. Those machines provide customers with a variety of self-services such as depositing and withdrawal of cash, account opening and account services, investment and wealth management, credit card business, etc. During the Reporting Period, the Bank used advanced technology to implement innovative service models such as face recognition and mobile phone code scanning for business processing, strengthened traffic conversion from offline channels to online channels, and enhanced customer operating experience. As of June 30, 2020, the number of Bank’s self-service equipment has reached 5,353 units in total, of which, there were 1,497 ATMs and CRSs, 841 smart teller machines, 399 smart cash counters, 50 VTMs, 1,216 multimedia kiosks, 1,238 mobile PADs and 112 self-service receipt printers. In the first half year, a total of 16,550,200 transactions were completed via offline self-service channels, involving a total transaction amount of RMB52.177 billion.

Management Discussion and Analysis

9.4.1.5 Customer Service Center

In line with the purpose of improving service quality and reducing labor costs, in the first half of 2020, the Bank launched the construction of intelligent customer service, changed the outsourcing service model of traditional manual services, and improved customer service response rate, call-through rate and other services indicators by strengthening the management of outsourcing personnel to provide customers with efficient, convenient and smooth services. As of June 30, 2020, the total number of incoming calls was 1,741,400, of which 798,500 were manual calls, 90.78% of them were connected, and the customer satisfaction rate was 99.53%; online customer service accepted 2,313,200 customer calls, 89,900 of which were transferred to manual calls and 96.11% of which were received by intelligent robots, with a pickup rate of 98.5%, and a customer satisfaction rate of 93.96%.

9.4.2 Direct Bank

During the Reporting Period, the Bank's direct bank business regarded building a small and medium-sized digitally transformed fintech service brand as its vision, and was committed to using the Bank's digital transformation results to jointly create a joint innovative business represented by perpetual loan products with financial institutions represented by small and medium banks. As of June 30, 2020, 17 banks have signed agreements with us on jointly innovative business of "perpetual loan", of which 3 banks signed this year. 12 cooperative projects have been implemented, including 2 projects being implemented this year; the scale of assets under management was RMB3.77 billion, of which RMB1.987 billion was added this year. In terms of the number of cooperative institutions and the scale of assets under management, the direct bank's joint innovation business of perpetual loan has formed a certain brand effect and scale effect in city commercial banks.

Management Discussion and Analysis

9.5 Investment Business of Subsidiaries and Joint Venture

9.5.1 County banks

As of June 30, 2020, the Bank held 51.72% of equity of Xinyang Pingqiao Zhongyuan County Bank Co., Ltd. (信陽平橋中原村鎮銀行股份有限公司), 51% of Linzhou Zhongyuan County Bank Co., Ltd. (林州中原村鎮銀行股份有限公司), 51% of Qixian Zhongyuan County Bank Co., Ltd. (淇縣中原村鎮銀行股份有限公司), 51% of Puyang Zhongyuan County Bank Co., Ltd. (濮陽中原村鎮銀行股份有限公司), 43.69% of Xiping Caifu County Bank Co., Ltd. (西平財富村鎮銀行股份有限公司), 51.02% of Suiping Zhongyuan County Bank Co., Ltd. (遂平中原村鎮銀行股份有限公司), 51% of Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), 41% of Xiangcheng Huipu County Bank Co., Ltd. (襄城匯浦村鎮銀行股份有限公司) and 78.46% of Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司). Through concerted action agreements, the Bank formed alliances with two of the Nine County Banks that do not have a controlling stake.

The Nine County Banks provided local enterprises and retail banking customers with a broad range of financial products and services, including commercial and consumer loans, deposits from customers and fee-based and commission-based products and services, such as settlement services, remittance services and bank card services. We intended to incorporate the Nine County Banks into the Bank's comprehensive service offering channels, to take advantage of their existing local market position and customer base, thereby allowing us to further penetrate our services and enhance the Bank's brand awareness.

The Nine County Banks adhered to their market positioning of serving "agriculture, rural areas and farmers (三農)" and "small and micro enterprises (小微)" and extended credit following the principles of "micro, mobile and disperse (小額、流動、分散)". Their size of assets kept 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, 2020, the total assets amounted to RMB13.279 billion, representing an increase of RMB1.228 billion, or 10.2%, as compared to the beginning of the year. The balance of deposits amounted to RMB11.241 billion, representing an increase of RMB919 million, or 8.9%, as compared to the beginning of the year. The total loans amounted to RMB8.804 billion, representing an increase of RMB810 million, or 10.1%, as compared to the beginning of the year.

Management Discussion and Analysis

The Nine County Banks are independent legal entities regulated by the China Banking and Insurance Regulatory Commission. The Bank respects and strives to maintain the independent operation of such banks. The Bank believes that the independent business model has enabled the Nine County Banks to leverage their local networks and customer relationships to better adapt to changes in local markets.

9.5.2 Financial Leasing Company

On February 19, 2019, the Bank acquired 90% of the equity of AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司) (“AB Leasing”). Pursuant to the “Reply from the CBIRC on the Change in Equity Ownership of AB Leasing Co., Ltd.” (中國銀保監會關於邦銀金融租賃股份有限公司變更股權的批覆) (Yin Bao Jian Fu [2019] No. 917) issued by the CBIRC, the CBIRC gave its approval to the acquisition of the equity interest in AB Leasing held by CDRCB and AB Life Insurance by the Bank and Henan Wansong. Upon completion of the acquisition, the Bank and Henan Wansong hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the equity interest of AB Leasing, respectively. During the Reporting Period, the Bank was informed that AB Leasing completed the business license and change of business registration procedures in connection with the acquisition on May 12, 2020. The Bank holds a total of 2.7 billion shares of AB Leasing, with a shareholding ratio of 90%; Henan Wansong holds a total of 300 million shares of AB Leasing, with a shareholding ratio of 10%. For details, please refer to the announcements dated February 19, 2019, October 16, 2019 and May 29, 2020 published by the Bank on the websites of the Hong Kong Stock Exchange and the Company, respectively.

AB Leasing was established and is conducting operations in China. Insisting on faithfully serving the development of real economy, AB Leasing focuses on infrastructure-related business that are related to the national economy and the people's livelihood; giving top priority to credit risk management in development, it constantly reinforces credit risk-related research and investigation to ensure that credit risks are fully assessed; upholding the principles of legality, reasonability, applicability and completeness, it continuously improves its internal control system, enhancing the implementation thereof, ensuring that the company's development strategy and business objectives can be fully realized.

Management Discussion and Analysis

As of June 30, 2020, the total assets of AB Leasing were RMB32.018 billion, and the total finance lease receivables were RMB31.543 billion. As of June 30, 2020, the amount released by AB Leasing totaled RMB67.5 billion, with the number of lease transaction reached 383 in aggregate. The amount of operating revenue was RMB0.623 billion in the first half of 2020. It has started business in 24 provinces, municipalities and autonomous regions in the PRC.

9.5.3 Consumer Finance Company

During the Reporting Period, Consumer Finance Company focused on epidemic prevention and control on the one hand, and prudent operation on the other. Relying on the advantages of Zhongyuan Bank's shareholders, based in Henan, facing the whole country, Consumer Finance Company exerted intensive efforts to developing itself in the region it expanded, and actively implemented inclusive finance. As of June 30, 2020, the loan amount of Consumer Finance Company during the Reporting Period was RMB18.118 billion, and the cumulative loan amount was RMB72.293 billion; the new loan balance during the Reporting Period was RMB1.236 billion, and the loan balance was RMB15.244 billion. In the Reporting Period, the number of loans exceeded 5.44 million, and the cumulative amount of loans exceeded 18.6305 million; the operating income during the Reporting Period was RMB1.037 billion, and the number of new customers during the Reporting Period was 2.1862 million, providing consumer finance service for a total of 7.7524 million customers and contribute new vitality to the economic development of Henan Province and the whole country.

10. Risk Management

During the Reporting Period, the Bank spared no efforts to control risks arising from the COVID-19 pandemic, provided supports for the entities to resume their work and production and offered supports and services for real economy amid the grim and intertwined internal and external operating situations, while taking the sustainable development of the commercial bank as the fundamental way to prevent and control financial risks. Meanwhile, the Bank vigorously strengthened its ability to manage new risks in the fintech environment and improved an online, digital, intelligent and refined risk control system. It commenced the establishment of a foundational platform for digital risk management transformation and deepened big data application in the whole process and key risks of credit business. In addition, the Bank facilitated the overall risk management, closely monitored the implementation of "reducing old and controlling new" and proactively responded to the external impact, thereby ensuring each of the businesses of the Bank develops in a continuously healthy manner.

Management Discussion and Analysis

10.1 Credit risk

During the Reporting Period, the Bank maintained its prudent risk preference, proactively responded to the credit risk exposures arising from external factors such as the COVID-19 pandemic and continuously “managed increment, controlled variables and improved quality”, making the Bank’s asset quality remaining stable, the credit structure being optimized and the overall concentration risk under control.

It closely monitored the implementation of “reducing old and controlling new” and continued to maintain a stable asset quality. The Bank strictly complied with the regulatory requirements, to classify all the loans overdue for more than 60 days into non-performing loans. During the Reporting Period, the Bank 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 its solutions, and improved the effectiveness of resolution through “portfolio consolidation”. By continuously promoting risk screening and inspection, carrying out in-depth inspections on external shock risks, credit business risks and shadow banking risks, etc., the Bank aims to promote improvement through inspection and effectively resolve potential risks.

It optimized the risk approval mechanism to provide assistance to win the battle against the COVID-19 pandemic. During the Reporting Period, the Bank earnestly implemented the relevant decisions and arrangements by the central government, continuously improved the quality and efficiency of financial services, allowed “green review and approval channels”, set templates for investigation and review during the COVID-19 pandemic, established an emergency docking system and simplified the credit reporting process to ensure the credit grant for pandemic prevention and anti-pandemic companies, while coordinating the renewal and maturity management of existing loans during the COVID-19 pandemic and actively preventing financial risks. At the same time, the Bank further implemented the bank-wide agile transformation strategy, continued to improve a three-in-one approval system for industries, strategies and projects, and formed an agile team with in-house research, strategy, credit review and data modeling and analysis ability to strengthen in-house research capability and promote the application and conversion of research results. The Bank strengthened the review and approval process management, 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.

Management Discussion and Analysis

The Bank advanced the transformation of credit risk prevention model from “system + expert” to “system + expert + technology” which is a trinity intelligent model. During the Reporting Period, the Bank focused on preparing for the full launch of a new generation of credit system, to develop into a new-generation risk control platform which provides a full range of services with componentization, platformization and mobilization. It commenced the construction of the risk management data mart projects and introduced the FICO and other external big data scoring, so as to amplify the mining, modeling and applications of internal and external big data. The Bank speeded up the improvement of risk model system and maintained a high level of automatic approval rate of retail credit products launched. The Bank accelerated the construction of non-retail big data risk supporting decision-making model system and was well-prepared to test it before launch. The Bank focused on model risk management and established a more comprehensive model of life cycle risk management system through system construction, model verification and review, monthly model operation monitoring reports and development of risk management cockpits, etc.

10.2 Market risk

During the Reporting Period, the Bank continued to improve the market risk management system, optimized the market risk management system and improved the market risk monitoring and reporting mechanism, to further enhance its ability to manage market risks.

The Bank optimized the implementation and application of the market risk management system. The Bank’s market risk management system has been launched and put into use, which supports measurement functions such as product profit and loss, valuation measurement, limit management and stress testing. At the same time, relying on the management system, the Bank has further refined the daily monitoring indicator system with quota management as the core, established bond early warning and transaction behavior analysis system and other intelligent monitoring systems, so as to keep prompt alignment with the trend of credit bond risks.

The Bank continued to improve the market risk limit management system. According to its business development and management needs, under the framework of the three-class market risk limit management system, it optimized the annual plan on market risk limit, refined the limit indicator system, strengthened limit monitoring, and intelligently monitored bond early warning and transaction behavior to guarantee the effective execution of financial market business authorization and limit. During the Reporting Period, all market risk indicators were operating steadily and there was no over-limit event.

Management Discussion and Analysis

The Bank carried out stress tests regularly to assess the market risk tolerance. It improved the market risk stress test expert scenario library and added stress scenarios with changes in macro factors. The Bank evaluated its market risk tolerance under different stress scenarios through the stress tests that can help identify the bank account interest rate risk, bond specific market risk, foreign exchange risk and other major market risk conditions.

10.3 Operational risk

The Bank established an operational risk management structure composed of the Board, the Board of Supervisors, senior management, compliance department, internal audit department, all lines (departments) and branches. When enhancing the operational risk management through business line inspection and employee behavior investigation, system improvement and compliance education activities, the Bank, in accordance with the Guidelines for Operational Risk Management of Zhongyuan Bank and the requirements of the management system of three major instruments, and through its internal control compliance and operational risk management system, created and further perfected the procedure featured by the identification, assessment, monitoring and early warning of operational risks. Continuous optimization of the system and process design helped maintain the continuity and effectiveness of the internal control and compliance and operational risk management of the Bank and further improve the ability to manage operational risks.

During the Reporting Period, the Bank continuously consummated its internal control compliance and operational risk management system and enhanced the application of three major tools, conducted regular process assessment and key risk indicator monitoring and analysis. Based on strengthening internal control and implementing compliance management, the Bank carried out employee behavior investigation and monitoring and review of abnormal transactions under employee accounts, potentiated risk monitoring and prevention in key positions and critical areas to ensure the effectiveness of risk identification, monitoring and reporting. Simultaneously, the business continuity and emergency management mechanism were improving. The Bank continued to advance the upgrading and transformation of the important information system, ensuring that the Bank could take timely measures in case of emergency, so that the impact and loss could be minimized. During the Reporting Period, the Bank's overall operation was standardized and orderly, and there was no major operational risk event.

Management Discussion and Analysis

10.4 Liquidity risk

The Bank 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, 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 the 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 organizational system, enhancing the synergy of the head office, branches and sub-branches, clarifying their responsibilities, strengthening the coordinated management and control of the liquidity risk from the bank-wide level; providing a systematic basis for liquidity management by improving policies, executive measures and operational procedures related to liquidity risk management; realizing effective transmission of liquidity management strategies through the management decisions by 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 tolerance. The Bank developed and improved the macro research mechanism, continuously improved the ability to research and judge the macroeconomy, enhanced the foresight of liquidity management and dynamically adjusted liquidity management strategies. 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, gave play to the president bank of the liquidity mutual assistance mechanism and strengthened its responsibility and earnestly maintained the safety and stability of regional liquidity.

10.5 Information technology risk

The goal of the Bank's information technology risk management is to establish an effective mechanism to realize the identification, measurement, monitoring and control of information technology risks, improve the utilization of information technology, strengthen the ability to protect information assets, promote business innovation and enhance core competitiveness and sustainable development abilities to promote the safe, continuous and stable operation of the Bank.

Management Discussion and Analysis

During the Reporting Period, the Bank adhered to the principle of “technology cultivation, technology prosperity (科技立行、科技興行)” and developed a systematic information technology risk management framework. It conducted information technology risk control self-assessment, information technology key risk indicators monitoring, information technology risk loss (event) database collection and other related work and established an effective risk management process system that supports risk identification, assessment, control/release and monitoring/reporting. The Bank improved risk management tools and quantitative technologies, strengthened the application of information network technology, big data and new financial technology, strengthened data standardization and knowledge mining and continued to improve data quality and the data processing capabilities of information systems. It paid great attention to information security management, focused on strengthening system development life cycle security management, established and improved a security built-in management mechanism that adapts to the agile delivery model, strictly implemented technical specifications on the Internet application security and data security, and strictly managed information technology outsourcing to further improve information security technology management level.

During the Reporting Period, the information technology construction and risk management of the Bank was rated 2B in the CBIRC's 2019 regulatory rating, representing one level higher than last year, with the score having climbed for six consecutive years, demonstrating that the information technology risk management of the Bank is becoming better and better.

10.6 Reputational risk

Reputational risk refers to the risk of negative publicity and comments about the Bank due to its operations, management and other activities or external events, which would affect the business development and performance.

For the management of reputational risks, the Bank combined the prevention with disposal and adhered 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.

Management Discussion and Analysis

During the Reporting Period, the Bank carefully conducted the reputational risk prevention and control, improved reputational risk management system and further optimized reputational risk disposal mechanism. 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 engaged 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 its reputational risk management. The Bank organized reputational risk emergency rehearsal and reputational risk trainings, which improved the awareness and disposal capability of its employees for reputational risks and helped to cultivate the culture of managing reputational risks.

During the Reporting Period, the Bank proactively implemented work arrangements of the Party Central Committee, the State Council and the Provincial Party Committee and the Provincial Government and other regulatory authorities, continued to strengthen positive publicity focusing on topics such as the COVID-19 pandemic prevention and control, the National People’s Congress and the National Committee of the Chinese People’s Political Consultative Conference, “six stabilities”, “six guarantees” and annual report. The manuscripts were widely reproduced by the domestic mainstream media, and the brand reputation continued to enhance.

