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Guangzhou Rural Commercial Bank Co., Ltd.*

廣州農村商業銀行股份有限公司*

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

(Stock code: 1551)

(Preference Share Stock Code: 4618)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board of directors (the “**Board**”) of Guangzhou Rural Commercial Bank Co., Ltd.* (the “**Bank**”) is pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “**Group**”) for the six months ended June 30, 2020 (the “**Interim Results**”). This results announcement contains the interim report of the Group for the six months ended June 30, 2020 and the contents were prepared in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the International Financial Reporting Standards. The Interim Results have been reviewed by the Board and the audit committee of the Board.

This results announcement is published on the websites of the Bank (www.grcbank.com) and the Hong Kong Stock Exchange (www.hkexnews.hk). The interim report of the Bank for the six months ended June 30, 2020 will be dispatched to shareholders of the Bank and will also be available at the abovementioned websites in due course.

By Order of the Board
Guangzhou Rural Commercial Bank Co., Ltd. *
Yi Xuefei
Vice Chairman

Guangzhou, the PRC, August 28, 2020

As at the date of this announcement, the Board comprises one executive director, namely Mr. Yi Xuefei; four non-executive directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Liu Guojie and Mr. Zhu Kelin; and four independent non-executive directors, namely, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui and Mr. Zheng Jianbiao.

* *Guangzhou Rural Commercial 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.*

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This report was prepared in both Chinese and English. Where there is discrepancy between the Chinese and English versions, the Chinese version shall prevail.

COMPANY PROFILE

(I) Official Name

1. Official Chinese Name: 廣州農村商業銀行股份有限公司
(Abbreviated as “廣州農村商業銀行”)
2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
(Abbreviated as “GRCB”)

(II) Registered Capital: RMB9,808,268,539.00

(III) Legal Representative: Mr. Wang Jikang

(IV) Authorized Representatives: Mr. Yi Xuefei and Mr. Ngai Wai Fung

(V) Joint Company Secretaries: Ms. Zheng Ying and Mr. Ngai Wai Fung

(VI) H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited

(VII) H-Share Name and Code: GRCB (1551.HK)

(VIII) Offshore Preference Share Name and Code: GRCB 19USDPRF (4618.HK)

(IX) Registered Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC

(X) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen’s Road East, Wanchai, Hong Kong

(XI) Scope of Business: Monetary and financial services

(XII) Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC

Postal Code: 510623

Company Website: www.grcbank.com

(XIII) Place of Inspection of the Interim Report: Office of the Board of Directors of the Bank

(XIV) Auditor: PricewaterhouseCoopers

(XV) Legal Advisor as to PRC Law: Guangdong Qiyuan Law Office

(XVI) Legal Advisor as to Hong Kong Law: King & Wood Mallesons

(XVII) H-Share Registrar: Computershare Hong Kong Investor Services Limited

(XVIII) Non-overseas Listed Shares Depository: China Securities Depository and Clearing Corporation Limited

(XIX) Other Relevant Information of the Company

Date of Registration: 9 December 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: +8695313

Investor Relations Telephone No.: +86(020)28019324

Email Address: ir@grcbank.com

MAJOR HONORS RECEIVED IN THE FIRST HALF OF 2020

No.	Honors	Awarding/granting authority	Obtaining time
1	Best Inclusive Finance Bank of 2019 (2019年度最佳普惠金融銀行)	New Express	January 2020
2	2019 Top 10 Local Banks in Private Banking (2019十佳地方銀行私人銀行獎)	Retail Bank (《零售銀行》雜誌)	January 2020
3	"Poverty Alleviation Model Award of the Year" ("年度扶貧典範獎")	9th China Charity Festival	January 2020
4	Ranked 27th in 2019 China Banking Industry Top 100	China Banking Association	March 2020
5	Ranked 1st in terms of comprehensive wealth management capabilities in the first quarter of 2020	PY Standard	April 2020
6	Ranked 905th in Forbes Global Listed Companies 2000	Forbes	May 2020
7	Ranked 159th in Top 1000 World Banks 2020	The Banker (英國《銀行家》雜誌)	July 2020
8	Ranked 383rd in 2020 Fortune China 500	Fortune China, Wealth Management Department of CICC	July 2020

SUMMARY OF FINANCIAL DATA

The financial information of the Group set forth in this interim report is prepared on a consolidated basis in accordance with IFRS and expressed in Renminbi unless otherwise stated.

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in Amount	Rate of Change (%)
Operating results				
Net interest income	9,229.58	7,737.30	1,492.28	19.29
Net fee and commission income	760.77	816.62	(55.85)	(6.84)
Operating income	11,793.68	10,800.11	993.57	9.20
Profit before income tax	4,094.65	4,543.96	(449.31)	(9.89)
Net profit	3,322.26	3,672.70	(350.44)	(9.54)
Net profit attributable to shareholders of the Bank	3,085.66	3,591.55	(505.89)	(14.09)
Basic earnings per share (Expressed in RMB per share) ⁽¹⁾	0.25	0.37	(0.12)	(32.43)

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020	As at 31 December 2019	Change in Amount	Rate of Change (%)
Scale indicators				
Total assets	972,223.97	894,154.29	78,069.68	8.73
Among which: loans and advances to customers, net	533,309.52	463,051.37	70,258.15	15.17
Total liabilities	896,808.38	820,444.98	76,363.40	9.31
Among which: customers deposits	727,023.96	658,243.09	68,780.87	10.45
Equity attributable to shareholders of the Bank	68,856.49	68,346.69	509.80	0.75
Non-controlling interests	6,559.10	5,362.62	1,196.48	22.31
Total equity	75,415.59	73,709.31	1,706.28	2.31