10.7 Exchange rate risk

During the Reporting Period, the Bank closely monitored the changing trend of exchange rates and proactively analyzed and assessed the impacts of global exchange rate movements on its operations. Based on the actual needs of its business, the Bank enhanced strategy research on hedging of exchange rate-based derivatives. The Bank paid continuous attention to exposures of different foreign currencies held by the Bank during the daily management, with a view to effectively monitoring various indicators such as exposures, limits and actions of trader and managing foreign risk exposure and limits. During the Reporting Period, the exchange rate risks of the Bank are stable and under control.

Management Discussion and Analysis

11. Corporate Strategies and Future Prospect

2020 is the first year for Zhongyuan Bank to enter the second five-year development track. Facing the huge impact and challenges brought by the COVID-19 pandemic to the real economy and the financial industry, Zhongyuan Bank has adopted its business strategy of “adhering to its position, proactive compliance, technology empowerment and innovation driving”, and continued to improve the quality and efficiency of the financial services through accelerating the reform of its business model and further advancing the digital transformation and continuing to promote the strategy of “ruralization of banking services (下鄉)”.

Accelerating the reform of business models: First, it changed the logic line of retail business development and adhered to the customer-centered philosophy to carry out the operations in a stable manner. Second, it advanced the transformation of the Company's business, promoted the run of the “Three-track System (三軌制)” in which the head office, branches and sub-branches were marketing in coordination under the digital transformation and continued to optimize agile organization to enhance the competitiveness of retail business. Third, it adjusted business strategies in a timely manner in accordance with market changes and actively explored new inter-bank business models; promoted the conclusion of foreign currency market transactions, explored new driving force for foreign currency transactions growth; innovated products and steadily promoted the transformation of wealth management products to NAV-based products.

Further advancing digital transformation: First, it highlighted the building of digital capabilities and focused on cultivating digital application capabilities. Second, it improved data support capabilities and application levels to realize the transition to a data-driven business model. Third, it strengthened technological support, accelerated the construction of technological ecology, and promoted the application of big data, block chain and artificial intelligence, etc. in asset management, product creation and risk control.

Continuing to promote the strategy of “ruralization of banking services (下鄉)”: First, it improved the quality and efficiency of agriculture-related services, promoted the digital operation of agriculture-related businesses and provided support for the development of inclusive finance. Second, it strengthened financial service capabilities at a county level, supported characteristic industrial clusters at a county level and helped high-quality economic growth at a county level. Third, it improved the ability to prevent and control agriculture-related business risk, promoted “synergy and cooperation” and built brand and reputation related to agriculture.

Management Discussion and Analysis

Looking ahead, the Bank will always adhere to the market positioning of “being close to the public, serving small and micro customers, supporting agriculture, rural areas and farmers, and promoting regional economic development”. The Bank will deepen the inclusive financial businesses offered to small and micro enterprises and agriculture-related service customers on the basis of stable operation, focusing on the quality development goal and taking advantage of the financial technology so as to enhance its “ballast” position in retail business. It will consolidate its position in Henan Province to achieve specific business operations; and will actively adapt to the new economic, financial and regulatory situation in the future, promote inter-bank business transformation and direct the business development back to its original nature. Zhongyuan Bank will gradually realize the transition from a “follower” to a “leader” of the industry in the next five-year track through reshaping the business philosophy and development model.

Changes in Share Capital and Information on Shareholders

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

There were no changes in the share capital of ordinary Shares of the Bank during the Reporting Period. As at the end of the Reporting Period, the total issued ordinary share capital of the Bank was 20,075,000,000 Shares, comprising 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

As at the end of the Reporting Period, there was no controlling shareholder or actual controller of the Bank. As at June 30, 2020, the shareholdings of the Bank's top 10 Shareholders of ordinary Shares were as follows:

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 ordinary Shares 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 June 30, 2020, 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 Shareholders	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 ordinary Shares 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
	Domestic Shares	Interest in controlled corporation	17,696,926(L)	0.11	0.09
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
Zhong Sheng Capital (Hong Kong) Co., Limited (中晟資本(香港)有限公司)	H Shares	Beneficial owner	214,168,000 (L)	5.64	1.07
AMTD Group Company Limited ⁽⁶⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
L.R.Capital Management Company (Cayman) Limited ⁽⁶⁾	H Shares	Interest in controlled corporation	482,288,000(L)	12.71	2.40
NEW MERIT GROUP LIMITED	H Shares	Beneficial owner	453,636,000(L)	11.95	2.26

Changes in Share Capital and Information on Shareholders

Name of Shareholders	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 ordinary Shares of the Bank(%) ⁽²⁾
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 ⁽⁷⁾	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. ⁽⁸⁾	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
Piramid Park Co., Ltd. ⁽⁹⁾	H Shares	Beneficial owner	1,199,831,000 (L)	31.62	5.98
Xu Yan (徐雁) ⁽⁹⁾	H Shares	Interest in controlled corporation	1,199,831,000 (L)	31.62	5.98

Notes:

- (1) (L) represents the long position, (S) represents short position.
- (2) As of June 30, 2020, the number of total issued ordinary Shares of the Bank was 20,075,000,000, comprising 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 Finance Department of Henan Province (河南省財政廳)². Henan Investment Group Co., Ltd. directly holds 1,407,285,479 Domestic Shares of the Bank (long position) and indirectly holds 17,696,926 Domestic Shares of the Bank (long position) through its controlled corporation, Henan Investment Group Guarantee Co., Ltd. (河南投資集團擔保有限公司).

² On January 10, 2020, Henan Investment Group Co., Ltd. (河南投資集團有限公司) completed the change of relevant business registration particulars and the entire equity interests held by Henan Development and Reform Commission in Henan Investment Group Co., Ltd. (河南投資集團有限公司) was transferred to Henan Department of Finance at nil consideration.

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) directly held by 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 Mining Industry 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 Mining Industry Construction Co., Ltd. (河南國龍礦業建設有限公司).
- (6) 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, indirectly holds 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.

Changes in Share Capital and Information on Shareholders

- (7) 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 unlisted derivatives.
- (8) DBS Bank Ltd. directly holds 882,393,350 H Shares (long positions) and 882,393,350 H Shares (short positions) of the Bank. DBS Bank Ltd. is a corporation wholly controlled 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 (long positions) and 882,393,350 H Shares (short positions) of the Bank held by DBS Bank Ltd.
- (9) Pyramid Park Co., Ltd. is wholly owned by Xu Yan (徐雁).

Save as disclosed above, none of the substantial Shareholders or other persons had, as of June 30, 2020, 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 of the Bank

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

5 Information on Substantial Shareholders Disclosed under the Interim Measures for the Equity Management of Commercial Banks

According to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC, in addition to the three Shareholders mentioned above, 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 Pyramid Park Co., Ltd., the following three Shareholders are also substantial Shareholders of the Bank.

Changes in Share Capital and Information on Shareholders

- (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 company's business scope includes investment and investment service management, information technology consulting services, enterprise planning management, project planning management, and electronic network engineering services (excluding items subject to state approval). During the Reporting Period, Mr. LI Xipeng (李喜朋), a non-executive Director of the Bank, was the chairman and legal representative of the company. The company was effectively owned by Mr. LI Xipeng and his wife, Ms. SHU Pujuan (舒蒲娟).
- (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 company's business scope includes development and sale of real estate and property leasing. During the Reporting Period, Ms. LI Weizhen (李偉真), a Shareholder Representative Supervisor of the Bank, was the chief 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 company's business scope includes the construction and operation of long-distance natural gas pipelines, and the research, development, construction and operation of LPG and other oil and gas utilization projects (business within the above scope which is subject to approval shall not be operated before obtaining relevant approval(s)). During the Reporting Period, Mr. LI Wanbin (李萬斌), a Shareholder Representative Supervisor of the Bank, was the de facto controller of the company. Henan Wanzhong Group Co., Ltd. (河南萬眾集團有限公司), which is effectively controlled by Mr. LI Wanbin, holds 207,657,871 Domestic Shares of the Bank.

6 Equity Pledge and Freezing

As at the end of the Reporting Period, so far as is known to the Bank, the Bank's 5,343,126,739 Domestic Shares were subject to pledge, accounting for 26.62% of the total number of issued ordinary Shares (of which, the Domestic Shares pledged by the Bank's substantial Shareholders accounted for 4.93% of the total number of issued ordinary Shares). In addition, there were 1,006,662,381 Domestic Shares which were judicially frozen (of which, the Domestic Shares owned by the Bank's substantial Shareholders which were judicially frozen accounted for 1.00% of the total number of issued ordinary Shares).

Changes in Share Capital and Information on Shareholders

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

During the six months ended June 30, 2020, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Bank.

8 Non-public Issuance of Offshore Preference Shares

8.1 The issuance and listing of Offshore Preference Shares

To replenish the Bank's capital through diversified ways, further enhance the Bank's capital strength and enhance the Bank's risk resistance, according to the approvals of 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 have a par value of RMB100 each with an issuance price of USD20 each. The total number of the Offshore Preference Shares issued is 69,750,000, and were all 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 issuance 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 in 2018 to replenish the Bank's additional tier-one capital, to increase the Bank's tier-one capital adequacy ratio and optimize the capital structure, which was consistent with the specific use previously disclosed.

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).

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.

Changes in Share Capital and Information on Shareholders

The shareholdings of the top 10 Offshore Preference Shareholders (or nominees) 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, 2020):

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 restriction on sale (shares)	Number of pledged or frozen 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 shareholding of Offshore Preference Shareholders is based on the information set out in the register of Offshore Preference Shareholders of the Bank.
2. As the Offshore Preference Shares were issued by way of offshore non-public issuance, the information recorded on the register of Offshore Preference Shareholders is the information on the nominee of the investor(s) to whom the Offshore Preference Shares were allotted.

8.3 Profit distribution on 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 arrears on the dividend payment date. On November 21, 2019, the Bank completed the initial dividend payment after the issuance of the Offshore Preference Shares. For details, please refer to the announcement on payment of a dividend for the Offshore Preference Shares published by the Bank separately on August 29, 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.

Changes in Share Capital and Information on Shareholders

Table on profit distribution in respect of Offshore Preference Shares in the past three years:

Unit: RMB'000

Year of distribution	Amount of distribution (before tax)	Net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank for the year of distribution	Percentage of net profit attributable to the Shareholders of the Bank in the consolidated financial statements of the Bank	Balance accumulated to the next accounting year due to insufficiency of distributable profits or the part that can be used for the distribution of retained profits
			(%)	
2019	609,224	3,163,849	19.26	–
2018	–	2,414,576	–	–
2017	–	3,838,703	–	–

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 triggering event that would result in mandatory conversion of Offshore Preference Shares 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 IAS 39 – Financial Instruments: Recognition and Measurement and IAS 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

1. Existing 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 eight members, namely Mr. WANG Jiong, Mr. LI Yulin, Mr. LIU Kai, Mr. ZHOU Litao, Mr. LIU Qingfen, Mr. YAO Hongbo, Mr. ZHANG Ke and Mr. ZHANG Yixian.

2. Changes in the Information of Directors

Mr. CHAN Ngai Sang Kenny, independent non-executive Director, resigned as an independent non-executive director of Kingland Group Holdings Limited (景聯集團控股有限公司) (stock code: 1751) on May 20, 2020.

3. Changes in Directors, Supervisors and Senior Management

3.1 Changes in Directors

During the Reporting Period, Yongcheng Coal and Electricity Holding Group Co., Ltd. (永城煤電控股集團有限公司), a shareholder of the Bank holding 5.76% of total share capital issued of the Bank, proposed to remove the position of Mr. LI Qiaocheng as a non-executive Director. His removal will be effective from the date of the appointment of the new Director. Mr. LI Qiaocheng will continue to perform his duties as a Director of the Bank until approval of the qualification of the new director by the regulatory authorities.

On June 29, 2020, the Board proposed to appoint Mr. YAN Changkuan as a non-executive Director of the second session of the Board. The proposed appointment is subject to the approval by the Shareholders at the forthcoming general meeting of the Bank and the approval of his qualification by the relevant banking regulatory authorities in the PRC. Please refer to the announcement dated June 29, 2020 of the Bank for details.

Directors, Supervisors, Senior Management and Employees

3.2 Changes of Supervisors

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

3.3 Changes of Senior Management

On March 27, 2020, the Bank submitted the Report of Zhongyuan Bank in Relation to WANG Shanshan Performing Duties on Behalf of the Responsible Person of the Financial Planning Department (Zhongyuan Yinfa [2020] No. 98) to CBIRC Henan Office. During the Reporting Period, Ms. ZHANG Yi ceased to be the general manager of the Financial Planning Department, while her duty as the responsible person of the Financial Planning Department will be delegated to Ms. WANG Shanshan.

On July 31, 2020, Mr. ZHAO Weihua ceased to be the Vice President and the chief risk officer of the Bank due to alternation of work.

3.4 Securities Transactions by Directors, Supervisors and Relevant Employees

As of June 30, 2020, 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 with terms no less exacting than those of the Model Code, for the relevant employees (as defined in the Hong Kong 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 Reporting Period. 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

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

As of June 30, 2020, 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 Hong Kong 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 Bank (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, 2020, 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

5. Employees' Remuneration Policies and Training Programs

Employees' Remuneration Policies

The Group has 14,361 employees in total. During the Reporting Period, the Bank revised "Administrative Measures on the Remuneration of employees of Zhongyuan Bank Co., Ltd. (《中原銀行股份有限公司員工薪酬管理辦法》)", established a position evaluation-based and operating results-oriented remuneration distribution mechanism, and developed a professional serial review method for employees to broaden the career development channels, so as to promote the professional and sustainable development of the staff team.

The Bank gave full play to the guiding role of remuneration in management and risk control. In accordance with the principle of combining immediate incentives with long-term incentives and combining effective incentives and responsibility constraints and subject to the needs of risk management, the Bank mitigates risks through deferred payment of performance compensation of senior management with regard to the risk factors that are not reflected currently, so as to promote the stable operation and sustainable development of the Bank. The relevant remuneration management system of the Bank should be submitted to the Party Committee, the Nomination and Remuneration Committee and the Board of Directors for review. The Bank did not have any share option incentive scheme or employee shareholding plan during the Reporting Period.

Employees Training Programs

The Bank has set up the annual training programs according to its business development strategies and educational training plans, adhering to a people-oriented management philosophy, with "power digital transformation, to improve training quality" as the focus, and has carried out the training programs according to the principle of "different level, different classification, wide coverage" so as to target specific training personnel in a form of online training. By setting up an online learning digital academy, a series of trainings on the "digital quotient" improvement of all employees have been carried out in a continuous, multi-form and multi-level manner, gradually improving the employee's digitalization of thinking and digital application ability, and further enhancing the employee's overall quality, professional ability and management level. The Bank has committed to provide strong organization guarantee and talent support for our long-term development. The Bank manages its training programs based on the mechanism of "standardized principles and planning, and hierarchical management and implementation", and establishes a three-tier training system comprising "head office, branch, sub-branch (sector)". During the Reporting Period, due to the impact of the COVID-19, the trainings throughout the Bank were mainly online trainings. The Bank organized an aggregate of 103 sessions of first-class training in various categories, and the fulfillment ratio of plan was 27.1% with 37,000 staffs trained in total, and staffs received 2.64 trainings per capita. 18 branches of the Bank organized 1,066 sessions of training in total, and the average fulfillment ratio of plan was approximately 46.11% with 78,000 staffs trained in total. Our training has basically reached full staff coverage and provides strong human resources protection for the sustainable and healthy business development of the Bank.

Directors, Supervisors, Senior Management and Employees

6. Basic Information of Institutions under the Bank

Sequence	Region	Name of the Branch	Business Address	Remarks
1	Zhengzhou, Henan	Headquarters	Zhongke Golden Tower, No. 23 Shangwu Waihuan, 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, Longting District, Kaifeng City, Henan Province	In charge of one business department, 30 sub-branch institutions
4	Xinyang, Henan	Xinyang	Xinshi Street, Yangshan New District, Xinyang City, Henan Province	In charge of one business department, 29 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 15 sub-branch institutions
7	Luohe, Henan	Luohe	Northwest Corner, Intersection of Huangshan Road and Songjiang Road, Yancheng District, Luohe City, Henan Province	In charge of one business department, 18 sub-branch institutions
8	Nanyang, Henan	Nanyang	No.6, Zhangheng Road, Wolong District, Nanyang City, Henan Province	In charge of one business department, 44 sub-branch institutions
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, 12 sub-branch institutions
10	Puyang, Henan	Puyang	No.444, Shenglizhong Road, Hualong District, Puyang City, Henan Province	In charge of one business department, 24 sub-branch institutions

Directors, Supervisors, Senior Management and Employees

Sequence	Region	Name of the Branch	Business Address	Remarks
11	Sanmenxia, Henan	Sanmenxia	Intersection of Xiaoshan Road and Liufeng Road, Hubin District, Sanmenxia City, Henan Province	In charge of one business department, 29 sub-branch institutions
12	Shangqiu, Henan	Shangqiu	No. 195, Wenhua Road, Suiyang District, Shangqiu City, Henan Province	In charge of one business department, 47 sub-branch institutions
13	Xinxiang, Henan	Xinxiang	No.599 Pingyuan Road, Hongqi District, Xinxiang City, Henan Province	In charge of one business department, 34 sub-branch institutions
14	Xuchang, Henan	Xuchang	East section of Jian'an Avenue, Weidu District, Xuchang City, Henan Province	In charge of one business department, 27 sub-branch institutions
15	Zhoukou, Henan	Zhoukou	Changjian MOCO New World Business Office Building, Intersection of Zhoukou Avenue and Qingfeng Road, Dongxin District, Zhoukou City, Henan Province	In charge of one business department, 27 sub-branch institutions
16	Zhumadian, Henan	Zhumadian	No. 168, Wenming Road, Yicheng District, Zhumadian City, Henan Province	In charge of one business department, 37 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	Luoyang, Henan	Luoyang	No.66, Changxing Street, Luolong District, Luoyang City, Henan Province	In charge of one business department, 8 sub-branch institutions
19	Jiyuan, Henan	Jiyuan	No. 481, Middle Yellow River Road, Jiyuan City, Henan Province	In charge of one business department, 2 sub-branch institutions

1. Compliance with the Corporate Governance Code

As of June 30, 2020, the Bank has been in compliance with all the code provisions as stated in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, and most of the recommended best practices have been adopted by the Bank.

2. Information Regarding the Convening of the Shareholders' General Meetings

Three Shareholders' general meetings were held during the Reporting Period.

On May 18, 2020, the Bank held the 2019 Annual General Meeting, the First Domestic Shareholders Class Meeting of 2020 and the First H Shareholders Class Meeting of 2020 in Zhengzhou, Henan. 15 proposals were considered and approved at the 2019 Annual General Meeting, including "Proposal on the Work Report of the Board of Directors of Zhongyuan Bank Co., Ltd. for 2019", "Proposal on the Work Report of the Board of Supervisors of Zhongyuan Bank Co., Ltd. for 2019" and "Proposal on the Final Account Report for 2019 of Zhongyuan Bank Co., Ltd." ; 2 proposals were considered and approved at the First Domestic Shareholders Class Meeting of 2020 and the First H Shareholders Class Meeting of 2020, respectively, including "Proposal on the Amendments to the Articles of Association of Zhongyuan Bank Co., Ltd." and "Proposal on the Amendments to the Rules of Procedures of the Shareholders' General Meeting of Zhongyuan Bank Co., Ltd.".

3. 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 46 proposals were considered and approved. The special committees under the Board of Directors held 12 meetings, including three meetings of the strategy and development committee, 2 meetings of the audit committee, one meeting of the risk management committee, three meetings of the nomination and remuneration committee, two meetings of the related party transactions control committee and one meeting of the consumer rights protection committee, at which 44 proposals in total were considered and approved.

Corporate Governance

4. 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 and received six reports, at which 36 proposals were considered and approved. The special committees under the Board of Supervisors held five meetings, including two meetings of the nomination committee and three meetings of the supervision committee, at which five reports in total were received and 36 proposals were considered and approved.

5. Public Float

Based on the information available to 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.

6. 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 implementation 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, following 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 basic norms, administrative measures and operational rules. The Bank had established a mechanism to assess internal control system and 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 refining its long-term policy on compliance education, and further enhance the effectiveness of its internal control system through continuously organizing case study discussions and special trainings on compliance and campaigns in different levels.

Important Events

1. Use of Proceeds

On November 21, 2018, the Bank issued non-cumulative perpetual Offshore Preference Shares of USD1,395 million. For details of the use of proceeds from this issue of preference shares, please refer to “Changes in Share Capital and Information on Shareholders – 8.1 The Issuance and Listing of Offshore Preference Shares”.

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, 2020. The final dividend for the year ended December 31, 2019 has been approved by the 2019 annual general meeting of the Bank. A dividend of RMB0.45 (tax included) per ten shares will be paid. The above cash dividend has been paid since June 29, 2020.

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, 2020, 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 a claim over RMB10.0 million with an aggregate loan principal of approximately RMB123.9 million.

As of June 30, 2020, plaintiffs' claims had been rejected in 4 effective judgements, and the plaintiffs had withdrawn the suit of 9 cases, Xinxiang branch assumes 50% responsibility in 2 effective judgements (Xinxiang branch has applied to Henan High People's Court for retrial), the Xinxiang branch had appealed in respect of 26 cases upon receipt of first judgements, the suit of 6 cases suspended, while 2 cases were still pending for first judgements or under retrial.

4.2 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. In August 2016, 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. 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 the ownership of the buildings at issue belonged to the plaintiff and ordered the Zhoukou branch to return the property claimed by the plaintiff. Zhoukou branch had once again appealed to the Henan High People's Court. As of June 30, 2020, the trial of Henan High People's Court has been held, pending for judgements.

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

In April 2015, the plaintiff of the case filed a lawsuit against the Lushi Zhongyuan County Bank for 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 to the plaintiff, 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. Lushi Zhongyuan County Bank had once again appealed to the Henan High People's Court. As of June 30, 2020, the trial of Henan High People's Court has been held, pending for judgements.

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

During the Reporting Period, neither the Bank nor the Bank's Directors, Supervisors or senior management had been subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission 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.

Important Events

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

The Bank's major 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

The Bank and Henan Wansong successfully bid for 100% shares of AB Leasing through public listing-for-sale procedures conducted by Shanghai United Assets and Equity Exchange. The Bank and Henan Wansong, as an Independent Third Party, (as the Assignee) entered into the Equity Transaction Agreement in respect of the Acquisition with CDRCB and AB Life Insurance (as the Assignor) after the trading time on 19 February 2019, at a total consideration of RMB4,735 million, of which RMB4,261.5 million and RMB473.5 million were borne by the Bank and Henan Wansong, respectively. Upon completion of the Acquisition, the Bank and Henan Wansong will hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the share capital of AB Leasing, respectively. Upon completion of 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 Bank.

Pursuant to the "Reply from the CBIRC on Change in Equity Ownership of AB Leasing Co., Ltd." (中國銀保監會關於邦銀金融租賃股份有限公司變更股權的批覆) (Yin Bao Jian Fu [2019] No. 917) issued by the CBIRC, the CBIRC approved the acquisition of the equity interest in AB Leasing held by CDRCB and AB Life Insurance by the Bank and Henan Wansong. Therefore, all the conditions precedent stipulated in the Equity Transaction Agreement have been fulfilled and it is expected that the Acquisition will be completed in accordance with the terms and conditions of the Equity Transaction Agreement.

During the Reporting Period, the Bank was informed that AB Leasing has completed the business license and change of business registration procedures in connection with the Acquisition. The Bank and Henan Wansong hold 2,700,000,000 and 300,000,000 shares of AB Leasing, representing 90% and 10% of the equity interest of AB Leasing.

For terms of equity transaction and relevant details regarding the acquisition of AB Leasing, please refer to the announcements dated February 19, 2019, October 16, 2019 and May 29, 2020 published by the Bank on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.zybank.com.cn).

Save as disclosed above, no material acquisitions and disposals of assets or business mergers has occurred during the Reporting Period.

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 2019 annual general meeting convened on May 18, 2020, the Bank re-appointed KPMG Huazhen LLP and KPMG as our domestic and international auditors in 2020, respectively, with the term of office till the end of the next annual general meeting of the Bank.

11. Events after the End of the Reporting Period

The COVID-19 virus outbreak since early 2020 has brought about additional uncertainties in the Bank's operating environment and has impacted the Group's operations. The Bank has been closely monitoring the impact of the developments on the Bank's businesses and has put in place contingency measures. The Bank will continuously monitor the situation and evaluate the impact on the Bank's operation and financial position. As of the reporting date, the COVID-19 pandemic has affected the operation of enterprises and certain industries in Henan province to some extent, and affected quality or return of the Group's credit assets to a certain degree. Save as disclosed above, no major events that affected the Bank has occurred up to the reporting date.

Important Events

12. Review of the Interim Report

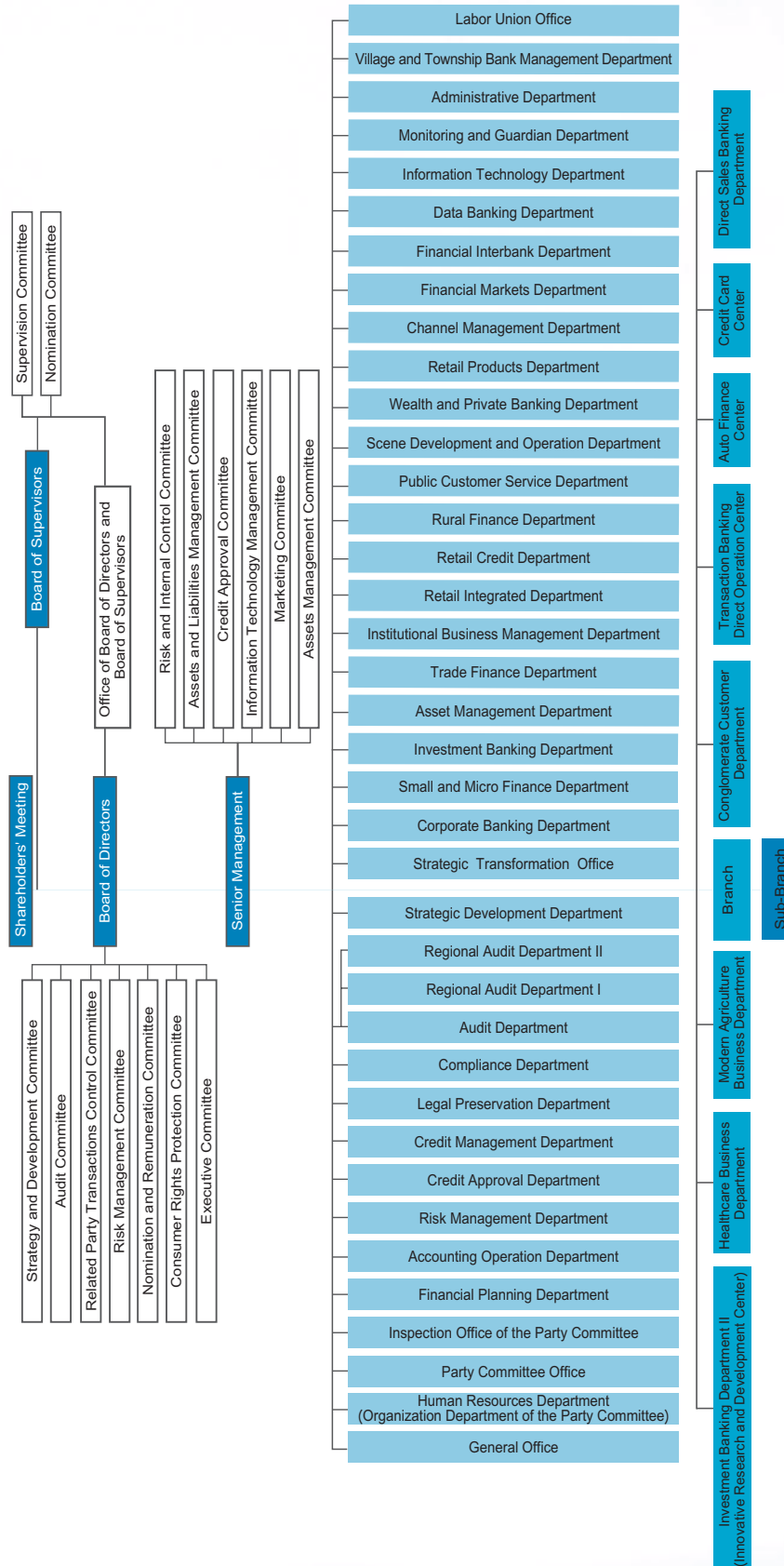
The interim financial statements disclosed in this report have not been audited. KPMG has reviewed the interim financial statements of the Bank for the six months ended June 30, 2020, which were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, pursuant to the Hong Kong Standards on Review Engagements.

On August 24, 2020, the audit committee of the Bank has reviewed and confirmed the interim results announcement of the Group for the six months ended June 30, 2020, the 2020 interim report and the unaudited interim financial statements for the six months ended June 30, 2020 prepared in accordance with the requirements of the International Accounting Standards.

13. Interim Results

The interim results announcement of the Group for the six months ended June 30, 2020 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 28, 2020.

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 109 to 229 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, 2020, 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, 2020 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 28, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2020 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
	Note	2020	2019
Interest income		15,270,205	14,337,053
Interest expense		(7,049,719)	(6,745,351)
Net interest income	4	8,220,486	7,591,702
Fee and commission income		1,296,766	1,103,048
Fee and commission expense		(138,187)	(107,909)
Net fee and commission income	5	1,158,579	995,139
Net trading gains	6	337,242	40,385
Net gains arising from investment securities	7	783,127	962,610
Other operating income	8	92,233	67,676
Operating income		10,591,667	9,657,512
Operating expenses	9	(3,069,459)	(3,331,454)
Impairment losses on assets	10	(5,120,673)	(3,700,151)
Share of losses of joint venture		(15,071)	–
Profit before tax		2,386,464	2,625,907
Income tax	11	(360,507)	(547,150)
Profit for the period		2,025,957	2,078,757
Net profit attributable to:			
Equity shareholders of the Bank		1,972,018	2,074,527
Non-controlling interests		53,939	4,230
Profit for the period		2,025,957	2,078,757
Basic and diluted earnings per share (in RMB)	12	0.10	0.10

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2020 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30, 2020	2019
Profit for the period		2,025,957	2,078,757
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	33(a)(i)	(119,658)	(138,749)
– Financial assets at fair value through other comprehensive income: net movement in impairment losses	33(a)(ii)	63,173	(932)
<i>Other comprehensive income net of tax attributable to non-controlling interests</i>		(11,044)	(2,288)
Other comprehensive income, net of tax		(67,529)	(141,969)
Total comprehensive income		1,958,428	1,936,788
Total comprehensive income attributable to:			
Equity shareholders of the Bank		1,915,533	1,934,846
Non-controlling interests		42,895	1,942
Total comprehensive income		1,958,428	1,936,788

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Statement of Financial Position

at June 30, 2020 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2020	December 31, 2019
Assets			
Cash and deposits with central bank	13	47,929,236	72,118,641
Deposits with banks and other financial institutions	14	9,382,875	10,873,899
Placements with banks and other financial institutions	15	21,679,246	20,038,963
Derivative financial assets	16	19,038	15,138
Financial assets held under resale agreements	17	21,472,886	16,838,550
Loans and advances to customers	18	328,766,557	291,230,110
Financial investments:	19		
Financial investments at fair value through profit or loss		31,338,834	42,185,454
Financial investments at fair value through other comprehensive income		57,131,039	53,475,148
Financial investments at amortised cost		156,971,018	156,407,156
Finance lease receivables	20	30,200,752	27,859,022
Interest in joint venture	21	1,080,576	1,095,567
Property and equipment	22	4,277,491	4,317,284
Deferred tax assets	23	4,654,920	3,650,761
Goodwill	24	970,780	970,780
Other assets	25	7,932,485	8,808,556
Total assets		723,807,733	709,885,029
Liabilities and equity			
Liabilities			
Borrowing from the central bank		23,856,634	16,644,752
Deposits from banks and other financial institutions	26	54,528,733	61,578,074
Placements from banks and other financial institutions	27	34,643,985	28,058,729
Financial liabilities at fair value through profit or loss		—	20,437
Derivative financial liabilities	16	132,605	295,741
Financial assets sold under repurchase agreements	28	46,822,414	66,544,904
Deposits from customers	29	423,720,644	389,731,529
Income tax payable		223,139	799,904
Debt securities issued	30	72,535,970	79,720,418
Other liabilities	31	8,472,091	8,659,477
Total liabilities		664,936,215	652,053,965

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Statement of Financial Position

at June 30, 2020 - unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	June 30, 2020	December 31, 2019
Equity			
Share capital	32	20,075,000	20,075,000
Other equity instruments			
– Preference shares	35	9,632,791	9,632,791
Capital reserve	33	14,965,933	15,022,418
Surplus reserve	33	1,818,292	1,818,292
General reserve	33	8,934,907	8,934,907
Retained earnings		2,329,968	1,261,325
Total equity attributable to equity shareholders of the Bank		57,756,891	56,744,733
Non-controlling interests		1,114,627	1,086,331
Total equity		58,871,518	57,831,064
Total liabilities and equity		723,807,733	709,885,029

Approved and authorised for issue by the board of directors on August 28, 2020.

Dou Rongxing

Chairman of the Board of
Directors
Executive Director

Wang Jiong

President
Executive Director

Li Yulin

Vice President in charge of
accounting affairs

Wang Shanshan

General Manager of the
Planning and Finance
Department

(Company chop)

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2020 - 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 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		-	-	(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	34	-	-	-	-	-	(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 119 to 229 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2020 - 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			Sub-total
Balance at July 1, 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
Changes in equity for the period:										
Net profit for the period		-	-	-	-	-	1,089,322	1,089,322	37,906	1,127,228
Other comprehensive income		-	-	173,547	-	-	-	173,547	2,591	176,138
Total comprehensive income		-	-	173,547	-	-	1,089,322	1,262,869	40,497	1,303,366
Loss of control over subsidiary										
		-	-	7,235	(1,265)	-	1,265	7,235	(195,939)	(188,704)
Acquisition of subsidiary		-	-	-	-	-	-	-	446,980	446,980
Appropriation to surplus reserve	34	-	-	-	318,937	-	(318,937)	-	-	-
Appropriation to general reserve	34	-	-	-	-	1,050,581	(1,050,581)	-	-	-
Cash dividends on common shares		-	-	-	-	-	-	-	(23,419)	(23,419)
Cash dividends on preference shares		-	-	-	-	-	(615,046)	(615,046)	-	(615,046)
Balance at December 31, 2019		20,075,000	9,632,791	15,022,418	1,818,292	8,934,907	1,261,325	56,744,733	1,086,331	57,831,064

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended June 30, 2020 - 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			Sub-total
Balance at January 1, 2020		20,075,000	9,632,791	15,022,418	1,818,292	8,934,907	1,261,325	56,744,733	1,086,331	57,831,064
Changes in equity for the period:										
Net profit for the period		-	-	-	-	-	1,972,018	1,972,018	53,939	2,025,957
Other comprehensive income	33	-	-	(56,485)	-	-	-	(56,485)	(11,044)	(67,529)
Total comprehensive income		-	-	(56,485)	-	-	1,972,018	1,915,533	42,895	1,958,428
Appropriation to shareholders	34	-	-	-	-	-	(903,375)	(903,375)	(14,599)	(917,974)
Balance at June 30, 2020		20,075,000	9,632,791	14,965,933	1,818,292	8,934,907	2,329,968	57,756,891	1,114,627	58,871,518

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2020 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2020	2019
Cash flows from operating activities		
Profit before tax	2,386,464	2,625,907
<i>Adjustments for:</i>		
Impairment losses on assets	5,120,673	3,700,151
Depreciation and amortisation	542,445	548,667
Depreciation of investment properties	377	2,189
Unrealised foreign exchange gains	(291,507)	(63,953)
Net gains on disposal of property and equipment	(56,108)	(5,158)
Net gains of financial assets held for trading	(135,609)	(132,897)
Net (gains)/losses arising from fair value of derivatives	(167,036)	22,211
Net gains arising from investment securities	(783,127)	(962,610)
Share of losses of joint venture	15,071	–
Interest expense on debt securities issued	1,306,960	1,638,549
Interest expense on lease liabilities	18,508	46,828
	7,957,111	7,419,884
<i>Changes in operating assets</i>		
Net decrease in deposits with central bank	4,264,954	73,780
Net (increase)/decrease in deposits and placements with banks and other financial institutions	(5,063,416)	3,849,035
Net decrease/(increase) in financial assets held for trading	2,370,305	(3,047,483)
Net increase in loans and advances to customers	(40,053,407)	(39,328,361)
Net increase in finance lease receivables	(2,341,730)	–
Net increase in other operating assets	(118,619)	(2,566,465)
	(40,941,913)	(41,019,494)

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2020 – unaudited
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2020	2019
<i>Changes in operating liabilities</i>		
Net increase in borrowing from central bank	7,113,485	2,305,317
Net decrease in deposits from banks and other financial institutions	(7,099,859)	(32,504,227)
Net increase in placements from banks and other financial institutions	6,626,568	5,644,263
Net decrease in financial liabilities at fair value through profit or loss	(20,437)	–
Net (decrease)/increase in financial assets sold under repurchase agreements	(19,703,065)	6,105,069
Net increase in deposits from customers	33,310,732	55,165,038
Net increase in other operating liabilities	558,960	628,189
	20,786,384	37,343,649
Net cash flows (used in)/generated from operating activities before income tax paid	(12,198,418)	3,744,039
Income tax paid	(1,941,431)	(978,644)
Net cash flows (used in)/generated from operating activities	(14,139,849)	2,765,395
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	1,148,304,009	622,378,791
Proceeds from disposal of property and equipment and other assets	66,669	13,895
Payments on acquisition of investments	(1,144,686,617)	(608,664,243)
Payments on acquisition of subsidiary	(263,699)	(4,261,500)
Payments on acquisition of property and equipment and other assets	(401,728)	(314,304)
Net cash flows generated from investing activities	3,018,634	9,152,639

The notes on pages 119 to 229 form part of this interim financial report.

Consolidated Cash Flow Statement

for the six months ended June 30, 2020 – unaudited

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended June 30, 2020	2019
Cash flows from financing activities			
Proceeds received from debt securities issued		59,471,270	56,132,808
Repayment of debt securities issued		(66,710,349)	(64,648,448)
Interest paid on debts securities issued		(1,252,328)	(1,333,602)
Capital element of lease liabilities paid		(134,849)	(95,968)
Interest element of lease liabilities paid		(12,991)	(25,711)
Dividends paid		(640,710)	(520,166)
Net cash flows used in financing activities		(9,279,957)	(10,491,087)
Effect of foreign exchange rate changes on cash and cash equivalents		222,115	10,003
Net (decrease)/increase in cash and cash equivalents	36(a)	(20,179,057)	1,436,950
Cash and cash equivalents as at January 1		75,325,152	55,712,428
Cash and cash equivalents as at June 30	36(b)	55,146,095	57,149,378
Interest received		14,551,958	13,598,595
Interest paid		(4,898,032)	(4,167,642)

The notes on pages 119 to 229 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 (the "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 Bank obtained its financial institution license No. B0615H241010001 from the former CBRC, and obtained its business license with unified social credit code 9141000031741675X6 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: 01216).

As at June 30, 2020, the Bank has one head office and 18 branches across Henan Province, 10 subsidiaries including 9 county banks and 1 financial leasing company and 1 joint venture 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, financial leasing and other financial services as approved by the former CBRC.

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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Basis of preparation (Continued)

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.

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 2019 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, 2019 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual financial statements for that financial year but is derived from those financial statements.

3 Changes in accounting policies

The group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

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

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)

4 Net interest income

	Six months ended June 30,	
	2020	2019
Interest income arising from		
Deposits with central bank	266,094	323,475
Deposits with banks and other financial institutions	81,198	168,609
Placements with banks and other financial institutions	351,130	323,640
Loans and advances to customers		
– Corporate loans and advances	4,444,340	4,297,201
– Personal loans and advances	4,148,992	3,802,735
– Discounted bills	420,785	493,759
Financial assets held under resale agreements	143,229	243,088
Financial investments	4,299,847	4,684,546
Finance lease receivables	1,114,590	–
Sub-total	15,270,205	14,337,053
Interest expense arising from		
Borrowing from the central bank	(326,723)	(140,150)
Deposits and placements from banks and other financial institutions	(700,828)	(774,330)
Placements from banks and other financial institutions	(444,702)	(285,139)
Deposits from customers	(3,964,716)	(3,540,442)
Financial assets sold under repurchase agreements	(305,790)	(366,741)
Debt securities issued	(1,306,960)	(1,638,549)
Sub-total	(7,049,719)	(6,745,351)
Net interest income	8,220,486	7,591,702

The interest income and expenses are related to financial instruments which are not measured at fair value through profit or loss.

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,	
	2020	2019
Fee and commission income		
Bank card services fees	287,893	137,102
Underwriting fees	277,543	164,559
Wealth management business fees	228,226	156,204
Settlement and clearing services fees	171,520	228,434
Custodial services fees	107,936	238,166
Advisory and consulting fees	88,628	68,938
Acceptance and guarantee services fees	68,325	48,838
Agency services fees	66,695	60,807
Sub-total	1,296,766	1,103,048
Fee and commission expense	(138,187)	(107,909)
Net fee and commission income	1,158,579	995,139

6 Net trading gains

	Note	Six months ended June 30,	
		2020	2019
Net gains from debt securities	(a)	135,609	132,897
Net foreign exchange gains/(losses)	(b)	198,287	(91,502)
Net gains/(losses) from interest rate swap		3,346	(1,010)
Total		337,242	40,385

(a) Net gains from debt securities include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading.

(b) Net foreign exchange gains/(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,	
		2020	2019
Net gains of financial investments at fair value through profit or loss	(a)	503,183	855,624
Net gains of financial investments at fair value through other comprehensive income		279,952	107,372
Net losses of financial investments at amortised cost		—	(387)
Others		(8)	1
Total		783,127	962,610

(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,	
	2020	2019
Rental income	12,107	19,883
Net gains on disposal of property and equipment	56,108	5,158
Government grants	10,626	3,323
Others	13,392	39,312
Total	92,233	67,676

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

9 Operating expenses

	Six months ended June 30,	
	2020	2019
Staff costs		
– Salaries, bonuses and allowance	1,389,879	1,415,442
– Social insurance and annuity	94,628	241,430
– Staff welfare	140,061	117,791
– Housing allowance	97,062	84,947
– Employee education expenses and labor union expenses	55,796	49,174
– Others	25,641	31,565
Sub-total	1,803,067	1,940,349
Office expenses	382,215	500,927
Depreciation and amortisation	394,112	419,662
Depreciation charge for the right-of-use assets	148,333	129,005
Tax and surcharges	94,184	82,143
Interest expense on lease liabilities	18,508	46,828
Other general and administrative expenses	229,040	212,540
Total	3,069,459	3,331,454

10 Impairment losses on assets

	Six months ended June 30,	
	2020	2019
Loans and advances to customers	2,869,196	2,617,968
Financial investments	1,737,369	965,050
Deposits with banks and other financial institutions	998	130
Placements with banks and other financial institutions	5,523	933
Financial assets held under resale agreements	871	1,125
Credit commitments	11,469	(11,135)
Finance lease receivables	243,610	–
Others	251,637	126,080
Total	5,120,673	3,700,151

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,	
		2020	2019
Current tax		1,321,064	1,048,957
Deferred tax	23(b)	(960,557)	(501,807)
Total		360,507	547,150

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

	Note	Six months ended June 30,	
		2020	2019
Profit before tax		2,386,464	2,625,907
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		596,616	656,477
Non-deductible expenses			
– Staff welfare expenses		6,386	3,547
– Others		4,266	4,042
Non-taxable income	(1)	(246,761)	(116,916)
Income tax		360,507	547,150

- (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,	
		2020	2019
Net profit attributable to ordinary shareholders of the Bank		1,972,018	2,074,527
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	0.10

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,	
	2020	2019
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, 2020	December 31, 2019
Cash on hand		1,805,800	1,426,013
Deposits with central bank			
– Statutory deposit reserves	(a)	28,924,873	33,010,179
– Surplus deposit reserves	(b)	16,600,720	36,900,408
– Fiscal deposits		583,725	763,373
Sub-total		46,109,318	70,673,960
Accrued interest		14,118	18,668
Total		47,929,236	72,118,641

- (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, 2020	December 31, 2019
Reserve ratio for RMB deposits	7.00%	8.50%
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, 2020	December 31, 2019
Deposits in mainland China		
– Banks	4,484,749	7,521,518
– Other financial institutions	227,236	457,473
Sub-total	4,711,985	7,978,991
Deposits outside mainland China		
– Banks	4,659,285	2,878,613
Total	9,371,270	10,857,604
Accrued interest	14,280	17,972
Less: Provision for impairment losses	(2,675)	(1,677)
Net carrying amount	9,382,875	10,873,899

15 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	June 30, 2020	December 31, 2019
Placements in mainland China		
– Banks	3,050,598	2,705,643
– Other financial institutions	12,832,613	17,083,221
Sub-total	15,883,211	19,788,864
Placements outside mainland China		
– Banks	5,557,408	–
Total	21,440,619	19,788,864
Accrued interest	267,640	273,589
Less: Provision for impairment losses	(29,013)	(23,490)
Net carrying amount	21,679,246	20,038,963

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, 2020	
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	10,420,000	16,281	12,819
Foreign exchange forwards	9,812,187	1,900	101,408
Currency swaps	5,661,740	857	18,378
Total		19,038	132,605

		December 31, 2019	
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	25,340,000	15,136	15,504
Foreign exchange forwards	8,453,529	–	279,084
Currency swaps	1,565,032	2	1,153
Total		15,138	295,741

Notes to the Unaudited Interim Financial Report

(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, 2020	December 31, 2019
In mainland China		
– Banks	18,462,080	8,288,174
– Other financial institutions	3,007,885	8,540,736
Total	21,469,965	16,828,910
Accrued interest	5,322	11,170
Less: Provision for impairment losses	(2,401)	(1,530)
Net carrying amount	21,472,886	16,838,550

(b) Analysed by type of collateral held

	June 30, 2020	December 31, 2019
Debt securities	21,469,965	16,828,910
Accrued interest	5,322	11,170
Less: Provision for impairment losses	(2,401)	(1,530)
Net carrying amount	21,472,886	16,838,550

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, 2020	December 31, 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	145,535,423	141,798,952
Personal loans and advances		
– Residential mortgage	90,107,570	69,705,223
– Personal consumption loans	27,535,698	25,209,888
– Personal business loans	33,491,605	27,311,686
– Others	10,560,833	9,197,924
Sub-total	161,695,706	131,424,721
Accrued interest	2,362,793	1,796,820
Less: Provision for loans and advances to customers measured at amortised cost	(11,206,408)	(9,771,416)
Sub-total	298,387,514	265,249,077
Loans and advances to customers measured at fair value through other comprehensive income		
Corporate loans and advances	713,759	9,766
Discounted bills	29,665,284	25,971,267
Sub-total	30,379,043	25,981,033
Net loans and advances to customers	328,766,557	291,230,110

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, 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Renting and business activities	34,807,938	10.31%	15,988,617
Manufacturing	27,246,684	8.06%	10,006,191
Real estate	19,986,288	5.92%	17,941,359
Wholesale and retail trade	15,448,395	4.58%	8,033,121
Construction	13,160,923	3.90%	6,596,651
Water, environment and public utility	10,353,276	3.07%	4,732,195
Production and supply of electric power, gas and water	5,364,275	1.59%	1,159,374
Agriculture, forestry, animal husbandry and fishery	3,688,399	1.09%	1,003,957
Education	3,199,479	0.95%	1,500,784
Accommodation and catering	2,997,053	0.89%	1,958,834
Transportation, storage and postal services	2,901,436	0.86%	1,723,459
Mining	1,754,933	0.52%	270,227
Others	5,340,103	1.58%	1,770,441
Sub-total of corporate loans and advances	146,249,182	43.32%	72,685,210
Personal loans and advances	161,695,706	47.89%	140,111,333
Discounted bills	29,665,284	8.79%	26,922,992
Gross loans and advances to customers	337,610,172	100.00%	239,719,535

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, 2019		Loans and advances secured by collaterals
	Amount	Percentage	
Renting and business activities	33,807,955	11.30%	15,851,618
Manufacturing	26,563,655	8.88%	9,656,899
Real estate	20,485,388	6.85%	16,325,217
Wholesale and retail trade	16,748,101	5.60%	8,047,350
Construction	11,638,608	3.89%	5,621,160
Water, environment and public utility	7,672,265	2.56%	2,890,940
Production and supply of electric power, gas and water	4,537,692	1.52%	929,998
Agriculture, forestry, animal husbandry and fishery	3,765,138	1.26%	933,438
Education	3,186,381	1.06%	1,464,844
Accommodation and catering	3,081,157	1.03%	1,748,247
Transportation, storage and postal services	2,602,926	0.87%	1,033,553
Mining	2,178,506	0.73%	689,547
Others	5,540,946	1.85%	1,854,044
Sub-total of corporate loans and advances	141,808,718	47.40%	67,046,855
Personal loans and advances	131,424,721	43.92%	112,235,118
Discounted bills	25,971,267	8.68%	22,594,057
Gross loans and advances to customers	299,204,706	100.00%	201,876,030

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, 2020	December 31, 2019
Unsecured loans	26,342,795	22,520,387
Guaranteed loans	71,547,842	74,808,289
Collateralised	180,737,760	151,601,062
Pledged	58,981,775	50,274,968
Gross loans and advances to customers	337,610,172	299,204,706
Accrued interest	2,362,793	1,796,820
Less: Provision for loans and advances to customers measured at amortised cost	(11,206,408)	(9,771,416)
Net loans and advances to customers	328,766,557	291,230,110

(d) Overdue loans analysed by overdue period

	June 30, 2020				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	226,242	121,579	49,695	1,687	399,203
Guaranteed loans	1,950,906	1,619,658	933,535	207,488	4,711,587
Collateralised	573,071	945,675	912,080	358,878	2,789,704
Pledged	1,913,740	100	226,962	481,515	2,622,317
Total	4,663,959	2,687,012	2,122,272	1,049,568	10,522,811
As a percentage of gross loans and advances to customers	1.38%	0.80%	0.63%	0.31%	3.12%

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, 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	76,848	64,250	16,402	1,044	158,544
Guaranteed loans	2,536,835	1,567,259	939,284	149,585	5,192,963
Collateralised	394,873	1,186,649	864,780	283,125	2,729,427
Pledged	1,125,741	23,145	227,090	485,306	1,861,282
Total	4,134,297	2,841,303	2,047,556	919,060	9,942,216
As a percentage of gross loans and advances to customers	1.38%	0.95%	0.68%	0.31%	3.32%

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, 2020, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	June 30, 2020			
	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	289,996,668	8,861,270	8,373,191	307,231,129
Accrued interest	2,362,793	–	–	2,362,793
Less: Provision for impairment losses	(3,761,962)	(2,237,780)	(5,206,666)	(11,206,408)
Carrying amount of loans and advances to customers measured at amortised cost	288,597,499	6,623,490	3,166,525	298,387,514
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	29,899,562	5,500	473,981	30,379,043
Total carrying amount of loans and advances to customers	318,497,061	6,628,990	3,640,506	328,766,557

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, 2019, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	December 31, 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	256,508,329	9,241,145	7,474,199	273,223,673
Accrued interest	1,796,820	–	–	1,796,820
Less: Provision for impairment losses	(3,141,812)	(1,938,267)	(4,691,337)	(9,771,416)
Carrying amount of loans and advances to customers measured at amortised cost	255,163,337	7,302,878	2,782,862	265,249,077
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	25,506,802	250	473,981	25,981,033
Total carrying amount of loans and advances to customers	280,670,139	7,303,128	3,256,843	291,230,110

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, 2020			
	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	3,141,812	1,938,267	4,691,337	9,771,416
Transferred:				
– to expected credit losses over the next 12 months	837,288	(837,097)	(191)	–
– to lifetime expected credit losses: not credit-impaired loans	(39,311)	757,487	(718,176)	–
– to lifetime expected credit losses: credit-impaired loans	(17,815)	(401,644)	419,459	–
(Release)/Charge for the period	(160,012)	780,767	2,235,650	2,856,405
Recoveries	–	–	164,794	164,794
Write-offs	–	–	(1,586,207)	(1,586,207)
As at June 30	3,761,962	2,237,780	5,206,666	11,206,408

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, 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	483,381	(220,301)	(263,080)	–
– to lifetime expected credit losses: not credit-impaired loans	(230,294)	599,175	(368,881)	–
– to lifetime expected credit losses: credit-impaired loans	(121,085)	(567,094)	688,179	–
(Release)/Charge for the year	(145,167)	28,643	3,841,822	3,725,298
Recoveries	–	–	330,371	330,371
Write-offs	–	–	(3,216,629)	(3,216,629)
Loss of control over subsidiary	(43,343)	(170,108)	(168,134)	(381,585)
As at December 31	3,141,812	1,938,267	4,691,337	9,771,416

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, 2020			
	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	8,989	–	355,486	364,475
Charge for the period	12,384	407	–	12,791
As at June 30	21,373	407	355,486	377,266

	Year ended December 31, 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 year	(11,014)	–	–	(11,014)
As at December 31	8,989	–	355,486	364,475

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Loans and advances to customers (Continued)

(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 RMB8,623.80 million to asset management companies and institutional investors at a consideration of RMB8,270.01 million. As at June 30, 2020, the Group has received cash of RMB7,047.91 million, and the remaining consideration was recorded as other assets after discounting based on the repayment schedule.

19 Financial investments

	Note	June 30, 2020	December 31, 2019
Financial investments at fair value through profit or loss	(a)	31,338,834	42,185,454
Financial investments at fair value through other comprehensive income	(b)	57,131,039	53,475,148
Financial investments at amortised cost	(c)	156,971,018	156,407,156
Total		245,440,891	252,067,758

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Financial investments (Continued)

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

	Note	June 30, 2020	December 31, 2019
Debt securities	(i)		
– Government		93,304	246,640
– Policy banks		1,222,401	121,332
– Banks and other financial institutions		4,615,790	8,631,819
Sub-total		5,931,495	8,999,791
Listed		73,382	31,914
Unlisted		5,858,113	8,967,877
Sub-total		5,931,495	8,999,791
Wealth management products issued by financial institutions		7,764,092	11,147,729
Investment management products managed by securities companies		2,089,215	4,107,510
Investment fund managed by public fund manager		15,497,113	17,337,105
Sub-total		25,350,420	32,592,344
Equity investments		56,919	593,319
Total		31,338,834	42,185,454

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 40(e)). 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, 2020	December 31, 2019
Debt securities	(i)		
– Government		21,246,703	19,940,934
– Policy banks		21,334,933	22,416,047
– Banks and other financial institutions		9,905,290	7,585,729
– Corporate		2,920,271	2,400,054
Sub-total		55,407,197	52,342,764
Listed		14,778,388	13,005,332
Unlisted		40,628,809	39,337,432
Sub-total		55,407,197	52,342,764
Investment portfolio managed by financial institutions		1,018,593	305,593
Sub-total		1,018,593	305,593
Accrued interest		681,353	802,895
Equity investments	(ii)	23,896	23,896
Total		57,131,039	53,475,148

(i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 40(e)). 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, 2020, the fair value of such equity investments was RMB23.90 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.

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 (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, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	10,900	–	110,776	121,676
Charge for the period	4,704	–	45,678	50,382
Balance at June 30	15,604	–	156,454	172,058

	Year ended December 31, 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 year	3,984	–	35,285	39,269
Balance at December 31	10,900	–	110,776	121,676

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

	Note	June 30, 2020	December 31, 2019
Debt securities	(i)		
– Government		29,948,768	26,472,872
– Policy banks		22,657,258	23,042,280
– Banks and other financial institutions		60,000	8,650,440
– Corporate		12,313,797	10,997,397
Sub-total		64,979,823	69,162,989
Listed		17,441,861	12,016,058
Unlisted		47,537,962	57,146,931
Sub-total		64,979,823	69,162,989
Investment management products managed by trust plans		58,215,198	58,160,616
Investment fund managed by private fund manager		10,036,358	12,088,200
Investment management products managed by securities companies		6,359,038	4,361,702
Debt investment plans		18,136,961	11,761,843
Investment fund managed by financial institutions		778,745	1,116,192
Sub-total		93,526,300	87,488,553
Accrued interest		2,112,841	1,716,573
Less: Provision for impairment losses	(ii)	(3,647,946)	(1,960,959)
Total		156,971,018	156,407,156

- (i) As at the reporting period, certain debt securities were pledged for repurchase agreements (Note 40(e)). 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, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	139,946	27,019	1,793,994	1,960,959
Transfers:				
– to lifetime expected credit losses: not credit-impaired loans	(4,862)	4,862	–	–
– to lifetime expected credit losses credit-impaired	(1,275)	–	1,275	–
Charge for the period	2,666	353,465	1,330,856	1,686,987
Balance at June 30	136,475	385,346	3,126,125	3,647,946

	Year ended December 31, 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)	(48,098)	50,501	–
(Release)/charge for the year	(147,986)	27,019	2,712,765	2,591,798
Recoveries	–	–	176,032	176,032
Write-offs	–	–	(4,808,494)	(4,808,494)
Balance at December 31	139,946	27,019	1,793,994	1,960,959

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Finance lease receivables

	Note	June 30, 2020	December 31, 2019
Minimum finance lease receivables	(i)	35,357,438	32,514,168
Less: unearned finance lease income	(i)	(4,106,587)	(3,848,657)
Present value of finance lease receivables	(i)	31,250,851	28,665,511
Less: provision for impairment losses	(ii)	(1,050,099)	(806,489)
Total		30,200,752	27,859,022

- (i) Finance lease receivables, unearned finance leases income and minimum finance lease receivables analysed by remaining period are listed as follows:

	June 30, 2020		Present value of finance lease receivables
	Minimum finance lease receivables	Unearned finance leases income	
Less than 1 year	1,851,121	(80,864)	1,770,257
1 year to 2 year	6,963,561	(537,790)	6,425,771
2 year to 3 year	10,101,066	(1,012,390)	9,088,676
3 year to 5 year	16,072,062	(2,398,348)	13,673,714
More than 5 year	369,628	(77,195)	292,433
Total	35,357,438	(4,106,587)	31,250,851

	December 31, 2019		Present value of finance lease receivables
	Minimum finance lease receivables	Unearned finance leases income	
Less than 1 year	1,607,605	(103,201)	1,504,404
1 year to 2 year	3,581,642	(264,815)	3,316,827
2 year to 3 year	12,119,611	(1,173,027)	10,946,584
3 year to 5 year	15,205,310	(2,307,614)	12,897,696
Total	32,514,168	(3,848,657)	28,665,511

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Finance lease receivables (Continued)

(ii) Movements of provision for impairment losses:

	Six months ended June 30, 2020			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at January 1	521,976	166,745	117,768	806,489
Transfers:				
– to expected credit losses over the next 12 months	84,660	(84,660)	–	–
– to lifetime expected credit losses: not credit-impaired	(79,686)	127,246	(47,560)	–
– to lifetime expected credit losses: credit-impaired	(11,612)	(23,426)	35,038	–
(Release)/charge for the period	(15,153)	52,719	206,044	243,610
Balance at June 30	500,185	238,624	311,290	1,050,099

For the period from acquisition date to December 31, 2019

	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Acquisition of subsidiary	457,195	83,582	71,840	612,617
Transfers:				
– to lifetime expected credit losses: not credit-impaired	(10,416)	38,756	(28,340)	–
– to lifetime expected credit losses: credit-impaired	–	(7,570)	7,570	–
Charge for the period	75,197	51,977	66,698	193,872
Balance at December 31	521,976	166,745	117,768	806,489

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investment in subsidiaries and interest in joint venture

(a) Investment in subsidiaries

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

	Note	June 30, 2020	December 31, 2019
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
Xinxiang Zhongyuan County Bank Co., Ltd. (“新鄉中原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
AB Leasing Co., Ltd. (“邦銀金融租賃股份有限公司”)	(j)	4,525,199	4,525,199
Total		5,088,401	5,088,401

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investment in subsidiaries and interest in joint venture (Continued)

(a) 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 RMB208.52 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, 2020 (2019: 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 RMB83.52 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, 2020 (2019: 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 RMB50.00 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, 2020 (2019: 51%).
- (d) Xinxiang Zhongyuan County Bank Co., Ltd. ("Xinxiang Zhongyuan", formerly known as Henan Xinxiang Xinxing County Bank Co., Ltd.) was incorporated on March 23, 2010 at Xinxiang, Henan Province, with registered capital of RMB130.00 million. The principal activities of Xinxiang Zhongyuan are the provision of corporate and retail banking services. The Bank holds 78.46% of equity interest and voting rights of Xinxiang Zhongyuan as at June 30, 2020 (2019: 78.46%).
- (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 RMB75.00 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, 2020 (2019: 51%).

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(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investment in subsidiaries and interest in joint venture (Continued)

(a) Investment in subsidiaries (Continued)

Notes: (Continued)

- (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 RMB58.75 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, 2020 (2019: 51%).
- (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 RMB60.00 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, 2020 (2019: 51%).
- (h) Xiangcheng Huipu County Bank Co., Ltd. ("Xiangcheng Huipu") was incorporated on October 27, 2011 at Xuchang, Henan Province, with registered capital of RMB61.00 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, 2020 (2019: 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 RMB56.15 million. The principal activities of Suiping Zhongyuan are the provision of corporate and retail banking services. The Bank holds 51.02% of equity interest and voting rights of Suiping Zhongyuan as at June 30, 2020 (2019: 51.02%).
- (j) AB Leasing Co., Ltd. ("AB Leasing") was incorporated on August 16, 2013 at Tianjin City, with registered capital of RMB3,000.00 million. The Bank acquired equity interest in AB Leasing on February 19, 2019. The above acquisition was completed on October 12, 2019 (the "acquisition date") with the approval of the CBIRC, and the Bank holds 90% of equity interest and voting rights of AB Leasing as at June 30, 2020 (2019: 90%).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investment in subsidiaries and interest in joint venture (Continued)

(b) Interest in joint venture

	Note	June 30, 2020	December 31, 2019
Interest in joint venture	(i)	1,080,576	1,095,567

Note:

- (i) Henan Zhongyuan Consumer Finance Corp., Ltd. ("Consumer Finance") is a joint venture in which the Bank has joint control and a 49.25% ownership interest. Consumer Finance is not publicly listed.

Name	June 30, 2020	Percentages of equity/ voting rights %	Place of incorporation/ registration	Business sector
Consumer Finance	49.25%		Zhengzhou, China	Consumer credit

The following table illustrates the aggregate information of the Bank's joint venture:

	June 30, 2020	December 31, 2019
Aggregate carrying amount of the joint venture in the consolidated statements of financial position of the Bank	1,080,576	1,095,567
Aggregate amounts of the Bank's share of results of the joint venture		
– Loss from continuing operations	(15,071)	(26,581)
– Other comprehensive income	–	–
– Total comprehensive income	(15,071)	(26,581)

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Property and equipment

	Premises	Investment properties	Electronic equipments	Motor vehicles	Office equipment & others	Construction in progress	Total
Cost							
As at January 1, 2019	4,937,363	72,890	1,175,510	24,672	448,174	620,073	7,278,682
Acquisition of subsidiary	-	-	678	-	2,098	40,865	43,641
Additions	203,777	-	153,443	146	32,346	454,649	844,361
Disposals	(164,955)	(62,795)	(25,579)	(5,042)	(6,707)	-	(265,078)
Transfers out of construction in progress	-	-	-	-	-	(93,813)	(93,813)
Loss of control over subsidiary	-	-	(29,676)	-	(5,034)	-	(34,710)
As at December 31, 2019	4,976,185	10,095	1,274,376	19,776	470,877	1,021,774	7,773,083
Additions	223,668	-	25,141	512	20,274	99,654	369,249
Disposals	(54,543)	-	(1,544)	-	-	-	(56,087)
Transfers out of construction in progress	-	-	-	-	-	(174,873)	(174,873)
As at June 30, 2020	5,145,310	10,095	1,297,973	20,288	491,151	946,555	7,911,372
Accumulated depreciation							
As at January 1, 2019	(1,933,523)	(39,495)	(898,087)	(21,448)	(259,488)	-	(3,152,041)
Acquisition of subsidiary	-	-	(583)	-	(437)	-	(1,020)
Additions	(277,144)	(4,076)	(167,025)	(1,880)	(44,465)	-	(494,590)
Disposals	121,174	37,030	25,346	5,037	4,040	-	192,627
Loss of control over subsidiary	-	-	9,278	-	1,096	-	10,374
As at December 31, 2019	(2,089,493)	(6,541)	(1,031,071)	(18,291)	(299,254)	-	(3,444,650)
Additions	(137,260)	(377)	(67,512)	(424)	(23,553)	-	(229,126)
Disposals	49,310	-	1,498	-	-	-	50,808
As at June 30, 2020	(2,177,443)	(6,918)	(1,097,085)	(18,715)	(322,807)	-	(3,622,968)
Impairment							
As at January 1, 2019	(6,670)	-	(2,400)	(229)	(1,933)	-	(11,232)
Disposals	-	-	10	-	73	-	83
As at December 31, 2019	(6,670)	-	(2,390)	(229)	(1,860)	-	(11,149)
Disposals	44	-	191	-	1	-	236
As at June 30, 2020	(6,626)	-	(2,199)	(229)	(1,859)	-	(10,913)
Net book value							
As at December 31, 2019	2,880,022	3,554	240,915	1,256	169,763	1,021,774	4,317,284
As at June 30, 2020	2,961,241	3,177	198,689	1,344	166,485	946,555	4,277,491

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Property and equipment (Continued)

The carrying amount of the premises with incomplete title deeds as at June 30, 2020 was RMB791.32 million (December 31, 2019: RMB834.79 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, 2020	December 31, 2019
Held in mainland China		
– Long-term leases (over 50 years)	735,781	779,955
– Medium-term leases (10 – 50 years)	1,556,629	1,539,297
– Short-term leases (less than 10 years)	668,831	560,770
Total	2,961,241	2,880,022

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, 2020	December 31, 2019
Held in mainland China		
– Medium-term leases (10 – 50 years)	3,177	3,554

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Deferred tax assets

(a) Analysed by nature

	June 30, 2020		December 31, 2019	
	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	17,574,868	4,393,717	13,715,876	3,428,969
Accrued staff costs	1,275,884	318,971	1,451,668	362,917
Supplemental retirement benefits	85,144	21,286	88,376	22,094
Fair value changes of financial instruments	187,800	46,950	21,312	5,328
Deferred income	658,228	164,557	549,004	137,251
Assets appraisal and related depreciation	(1,477,888)	(369,472)	(1,569,604)	(392,401)
Others	315,644	78,911	346,412	86,603
Net balances	18,619,680	4,654,920	14,603,044	3,650,761

(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, 2019	3,600,690	265,195	28,052	(153,464)	147,344	(444,110)	58,941	3,502,648
Loss of control over subsidiary	(59,330)	—	—	—	—	—	—	(59,330)
Acquisition of subsidiary	80,150	17,011	—	(97)	—	—	—	97,064
Recognized in profit or loss	(192,541)	80,711	(5,958)	160,823	(10,093)	51,709	27,662	112,313
Recognized in other comprehensive income	—	—	—	(1,934)	—	—	—	(1,934)
December 31, 2019	3,428,969	362,917	22,094	5,328	137,251	(392,401)	86,603	3,650,761
Recognized in profit or loss	964,748	(43,946)	(808)	(1,980)	27,306	22,929	(7,692)	960,557
Recognized in other comprehensive income	—	—	—	43,602	—	—	—	43,602
June 30, 2020	4,393,717	318,971	21,286	46,950	164,557	(369,472)	78,911	4,654,920

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Goodwill

	Goodwill
Cost:	
At January 1, 2019	468,397
Addition through acquisition of a subsidiary	502,383
At December 31, 2019	970,780
At June 30, 2020	970,780
Accumulated impairment losses:	
At December 31, 2019 and June 30, 2020	–
Carrying amount:	
At June 30, 2020	970,780
At December 31, 2019	970,780

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, 2020	December 31, 2019
Corporate banking	811,602	811,602
Retail banking	97,029	97,029
Financial markets business	62,149	62,149
Total	970,780	970,780

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Goodwill (Continued)

Impairment testing on goodwill (Continued)

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 9.07% as at June 30, 2020 (December 31, 2019: 9.17%). 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.

25 Other assets

	Note	June 30, 2020	December 31, 2019
Reposessed assets		1,585,863	1,765,038
Advances for fiscal payments		578,880	1,422,505
Intangible assets	(a)	1,541,193	1,459,178
Receivables from disposal of loans	18(g)	823,074	974,542
Right-of-use assets	(b)	874,392	968,634
Leasehold improvements		475,774	520,288
Interests receivable	(c)	556,200	592,025
Payment and collection clearance accounts		344,650	—
Other receivables		1,152,459	1,106,346
Total		7,932,485	8,808,556

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(a) Intangible assets

	June 30, 2020	December 31, 2019
Cost		
As at January 1	2,240,015	1,839,526
Acquisition of subsidiary	–	176,054
Additions	187,803	288,116
Disposals	(12,165)	(2,348)
Loss of control over subsidiary	–	(61,333)
As at June 30/December 31	2,415,653	2,240,015
Accumulated amortisation		
As at January 1	(770,430)	(570,460)
Acquisition of subsidiary	–	(1,329)
Additions	(100,270)	(213,439)
Disposals	4,783	2,332
Loss of control over subsidiary	–	12,466
As at June 30/December 31	(865,917)	(770,430)
Impairment		
As at January 1	(10,407)	(10,407)
Disposals	1,864	–
As at June 30/December 31	(8,543)	(10,407)
Net book value		
As at January 1	1,459,178	1,258,659
As at June 30/December 31	1,541,193	1,459,178

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(b) 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	268,323	3,881	272,204
Acquisition of subsidiary	59,978	1,262	61,240
Loss of control over subsidiary	(25,638)	–	(25,638)
As at December 31, 2019	1,227,936	20,955	1,248,891
Additions	53,304	787	54,091
As at June 30, 2020	1,281,240	21,742	1,302,982
Accumulated depreciation			
As at January 1, 2019	–	–	–
Additions	(277,967)	(5,762)	(283,729)
Loss of control over subsidiary	3,472	–	3,472
As at December 31, 2019	(274,495)	(5,762)	(280,257)
Additions	(144,756)	(3,577)	(148,333)
As at June 30, 2020	(419,251)	(9,339)	(428,590)
Net book value			
As at January 1, 2020	953,441	15,193	968,634
As at June 30, 2020	861,989	12,403	874,392

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Other assets (Continued)

(c) Interests receivable

	June 30, 2020	December 31, 2019
Interests receivable arising from:		
– Financial investments	90,817	127,331
– Loans and advances to customers	533,558	532,869
Total	624,375	660,200
Less: Provision for impairment losses	(68,175)	(68,175)
Net carrying amount	556,200	592,025

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.

26 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	June 30, 2020	December 31, 2019
In mainland China		
– Banks	15,717,231	12,001,665
– Other financial institutions	38,556,354	49,371,779
Sub-total	54,273,585	61,373,444
Accrued interest	255,148	204,630
Total	54,528,733	61,578,074

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	June 30, 2020	December 31, 2019
In mainland China		
– Banks	33,122,039	25,686,083
– Other financial institutions	1,000,000	2,100,000
Sub-total	34,122,039	27,786,083
Outside mainland China		
– Banks	290,612	–
Sub-total	34,412,651	27,786,083
Accrued interest	231,334	272,646
Total	34,643,985	28,058,729

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	June 30, 2020	December 31, 2019
In mainland China		
– Banks	44,958,498	59,283,554
– Other financial institutions	1,853,051	7,231,060
Sub-total	46,811,549	66,514,614
Accrued interest	10,865	30,290
Total	46,822,414	66,544,904

(b) Analysed by type of collateral held

	June 30, 2020	December 31, 2019
Debt securities	42,044,814	57,793,759
Discounted bills	4,766,735	8,720,855
Sub-total	46,811,549	66,514,614
Accrued interest	10,865	30,290
Total	46,822,414	66,544,904

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Deposits from customers

	June 30, 2020	December 31, 2019
Demand deposits		
– Corporate deposits	134,032,962	126,729,178
– Personal deposits	52,878,940	49,447,126
Sub-total	186,911,902	176,176,304
Time deposits		
– Corporate deposits	52,671,566	48,550,580
– Personal deposits	141,700,781	124,512,347
Sub-total	194,372,347	173,062,927
Pledged deposits	36,900,805	35,710,667
Inward and outward remittances	171,418	95,842
Sub-total	418,356,472	385,045,740
Accrued interest	5,364,172	4,685,789
Total	423,720,644	389,731,529

30 Debt securities issued

	Note	June 30, 2020	December 31, 2019
Interbank deposits issued	(a)	59,097,427	63,329,611
Financial bonds	(b)	3,000,000	5,999,351
Tier-two capital bonds	(c)	10,000,000	9,999,491
Trust plan	(d)	21,257	53,457
Sub-total		72,118,684	79,381,910
Accrued interest		417,286	338,508
Total		72,535,970	79,720,418

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Debt securities issued (Continued)

- (a) For the six months ended June 30, 2020, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB60,210.00 million and duration between 1–12 months. The coupon rates ranged from 1.2% to 3.02% per annum.

In 2019, the Bank issued a number of certificates of interbank deposits with total nominal amount of RMB115,440.00 million and duration between 1–12 months. The coupon rates ranged from 2.4% to 3.45% per annum.

As at June 30, 2020, the fair value of interbank deposits issued was RMB59,114.63 million (December 31, 2019: RMB63,370.00 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.

Fixed rate financial bonds of RMB3 billion with a term of three years was issued by AB Leasing in March 2017. The coupon rate is 4.40% per annum.

As at June 30, 2020, the fair value of financial bonds issued was RMB3,053.53 million (December 31, 2019: RMB6,066.18 million).

- (c) Fixed rate tier-two capital bonds of RMB10 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, 2020, the fair value of tier-two capital bonds issued was RMB10,440.79 million (December 31, 2019: RMB10,351.30 million).

- (d) Trust plan

In 2017, AB Leasing transferred credit assets amounting to RMB1,627.52 million to a trust plan which issued shares of trust beneficiary rights to investors. Since AB Leasing acquires all subordinated tranche and part of priority tranche of the trust beneficiary rights shares, it retains almost all the risks and rewards of the transferred credit assets. AB Leasing determined not to derecognise the associated credit assets, and the consideration received from the priority tranche investors except for AB Leasing were recorded as a financial liability. As at June 30, 2020, the carrying amount of underlying credit assets and financial liability amounted to RMB335.53 million (December 31, 2019: RMB481.31 million) and RMB21.26 million (December 31, 2019: RMB53.46 million) respectively. The coupon rate of the remaining financing from priority tranche is 6.50% per annum.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Other liabilities

	Note	June 30, 2020	December 31, 2019
Accrued staff costs	(a)	1,781,686	2,444,125
Lease liabilities		893,119	973,877
Payment and collection clearance accounts		–	710,683
Dividend payable		589,620	312,356
Other tax payable		534,576	531,996
Provisions	(b)	90,679	79,210
Finance lease deposits		2,459,294	2,199,651
Other payable		2,123,117	1,407,579
Total		8,472,091	8,659,477

(a) Accrued staff costs

	Note	June 30, 2020	December 31, 2019
Salary, bonuses and allowances payable		1,528,254	2,202,856
Social insurance payable		49,083	60,239
Housing allowances payable		1,541	1,173
Labor union fee, staff and workers' education fee		114,508	88,109
Supplementary retirement benefits payable	(1)	88,300	91,748
Total		1,781,686	2,444,125

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Other liabilities (Continued)

(a) Accrued staff costs (Continued)

(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.

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

	June 30, 2020	December 31, 2019
Present value of early retirement plan	79,291	82,886
Present value of supplementary retirement plan	9,009	8,862
Total	88,300	91,748

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Other liabilities (Continued)

(a) Accrued staff costs (Continued)

(1) Supplementary retirement benefits payable (Continued)

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

	June 30, 2020	December 31, 2019
As at January 1	91,748	115,475
Benefits paid during the period/year	(9,353)	(20,609)
Defined benefit cost recognised in profit or loss	5,905	(3,006)
Defined benefit cost recognised in other comprehensive income	—	(112)
As at June 30/December 31	88,300	91,748

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

Early retirement plan	June 30, 2020	December 31, 2019
Discount rate	2.75%	3.00%
Annual increase rate of internal salary	4.50%	4.50%

Supplementary retirement plan	June 30, 2020	December 31, 2019
Discount rate	3.75%	3.75%

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Other liabilities (Continued)

(a) Accrued staff costs (Continued)

(1) Supplementary retirement benefits payable (Continued)

(iv) Sensitivity analysis:

Early retirement plan	June 30, 2020		December 31, 2019	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(2,931)	3,167	(3,064)	3,311

Supplementary retirement plan	June 30, 2020		December 31, 2019	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(1,592)	2,089	(1,566)	2,055

Although the analysis does not take account of the full distribution of cash flows expected under the supplementary retirement benefits, it does provide an approximation of the sensitivity of the assumptions shown.

(b) Provisions

	Note	June 30, 2020	December 31, 2019
Litigations and disputes provision		11,992	11,992
Credit commitments provision	(i)	78,687	67,218
Total		90,679	79,210

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(Expressed in thousands of Renminbi, unless otherwise stated)

31 Other liabilities (Continued)

(b) Provisions (Continued)

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

	Six months ended June 30, 2020			Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	
Balance at January 1	65,560	566	1,092	67,218
Transfers:				
– to expected credit losses over the next 12 months	83	(70)	(13)	–
– to lifetime expected credit losses not credit-impaired	(5)	5	–	–
– to lifetime expected credit losses credit-impaired	(5)	(185)	190	–
Charge for the period	10,899	376	194	11,469
Balance at June 30	76,532	692	1,463	78,687

	Year ended December 31, 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	223	(86)	(137)	–
– to lifetime expected credit losses not credit-impaired	(13)	13	–	–
– to lifetime expected credit losses credit-impaired	(32)	(2)	34	–
(Release)/charge for the year	(20,416)	454	1,042	(18,920)
Balance at December 31	65,560	566	1,092	67,218

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Share capital

Authorised and issued share capital

	Number of shares	Amount
As at December 31, 2019	20,075,000	20,075,000
As at June 30, 2020	20,075,000	20,075,000

33 Reserves

(a) Capital reserve

	Note	June 30, 2020	December 31, 2019
Share premium		14,477,471	14,477,471
Changes in fair value recognized in other comprehensive income	(i)	99,298	218,956
Impairment losses recognized in other comprehensive income	(ii)	549,324	486,151
Changes on remeasurement of defined benefit liabilities	(iii)	(3,155)	(3,155)
Changes in ownership in subsidiaries without changes in control		(157,005)	(157,005)
Total		14,965,933	15,022,418

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(Expressed in thousands of Renminbi, unless otherwise stated)

33 Reserves (Continued)

(a) Capital reserve (Continued)

(i) Investment revaluation

	June 30, 2020	December 31, 2019
As at January 1	218,956	213,457
Changes in fair value recognised in other comprehensive income	201,060	151,528
Transfer to profit or loss upon disposal	(360,604)	(144,196)
Less: Deferred income tax	39,886	(1,833)
As at June 30/December 31	99,298	218,956

(ii) Impairment reserve

	June 30, 2020	December 31, 2019
As at January 1	486,151	457,896
Impairment losses recognized in other comprehensive income	63,173	28,255
As at June 30/December 31	549,324	486,151

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Reserves (Continued)

(a) Capital reserve (Continued)

(iii) Remeasurement of net defined benefit liability

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

	June 30, 2020	December 31, 2019
As at January 1	(3,155)	(3,267)
Remeasurement of net defined benefit liability	–	112
As at June 30/December 31	(3,155)	(3,155)

(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)

34 Profit distribution

In accordance with the resolution of the Bank's Annual General Meeting held on May 18, 2020, the shareholders approved the profit distribution plan for the year ended December 31, 2019:

- Appropriation of statutory surplus reserve amounted to RMB318.94 million;
- Appropriation of general reserve amounted to RMB603.31 million; and
- Declaration of cash dividend of RMB0.45 per 10 shares before tax and in aggregation amount of RMB903.38 million to common shareholders.

In accordance with the resolution of 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 RMB1,480.80 million; and
- Declaration of cash dividend of RMB0.35 per 10 shares before tax and in aggregation amount of RMB702.63 million to common shareholders.

As at June 30, 2020, the consolidated retained profits attributable to equity shareholders of the Bank included an appropriation of RMB163.48 million to surplus reserve made by subsidiaries (December 31, 2019: RMB130.71 million).

35 Other equity instruments

(a) Preference shares outstanding:

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)

35 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)

35 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)

36 Notes to the consolidated cash flow statement

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

	June 30, 2020	June 30, 2019
Cash and cash equivalents as at June 30	55,146,095	57,149,378
Less: Cash and cash equivalents as at January 1	75,325,152	55,712,428
Net (decrease)/increase in cash and cash equivalents	(20,179,057)	1,436,950

(b) Cash and cash equivalents comprise:

	June 30, 2020	June 30, 2019
Cash on hand	1,805,800	1,700,981
Deposits with the central bank	16,600,720	21,529,444
Deposits with banks and other financial institutions	8,336,273	9,298,704
Placements with banks and other financial institutions	6,933,337	8,939,627
Financial assets held under resale agreements	21,469,965	15,680,622
Total	55,146,095	57,149,378

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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, 2020	December 31, 2019
Henan Investment Group Co., Ltd.	7.01%	7.01%
Henan Energy and Chemical Engineering Group Co., Ltd.*	6.48%	6.48%
Piramid Park Co., Ltd.	5.98%	2.09%
Yongcheng Coal and Electricity Holdings Group Co., Ltd.	5.76%	5.76%
Henan Shengrun Holdings Co., Ltd.	3.75%	3.75%
Tian Kun Investment Ltd.	—	3.62%

* As at June 30, 2020, 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 and joint venture are set out in Note 21.

(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 37(a)(i) or their controlling shareholders.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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,	
	2020	2019
Transactions during the period:		
Interest income	24,347	50,359
Interest expense	327	575
	June 30, 2020	December 31, 2019
Balances at the end of the period/ year:		
Financial investments	1,153,641	849,946
Loans and advances to customers	300,417	—
Deposits from customers	186,500	102,915
Deposits from banks and other financial institutions	294	5,274
	June 30, 2020	December 31, 2019
Balances of item off the consolidated statement of financial position outstanding at end of the period/year:		
Bank acceptances	50,000	—
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)

37 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,	
	2020	2019
Transactions during the period:		
Interest income	129,221	71,789
Interest expense	31,793	59,680
Operation expenses	4,947	7,189

	June 30,	December 31,
	2020	2019
Balances at the end of the period/ year:		
Loans and advances to customers	2,980,742	1,066,832
Finance lease receivables	615,000	—
Financial investments	1,090,397	3,052,588
Deposits with banks and other financial institutions	—	204,123
Placements with banks and other financial institutions	943,703	1,727,364
Right-of-use assets	36,809	40,683
Deposits from customers	2,524,347	2,439,256
Deposits from banks and other financial institutions	703,585	1,639,612
Lease liabilities	38,812	42,039

	June 30,	December 31,
	2020	2019
Balances of items off the consolidated statement of financial position outstanding at end of the period/year:		
Letters of credit	100,000	—
Bank acceptances	3,296,363	2,948,695
Letters of guarantees	1,500	11,500
Entrusted loans	1,194,000	—

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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,	
	2020	2019
Transactions during the period:		
Interest income	341	422
Interest expense	114	101
	June 30, 2020	December 31, 2019
Balances at the end of the period/ year:		
Loans and advances to customers	12,607	12,282
Deposits from customers	9,383	15,037

(ii) Key management personnel remuneration

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

	Six months ended June 30,	
	2020	2019
Salaries and other emoluments	6,471	6,301
Discretionary bonuses	3,925	3,717
Contribution by the employer to social insurance and welfare plans, housing allowance, etc.	384	1,408
Total	10,780	11,426

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

37 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, 2020	December 31, 2019
Aggregate amount of relevant loans outstanding at the end of the period/ year	10,296	12,262
Maximum aggregate amount of relevant loans outstanding during the period/ year	10,296	12,262

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans at June 30, 2020 and December 31, 2019.

38 Fair value

(a) Methods and assumptions for measurement of fair value

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

(i) Debt securities and equity investments

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

(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)

38 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)

38 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 30. 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)

38 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)

38 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	June 30, 2020			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial investments at fair value through profit or loss	–	31,281,915	56,919	31,338,834
Derivative financial assets	–	19,038	–	19,038
Financial investments at fair value through other comprehensive income	–	57,107,143	23,896	57,131,039
Loans and advances to customers measured at fair value through other comprehensive income	–	30,379,043	–	30,379,043
Total	–	118,787,139	80,815	118,867,954
Liabilities				
Derivative financial liabilities	–	132,605	–	132,605

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Assets				
Financial assets at fair value through profit or loss	–	41,592,135	593,319	42,185,454
Derivative financial assets	–	15,138	–	15,138
Financial investments at fair value through other comprehensive income	–	53,451,252	23,896	53,475,148
Loans and advances to customers measured at fair value through other comprehensive income	–	25,981,033	–	25,981,033
Total	–	121,039,558	617,215	121,656,773
Liabilities				
Financial liabilities at fair value through profit or loss	–	20,437	–	20,437
Derivative financial liabilities	–	295,741	–	295,741
Total	–	316,178	–	316,178

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value (Continued)

(c) Fair value hierarchy (Continued)

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

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

The movement during the period ended June 30, 2020 and the year ended December 31, 2019 in the balance of Level 3 fair value measurements is as follows:

	January 1, 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Additions, issues, sales and settlement				June 30, 2020
				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	593,319	-	-	-	-	-	-	(536,400)	-	56,919
Financial investments at fair value through other comprehensive income										
– equity investments	23,896	-	-	-	-	-	-	-	-	23,896
Total	617,215	-	-	-	-	-	-	(536,400)	-	80,815

	January 1, 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses		Additions, issues, sales and settlement				December 31, 2019
				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	-	-	-	-	-	593,319	-	-	-	593,319
Financial investments at fair value through other comprehensive income										
– equity investments	23,896	-	-	-	-	-	-	-	-	23,896
Total	23,896	-	-	-	-	593,319	-	-	-	617,215

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Fair value (Continued)

(c) Fair value hierarchy (Continued)

During the period ended June 30, 2020 and the year ended December 31, 2019, 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, 2020	Valuation techniques	Unobservable inputs
Financial investments at fair value through profit or loss – equity investments	56,919	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)

38 Fair value (Continued)

(c) Fair value hierarchy (Continued)

	Fair value as at December 31, 2019	Valuation techniques	Unobservable inputs
Financial investments at fair value through profit or loss		Market comparison	Adjusted
– equity investments	593,319	technique	market multiple
Financial investments at fair value through other comprehensive income		Market comparison	Adjusted
– equity investments	23,896	technique	market multiple

During the period ended June 30, 2020 and the year ended December 31, 2019, there were no significant changes in the valuation techniques.

As at June 30, 2020 and December 31, 2019, 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.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Entrusted lending business

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

	June 30, 2020	December 31, 2019
Entrusted loans	19,758,270	22,588,712
Entrusted funds	19,758,270	22,588,712

40 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, 2020	December 31, 2019
Bank acceptances	49,980,869	45,126,569
Letters of credit	10,202,876	13,298,001
Loan commitments	20,793,410	20,392,315
Letters of guarantees	3,955,277	3,983,305
Total	84,932,432	82,800,190

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

40 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, 2020	December 31, 2019
Credit risk-weighted amount of contingent liabilities and commitments	57,363,313	37,643,903

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

(c) Capital commitments

As at June 30, 2020 and December 31, 2019, the authorised capital commitments of the Group are as follows:

	June 30, 2020	December 31, 2019
Contracted but not paid for	157,341	231,697
Approved but not contracted for	4,294	11,825
Total	161,635	243,522

(d) Outstanding litigations and disputes

As at June 30, 2020, the Group was the defendant in certain pending litigation and disputes with an estimated gross amounts of RMB747.93 million (December 31, 2019: RMB717.02 million). The Group recognised the related litigation provision, which they believed to be reasonable and sufficient.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Commitments and contingent liabilities (Continued)

(e) Pledged assets

(i) Assets pledged as collateral

	Note	June 30, 2020	December 31, 2019
For repurchase agreements			
– Discounted bills		4,768,031	8,737,305
– Financial investments at fair value through profit or loss	19(a)	1,914,000	4,327,415
– Financial investments at fair value through other comprehensive income	19(b)	20,544,515	25,612,807
– Financial investments at amortised cost	19(c)	22,148,585	30,176,778
Total		49,375,131	68,854,305

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, 2020, the carrying amounts of the received pledged assets is RMB21,469.97 million (December 31, 2019: RMB16,828.91 million).

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Involvement with unconsolidated structured entities

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

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, 2020 and December 31, 2019:

	June 30, 2020	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	25,350,420	25,350,420
Financial investments at amortised cost	91,035,336	91,035,336
Total	116,385,756	116,385,756

	December 31, 2019	
	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	32,592,344	32,592,344
Financial investments at amortised cost	86,240,190	86,240,190
Total	118,832,534	118,832,534

As at June 30, 2020 and December 31, 2019, 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)

41 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, 2020 and December 31, 2019, 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, 2020, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group, is RMB67,700.24 million (December 31, 2019: RMB56,623.70 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, 2019 and 2020

During the six months ended June 30, 2020, the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after January 1, 2020, but matured before June 30, 2020, is RMB2,729.68 million (the six months ended June 30, 2019: RMB10,953.83 million).

42 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)

42 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.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Capital management (Continued)

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

	June 30, 2020	December 31, 2019
Total core tier-one capital		
– Share capital	20,075,000	20,075,000
– Qualifying portion of capital reserve	14,588,667	14,657,943
– Surplus reserve	1,818,292	1,818,292
– General reserve	8,934,907	8,934,907
– Retained earnings	2,329,968	1,261,325
– Qualifying portions of non-controlling interests	564,413	523,036
Core tier-one capital deductions		
– Goodwill	(970,780)	(970,780)
– Other intangible assets other than land use rights	(581,999)	(474,067)
Net core tier-one capital	46,758,468	45,825,656
Other tier-one capital	9,708,046	9,702,529
Net tier-one capital	56,466,514	55,528,185
Tier-two capital		
– Instruments issued and share premium	10,000,000	9,999,491
– Surplus provision for loan impairment	4,696,250	4,453,133
– Qualifying portions of non-controlling interests	144,148	139,475
Net capital base	71,306,912	70,120,284
Total risk-weighted assets	548,407,595	538,420,776
Core tier-one capital adequacy ratio	8.53%	8.51%
Tier-one capital adequacy ratio	10.30%	10.31%
Capital adequacy ratio	13.00%	13.02%

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 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, financial leasing services, 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)

43 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, 2020				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Operating income					
External net interest income	5,869,700	1,841,510	509,276	–	8,220,486
Internal net interest (expense)/income	(1,130,142)	1,066,904	63,238	–	–
Net interest income	4,739,558	2,908,414	572,514	–	8,220,486
Net fee and commission income	583,699	369,373	205,507	–	1,158,579
Net trading (losses)/gains	(44,435)	–	381,677	–	337,242
Net gains arising from investment securities	673	–	782,454	–	783,127
Other operating income	35,571	13,924	8,232	34,506	92,233
Operating income	5,315,066	3,291,711	1,950,384	34,506	10,591,667
Operating expenses	(1,221,449)	(1,307,974)	(350,129)	(189,907)	(3,069,459)
Impairment losses on assets (i)	(3,576,541)	(1,238,179)	(305,953)	–	(5,120,673)
share of losses of joint venture	–	–	(15,071)	–	(15,071)
Profit/(loss) before tax	517,076	745,558	1,279,231	(155,401)	2,386,464
Other segment information					
– Depreciation and amortization	257,444	178,085	105,289	1,627	542,445
– Capital expenditure	190,661	131,887	77,975	1,205	401,728

Note:

- (i) Affected by the outbreak of the COVID-19, the Group increased the provision of corporate banking for the six months ended June 30, 2020

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

	June 30, 2020				
	Corporate banking	Retail banking	Financial markets business	Others	Total
Segment assets	268,701,601	187,778,122	260,770,566	1,902,524	719,152,813
Deferred tax assets	–	–	–	4,654,920	4,654,920
Total assets	268,701,601	187,778,122	260,770,566	6,557,444	723,807,733
Segment liabilities	226,044,149	218,621,083	215,010,977	5,260,006	664,936,215
Total liabilities	226,044,149	218,621,083	215,010,977	5,260,006	664,936,215

	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

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(Expressed in thousands of Renminbi, unless otherwise stated)

43 Segment reporting (Continued)

	Six months ended June 30, 2019				Total
	Corporate banking	Retail banking	Financial markets business	Others	
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
	December 31, 2019				Total
	Corporate banking	Retail banking	Financial markets business	Others	
Segment assets	356,178,854	175,115,899	172,538,886	2,400,629	706,234,268
Deferred tax assets	–	–	–	3,650,761	3,650,761
Total assets	356,178,854	175,115,899	172,538,886	6,051,390	709,885,029
Segment liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965
Total liabilities	214,334,597	203,617,982	229,711,478	4,389,908	652,053,965

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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)

44 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)

44 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)

44 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)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

As at June 30, 2020, 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)

44 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.

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

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

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

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)

44 Risk management (Continued)

(a) Credit risk (Continued)

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

	At June 30, 2020				
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments*	Finance lease receivables
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Neither overdue nor credit-impaired	319,896,230	30,792,862	21,469,965	206,900,700	27,593,320
Sub-total	319,896,230	30,792,862	21,469,965	206,900,700	27,593,320
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	3,397,483	–	–	200,000	3,293,287
– Neither overdue nor credit-impaired	5,469,287	–	–	2,273,592	–
Sub-total	8,866,770	–	–	2,473,592	3,293,287
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	7,125,328	19,027	–	5,557,621	364,244
– Credit-impaired but not overdue	1,721,844	–	–	–	–
Sub-total	8,847,172	19,027	–	5,557,621	364,244
Accrued interest	2,362,793	281,920	5,322	2,794,194	–
Less: Provision for impairment losses	(11,206,408)	(31,688)	(2,401)	(3,647,946)	(1,050,099)
Net value	328,766,557	31,062,121	21,472,886	214,078,161	30,200,752

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

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

	At December 31, 2019				
	Loans and advances to customers	Deposits/ Placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments*	Finance lease receivables
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Neither overdue nor credit- impaired	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Sub-total	282,015,131	30,627,441	16,828,910	205,431,367	25,909,393
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	3,237,576	–	–	–	991,324
– Neither overdue nor credit- impaired	6,003,819	–	–	150,000	1,555,564
Sub-total	9,241,395	–	–	150,000	2,546,888
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	6,704,640	19,027	–	3,718,532	209,230
– Credit-impaired but not overdue	1,243,540	–	–	–	–
Sub-total	7,948,180	19,027	–	3,718,532	209,230
Accrued interest	1,796,820	291,561	11,170	2,519,468	–
Less: Provision for impairment losses	(9,771,416)	(25,167)	(1,530)	(1,960,959)	(806,489)
Net value	291,230,110	30,912,862	16,838,550	209,858,408	27,859,022

* As at June 30, 2020 and December 31, 2019, 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.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

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

As at June 30, 2020, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB4,627.89 million. The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,943.24 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, 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 RMB4,426.53 million. The fair value of collaterals held against loans and advances that are credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,682.97 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, 2020 and December 31, 2019.

(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.

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(a) Credit risk (Continued)

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

	June 30, 2020	December 31, 2019
Neither overdue nor credit-impaired		
Ratings		
– A to AAA	47,156,536	39,224,592
– unrated	5,378,471	8,526,820
Total	52,535,007	47,751,412

(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, 2020	December 31, 2019
Neither overdue nor credit-impaired		
Ratings		
– AAA	28,033,273	4,145,301
– AA- to AA+	2,090,490	3,126,600
– A- to A+	–	10,106
– unrated	97,739,037	124,956,299
Total	127,862,800	132,238,306

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44 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, as well as monitoring and managing the foreign exchange risk on a daily basis. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk in bank account. 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)

44 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.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

44 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, 2020					
	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	46,109,318	–	–	–	1,819,918	47,929,236
Deposits with banks and other financial institutions	8,333,890	1,034,705	–	–	14,280	9,382,875
Placement with banks and other financial institutions	6,924,234	14,487,372	–	–	267,640	21,679,246
Derivative financial assets	–	–	–	–	19,038	19,038
Financial assets held under resale agreements	21,467,564	–	–	–	5,322	21,472,886
Loans and advances to customers (Note (1))	180,661,633	46,962,012	30,812,814	67,967,305	2,362,793	328,766,557
Financial investments	22,835,465	49,703,254	101,988,306	36,756,942	34,156,924	245,440,891
Financial lease receivables	26,995,724	80,267	3,124,761	–	–	30,200,752
Others	–	–	–	–	18,916,252	18,916,252
Total assets	313,327,828	112,267,610	135,925,881	104,724,247	57,562,167	723,807,733
Liabilities						
Borrowing from the central bank	5,250,119	18,404,004	–	–	202,511	23,856,634
Deposits from banks and other financial institutions	54,273,585	–	–	–	255,148	54,528,733
Placement from banks and other financial institutions	20,022,459	13,940,242	449,950	–	231,334	34,643,985
Derivative financial liabilities	–	–	–	–	132,605	132,605
Financial assets sold under repurchase agreements	46,811,549	–	–	–	10,865	46,822,414
Deposits from customers	232,406,500	72,905,058	113,041,164	3,750	5,364,172	423,720,644
Debt securities issued	25,942,521	36,176,163	–	10,000,000	417,286	72,535,970
Others	–	–	–	–	8,695,230	8,695,230
Total liabilities	384,706,733	141,425,467	113,491,114	10,003,750	15,309,151	664,936,215
Asset-liability gap	(71,378,905)	(29,157,857)	22,434,767	94,720,497	42,253,016	58,871,518

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 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, 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	70,673,960	-	-	-	1,444,681	72,118,641
Deposits with banks and other financial institutions	10,445,927	410,000	-	-	17,972	10,873,899
Placement with banks and other financial institutions	9,726,974	10,038,400	-	-	273,589	20,038,963
Derivative financial assets	-	-	-	-	15,138	15,138
Financial assets held under resale agreements	16,827,380	-	-	-	11,170	16,838,550
Loans and advances to customers (Note (1))	208,767,847	43,015,516	23,916,141	13,733,786	1,796,820	291,230,110
Financial investments	25,089,847	40,298,436	104,586,439	37,364,218	44,728,818	252,067,758
Finance lease receivables	26,882,536	153,296	823,190	-	-	27,859,022
Others	-	-	-	-	18,842,948	18,842,948
Total assets	368,414,471	93,915,648	129,325,770	51,098,004	67,131,136	709,885,029
Liabilities						
Borrowing from the central bank	3,624,288	12,916,351	-	-	104,113	16,644,752
Deposits from banks and other financial institutions	61,373,444	-	-	-	204,630	61,578,074
Placement from banks and other financial institutions	15,846,563	11,939,520	-	-	272,646	28,058,729
Financial liabilities at fair value through profit or loss	-	-	-	-	20,437	20,437
Derivative financial liabilities	-	-	-	-	295,741	295,741
Financial assets sold under repurchase agreements	66,514,614	-	-	-	30,290	66,544,904
Deposits from customers	222,202,532	69,542,216	92,404,576	97,792	5,484,413	389,731,529
Debt securities issued	26,504,105	39,878,712	2,999,602	9,999,491	338,508	79,720,418
Others	-	-	-	-	9,459,381	9,459,381
Total liabilities	396,065,546	134,276,799	95,404,178	10,097,283	16,210,159	652,053,965
Asset-liability gap	(27,651,075)	(40,361,151)	33,921,592	41,000,721	50,920,977	57,831,064

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

Note:

- (1) As at June 30, 2020, for loans and advances to customers, the category “Less than three months” includes overdue amounts (net of provision for impairment losses) of RMB5,132.61 million (December 31, 2019: RMB5,228.06 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, 2020, assuming other variables remain unchanged, an increase in estimated interest rate of 100 basis points will cause the Group’s net profit to decrease RMB699.35 million (December 31, 2019: decrease RMB434.47 million), and the Group’s equity to decrease RMB1,819.85 million (December 31, 2019: decrease RMB1,668.68 million); a decrease in estimated interest rate of 100 basis points will cause the Group’s net profit to increase RMB699.35 million (December 31, 2019: increase RMB434.47 million), and the Group’s equity to increase RMB1,819.85 million (December 31, 2019: increase RMB1,668.68 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;

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis (Continued)

- 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.

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)

44 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, 2020				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	47,761,921	165,700	232	1,383	47,929,236
Deposits with banks and other financial institutions	3,438,443	4,472,018	1,444,530	27,884	9,382,875
Placement with banks and other financial institutions	13,083,313	8,595,933	–	–	21,679,246
Financial assets held under resale agreements	21,472,886	–	–	–	21,472,886
Loans and advances to customers	325,127,028	3,639,529	–	–	328,766,557
Financial investments	234,111,050	8,147,847	3,181,994	–	245,440,891
Finance lease receivables	30,200,752	–	–	–	30,200,752
Derivative financial assets	19,038	–	–	–	19,038
Others	18,598,316	317,936	–	–	18,916,252
Total assets	693,812,747	25,338,963	4,626,756	29,267	723,807,733
Liabilities					
Borrowing from the central bank	23,856,634	–	–	–	23,856,634
Deposits from banks and other financial institutions	51,116,050	3,399,822	75	12,786	54,528,733
Placement from banks and other financial institutions	28,526,944	6,117,041	–	–	34,643,985
Financial assets sold under repurchase agreements	46,822,414	–	–	–	46,822,414
Deposits from customers	423,720,644	–	–	–	423,720,644
Debt securities issued	72,535,970	–	–	–	72,535,970
Derivative financial liabilities	132,605	–	–	–	132,605
Others	8,479,589	201,487	14,007	147	8,695,230
Total liabilities	655,190,850	9,718,350	14,082	12,933	664,936,215
Asset-liability gap	38,621,897	15,620,613	4,612,674	16,334	58,871,518

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 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, 2019				
	RMB	USD (RMB Equivalent)	HKD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets					
Cash and deposits with the central bank	71,951,437	165,558	211	1,435	72,118,641
Deposits with banks and other financial institutions	6,696,978	2,804,196	1,351,895	20,830	10,873,899
Placement with banks and other financial institutions	17,939,750	2,099,213	–	–	20,038,963
Financial assets held under resale agreements	16,838,550	–	–	–	16,838,550
Loans and advances to customers	287,491,441	3,738,669	–	–	291,230,110
Financial investments	239,172,269	9,761,192	3,134,297	–	252,067,758
Finance lease receivables	27,859,022	–	–	–	27,859,022
Derivative financial assets	15,138	–	–	–	15,138
Others	18,529,568	313,380	–	–	18,842,948
Total assets	686,494,153	18,882,208	4,486,403	22,265	709,885,029
Liabilities					
Borrowing from the central bank	16,644,752	–	–	–	16,644,752
Deposits from banks and other financial institutions	58,290,130	3,276,091	140	11,713	61,578,074
Placement from banks and other financial institutions	27,031,865	1,026,864	–	–	28,058,729
Financial assets sold under repurchase agreements	66,544,904	–	–	–	66,544,904
Deposits from customers	389,731,529	–	–	–	389,731,529
Debt securities issued	79,720,418	–	–	–	79,720,418
Derivative financial liabilities	295,741	–	–	–	295,741
Financial liabilities at fair value through profit or loss	20,437	–	–	–	20,437
Others	9,239,183	208,964	11,087	147	9,459,381
Total liabilities	647,518,959	4,511,919	11,227	11,860	652,053,965
Asset-liability gap	38,975,194	14,370,289	4,475,176	10,405	57,831,064

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(b) Market risk (Continued)

Foreign currency risk (Continued)

	June 30, 2020 Increase/ (decrease)	December 31, 2019 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps change of foreign exchange rate	54,929	53,330
Down 100 bps change of foreign exchange rate	(54,929)	(53,330)

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)

44 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)

44 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, 2020							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	29,508,598	18,406,520	14,118	-	-	-	-	47,929,236
Deposits with banks and other financial institutions	-	3,758,925	2,429,469	2,158,199	1,036,282	-	-	9,382,875
Placements with banks and other financial institutions	-	19,240	2,425,606	4,564,668	14,669,732	-	-	21,679,246
Derivative financial assets	-	-	712	4,446	5,887	7,993	-	19,038
Financial assets held under resale agreements	-	-	21,472,886	-	-	-	-	21,472,886
Loans and advances to customers	1,991,554	3,158,091	19,994,267	24,237,665	105,795,207	55,755,341	117,834,432	328,766,557
Financial investments	2,512,312	162,102	4,014,432	26,344,018	52,695,420	118,479,339	41,233,268	245,440,891
Financial lease receivables	2,138,415	951,588	71,896	40,856	601,625	26,108,440	287,932	30,200,752
Others	14,261,332	-	-	318,971	290,418	4,045,531	-	18,916,252
Total assets	50,412,211	26,456,466	50,423,386	57,668,823	175,094,571	204,396,644	159,355,632	723,807,733

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

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

	At June 30, 2020							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	-	-	1,024,608	4,234,865	18,597,161	-	-	23,856,634
Deposits from banks and other financial institutions	-	9,423,679	15,409,604	17,869,615	11,725,365	100,470	-	54,528,733
Placements from banks and other financial institutions	-	-	14,796,255	5,360,802	14,033,953	452,975	-	34,643,985
Derivative financial liabilities	-	-	1,297	4,615	123,048	3,645	-	132,605
Financial assets sold under repurchase agreements	-	-	46,822,414	-	-	-	-	46,822,414
Deposits from customers	-	201,942,853	9,790,564	23,637,616	73,847,058	114,498,722	3,831	423,720,644
Debt securities issued	-	-	7,208,708	18,734,426	36,196,781	-	10,396,055	72,535,970
Others	-	4,669,918	18,038	301,428	2,211,243	1,388,069	106,534	8,695,230
Total liabilities	-	216,036,450	95,071,488	70,143,367	156,734,609	116,443,881	10,506,420	664,936,215
Long/(short) position	50,412,211	(189,579,984)	(44,648,102)	(12,474,544)	18,359,962	87,952,763	148,849,212	58,871,518

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

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

				At December 31, 2019					
	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	Total	
Assets									
Cash and deposits with the central bank	33,773,552	38,326,421	18,668	-	-	-	-	72,118,641	
Deposits with banks and other financial institutions	-	6,825,010	3,086,240	552,649	410,000	-	-	10,873,899	
Placements with banks and other financial institutions	-	-	3,624,757	6,102,216	10,311,990	-	-	20,038,963	
Derivative financial assets	-	-	655	2,949	11,534	-	-	15,138	
Financial assets held under resale agreements	-	-	16,838,550	-	-	-	-	16,838,550	
Loans and advances to customers	3,850,759	1,377,298	20,514,051	24,067,583	90,692,288	54,933,538	95,794,593	291,230,110	
Financial investments	2,541,754	15,848,816	7,735,254	26,410,748	50,437,563	106,351,631	42,741,992	252,067,758	
Finance lease receivables	788,730	207,871	25,661	-	1,274,182	25,562,578	-	27,859,022	
Others	15,192,187	-	-	362,917	229,182	3,058,662	-	18,842,948	
Total assets	56,146,982	62,585,416	51,843,836	57,499,062	153,366,739	189,906,409	138,536,585	709,885,029	
Liabilities									
Borrowing from the central bank	-	-	1,303,302	2,320,986	13,020,464	-	-	16,644,752	
Deposits from banks and other financial institutions	-	4,303,195	9,837,433	23,703,135	23,633,047	101,264	-	61,578,074	
Placements from banks and other financial institutions	-	-	10,193,980	5,791,431	12,073,318	-	-	28,058,729	
Financial liabilities at fair value through profit or loss	-	-	20,437	-	-	-	-	20,437	
Derivative financial liabilities	-	-	24,488	223,961	47,292	-	-	295,741	
Financial assets sold under repurchase agreements	-	-	62,911,698	3,633,206	-	-	-	66,544,904	
Deposits from customers	-	187,959,185	13,188,292	24,659,817	70,355,065	93,470,279	98,891	389,731,529	
Debt securities issued	-	-	4,833,147	21,778,897	39,878,712	3,091,980	10,137,682	79,720,418	
Others	-	3,908,810	526,330	865,106	2,897,082	1,177,618	84,435	9,459,381	
Total liabilities	-	196,171,190	102,839,107	82,976,539	161,904,980	97,841,141	10,321,008	652,053,965	
Long/(short) position	56,146,982	(133,585,774)	(50,995,271)	(25,477,477)	(8,538,241)	92,065,268	128,215,577	57,831,064	

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 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. Financial investments with no impairment but overdue within one month are classified into the category of repayable on demand. 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, 2020							
	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	23,856,634	24,127,722	-	1,025,133	4,240,579	18,862,010	-	-
Deposits from banks and other financial institutions	54,528,733	54,742,543	9,427,342	15,423,873	17,939,806	11,842,021	109,501	-
Placements from banks and other financial institutions	34,643,985	34,984,466	-	14,804,079	5,389,116	14,318,762	472,509	-
Financial assets sold under repurchase agreements	46,822,414	46,828,462	-	46,828,462	-	-	-	-
Deposits from customers	423,720,644	432,704,473	201,969,937	9,799,729	23,721,271	74,975,568	122,227,544	10,424
Debt securities issued	72,535,970	77,550,929	-	7,220,271	18,791,773	36,854,611	-	14,684,274
Lease liabilities	893,119	989,938	-	21,215	79,623	228,241	599,043	61,816
Total non-derivative financial liabilities	657,001,499	671,928,533	211,397,279	95,122,762	70,162,168	157,081,213	123,408,597	14,756,514
Loan commitments	-	20,793,410	-	20,793,410	-	-	-	-

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(Expressed in thousands of Renminbi, unless otherwise stated)

44 Risk management (Continued)

(c) Liquidity risk (Continued)

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: (Continued)

				At December 31, 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	16,644,752	16,959,549	–	1,312,492	2,337,353	13,309,704	–	–
Deposits from banks and other financial institutions	61,578,074	62,613,051	4,431,939	9,846,441	23,986,766	24,235,565	112,340	–
Placements from banks and other financial institutions	28,058,729	28,453,097	–	10,202,681	5,843,185	12,407,231	–	–
Financial liabilities at fair value through profit or loss	20,437	20,442	–	20,442	–	–	–	–
Financial assets sold under repurchase agreements	66,544,904	66,572,805	–	62,927,340	3,645,465	–	–	–
Deposits from customers	389,731,529	398,303,951	188,079,105	13,213,635	24,777,529	71,272,335	100,832,895	128,452
Debt securities issued	79,720,418	86,147,023	–	5,502,393	21,854,110	40,591,494	6,116,686	12,082,340
Lease liabilities	973,877	1,079,451	–	23,262	87,029	251,726	650,370	67,064
Total non-derivative financial liabilities	643,272,720	660,149,369	192,511,044	103,048,686	82,531,437	162,068,055	107,712,291	12,277,856
Loan commitments	–	20,392,315	–	20,392,315	–	–	–	–

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

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44 Risk management (Continued)

(c) Liquidity risk (Continued)

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:

	At June 30, 2020							
	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	(99,508)	(150,179)	-	-	-	(150,179)	-	-
Currency swaps	(17,521)	(18,836)	-	388	(2,824)	(16,400)	-	-
Derivatives settled on gross basis								
Interest rate swaps								
- cash outflow	(12,819)	(13,279)	-	(718)	(4,331)	(4,183)	(4,047)	-
- cash inflow	16,281	17,204	-	713	4,291	3,333	8,867	-
Total	(113,567)	(165,090)	-	383	(2,864)	(167,429)	4,820	-

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44 Risk management (Continued)

(c) Liquidity risk (Continued)

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: (Continued)

	At December 31, 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	(279,084)	(288,371)	–	(24,060)	(226,502)	(37,809)	–	–
Currency swaps	(1,151)	(24,384)	–	(3,911)	(13,774)	(6,699)	–	–
Derivatives settled on gross basis								
Interest rate swaps								
– cash outflow	(15,504)	(15,727)	–	(666)	(3,050)	(12,011)	–	–
– cash inflow	15,136	15,353	–	656	2,965	11,732	–	–
Total	(280,603)	(313,129)	–	(27,981)	(240,361)	(44,787)	–	–

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)

44 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.

Notes to the Unaudited Interim Financial Report

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Impacts of COVID-19 pandemic

Since the outbreak of the COVID-19 in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group earnestly implemented the requirements of the "Notice on Further Enhancing Financial Support for Prevention and Control of the COVID-19 (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published by the People's Bank of China, the Ministry of Finance, the China Banking Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, to strengthen financial support for epidemic prevention and control.

The COVID-19 has certain impact on the operation of enterprise in Henan province and some industries, and the overall economic operation, which affects the asset quality or return on assets of the Group's credit assets to a certain extent.

The Group has been closely monitoring the development of the COVID-19 and has taken proactive measures to minimize its impact on the financial condition, operating results and other aspects of the Group.

46 Possible impact of amendments, new standards and interpretations issued but not yet effected for the six months ended June 30, 2020

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, 2020, 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

IFRS 17, Insurance contracts	January 1, 2021
IFRS 10 and IAS 28, Amendments Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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 consolidated financial report, and is included herein for information purpose only.

1 Liquidity coverage ratio and leverage ratio

	June 30, 2020	Average for the period ended June 30, 2020
Liquidity coverage ratio (RMB and foreign currency)	177.26%	188.13%
	December 31, 2019	Average for the year ended 2019
Liquidity coverage ratio (RMB and foreign currency)	158.83%	130.97%

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, 2020	December 31, 2019
Leverage ratio	7.12%	7.23%

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, 2020	March 31, 2020	December 31, 2019
Available stable funding	401,390,274	386,988,782	373,261,485
Required stable funding	356,557,463	343,581,430	340,227,052
Net stable funding ratio	112.57%	112.63%	109.71%

3 Currency concentrations

	June 30, 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	25,338,963	4,626,756	29,267	29,994,986
Spot liabilities	(9,718,350)	(14,082)	(12,933)	(9,745,365)
Net position	15,620,613	4,612,674	16,334	20,249,621

	December 31, 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	18,882,208	4,486,403	22,265	23,390,876
Spot liabilities	(4,511,919)	(11,227)	(11,860)	(4,535,006)
Net position	14,370,289	4,475,176	10,405	18,855,870

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, 2020			Total
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	
Asia Pacific	6,017,119	—	7,374,451	13,391,570
North America	8,358	—	—	8,358
Others	11,531	—	—	11,531
	6,037,008	—	7,374,451	13,411,459

December 31, 2019				
	Banks and other financial institutions	Public sector entities	Non-bank private sectors	Total
Asia Pacific	4,452,748	—	8,941,321	13,394,069
North America	4,450	—	—	4,450
Others	4,023	—	—	4,023
	4,461,221	—	8,941,321	13,402,542

Unaudited Supplementary Financial Information

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Gross amount of overdue loans and advances

	June 30, 2020	December 31, 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	872,069	1,266,448
– between 6 months and 1 year (inclusive)	1,814,943	1,574,855
– over 1 year	3,171,840	2,966,616
Total	5,858,852	5,807,919
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.26%	0.42%
– between 6 months and 1 year (inclusive)	0.54%	0.53%
– over 1 year	0.94%	0.99%
Total	1.74%	1.94%

Definition of Terms

“Articles of Association”	The articles of association of the Bank as may be amended, supplemented or otherwise modified from time to time
“Bank”, “Our Bank”, “we”, “us”, or “Zhongyuan Bank”	Zhongyuan Bank Co., Ltd. (中原銀行股份有限公司), a joint stock company established on December 23, 2014 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its predecessors, branches and sub-branches and all subsidiaries
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	China Banking Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CIRC”	China Insurance Regulatory Commission, the predecessor of China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“CBIRC Henan Office”	China Banking and Insurance Regulatory Commission Henan Office
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim report only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Consumer Finance Company”	Henan Zhongyuan Consumer Finance Co., Ltd. (河南中原消費金融股份有限公司), a joint stock company established in the PRC on December 29, 2016 and a subsidiary of our Bank
“Corporate Governance Code”	the Code on Corporate Governance and the Report on Corporate Governance under Appendix 14 to the Hong Kong Listing Rules
“Directors”	directors of the Bank
“Domestic Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are subscribed for or credited as paid up in Renminbi
“H Shares”	ordinary shares of RMB1.00 each in the share capital of the Bank, which are listed on the Hong Kong Stock Exchange

Definition of Terms

“Preference Shares” or “Offshore Preference Shares”	69,750,000 non-cumulative perpetual Offshore Preference Shares with a nominal value of RMB100 each issued by the Bank and listed on the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	July 19, 2017, the date on which dealings in the H Shares commence on the Main Board of Hong Kong Stock Exchange
“Lushi Zhongyuan County Bank”	Lushi Zhongyuan County Bank Co., Ltd. (盧氏中原村鎮銀行股份有限公司), a joint stock company established in the PRC on May 15, 2012 and a subsidiary of our Bank
“Main Board”	the stock market operated by the Hong Kong Stock Exchange (excluding the option market), independent of and to be operated in parallel with the GEM Board of the Hong Kong Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“Nine County Banks”	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 Xinxiang Zhongyuan County Bank Co., Ltd. (新鄉中原村鎮銀行股份有限公司)
“PBoC” or “Central Bank”	The People’s Bank of China (中國人民銀行)

Definition of Terms

“Reporting Period”	the six months ended June 30, 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as may be amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	shares in the share capital of RMB1.00 each of the Bank, including Domestic Shares and H Shares
“Supervisors”	the supervisors of the Bank
“AB Leasing”	AB Leasing Co., Ltd. (邦銀金融租賃股份有限公司), a joint stock company incorporated in the PRC with limited liability and a subsidiary of the Bank
“AB Life Insurance”	Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司), a joint stock company incorporated in the PRC with limited liability
“CDRCB”	Chengdu Rural Commercial Bank Co., Ltd. (成都農村商業銀行股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Henan Wansong”	Henan Wansong Construction Engineering Co., Ltd. (河南萬松建設工程有限公司), a company incorporated in the PRC with limited liability