SUMMARY OF FINANCIAL DATA

Item (Expressed in percentage)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in Amount
Profitability indicators			
Return on average total assets ⁽²⁾	0.71	0.91	(0.20)
Return on average equity ⁽³⁾	9.24	12.73	(3.49)
Net interest spread ⁽⁴⁾	2.19	2.43	(0.24)
Net interest margin ⁽⁵⁾	2.22	2.35	(0.13)
Net fee and commission income to operating income ⁽⁶⁾	6.45	7.56	(1.11)
Cost-to-income ratio ⁽⁷⁾	22.23	24.33	(2.10)

Item (Expressed in percentage)	As at 30 June 2020	As at 31 December 2019	Change in Amount
Assets quality indicators			
Non-performing loan ratio ⁽⁸⁾	1.84	1.73	0.11
Provision coverage ratio ⁽⁹⁾	189.38	208.09	(18.71)
Allowance to total loans ⁽¹⁰⁾	3.48	3.61	(0.13)

Item (Expressed in percentage)	As at 30 June 2020	As at 31 December 2019	Change in Amount
Capital adequacy indicators⁽¹¹⁾			
Core Tier 1 capital adequacy ratio	9.41	9.96	(0.55)
Tier 1 capital adequacy ratio	10.99	11.65	(0.66)
Capital adequacy ratio	13.44	14.23	(0.79)

Item (Expressed in percentage)	As at 30 June 2020	As at 31 December 2019	Change in Amount
Other indicators			
Loan-to-deposit ratio ⁽¹²⁾	75.92	72.92	3.00

SUMMARY OF FINANCIAL DATA

Notes:

- (1) Dividends of preference shares were distributed in the first half of 2020, and dividends of preference shares declared and distributed in that year were excluded from this indicator.
- (2) The annualized return is calculated by dividing the net profit for the period (including profit attributable to non-controlling interests) by the average balance of total assets as at the beginning and end of the period.
- (3) The annualized return is calculated by dividing the annualized net profit for the period (excluding the dividends of preference shares declared and distributed in the current year) by the average balance of total equity (excluding other equity instruments) as at the beginning and end of the period.
- (4) The annualized return is calculated as the difference between the average yield rate on total interest-earning assets and the average cost rate on total interest-bearing liabilities.
- (5) The annualized return is calculated by dividing net interest income by the average daily balance of total interest-earning assets.
- (6) Calculated by dividing net fee and commission income by operating income.
- (7) Calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (8) Calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (9) Calculated by dividing the balance of allowance for loan (including discounted bills) losses by the balance of non-performing loans.
- (10) Calculated by dividing the balance of allowance for loan (including discounted bills) losses by the total loans and advances to customers.
- (11) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.

Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets * 100%

Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets * 100%

Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets * 100%

- (12) Calculated by dividing total loans and advances to customers by total deposits of customers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW FOR THE FIRST HALF OF 2020

I. INCOME STATEMENT ANALYSIS

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June		Change in amount	Rate of change (%)
	2020	2019		
Interest income	18,496.02	15,751.72	2,744.30	17.42
Interest expense	(9,266.44)	(8,014.42)	(1,252.02)	15.62
Net interest income	9,229.58	7,737.30	1,492.28	19.29
Fee and commission income	881.65	935.23	(53.58)	(5.73)
Fee and commission expense	(120.88)	(118.61)	(2.27)	1.91
Net fee and commission income	760.77	816.62	(55.85)	(6.84)
Net trading gains	1,035.95	2,000.07	(964.12)	(48.20)
Net gains on financial investments	363.55	211.53	152.02	71.87
Other income, gains or losses	403.83	34.59	369.24	1,067.48
Operating income	11,793.68	10,800.11	993.57	9.20
Operating expenses	(2,720.87)	(2,701.05)	(19.82)	0.73
Credit impairment losses	(4,976.55)	(3,554.66)	(1,421.89)	40.00
Impairment losses on foreclosed assets	(1.61)	(0.44)	(1.17)	265.91
Profit before income tax	4,094.65	4,543.96	(449.31)	(9.89)
Income tax expense	(772.39)	(871.26)	98.87	(11.35)
Net profit	3,322.26	3,672.70	(350.44)	(9.54)

In the first half of 2020, the Group recorded a profit before income tax of RMB4,095 million, representing a year-on-year decrease of 9.89%, and a net profit of RMB3,322 million, representing a year-on-year decrease of 9.54%. The net interest income of the Group increased as compared to the corresponding period of last year; however, as affected by the COVID-19 pandemic and asset quality, the fair value of financial assets has declined and the expected credit impairment losses have increased, resulting in a decline in the Group's profit before income tax and net profit.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Net Interest Income

In the first half of 2020, the net interest income of the Group amounted to RMB9,230 million, representing a year-on-year increase of RMB1,492 million, or 19.29%, and accounting for 78.26% of our total operating income. It was primarily due to an increase in net interest income driven by the rising scale of interest-earning assets.

The following table sets forth interest income, interest expense and net interest income of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Interest income	18,496.02	15,751.72	2,744.30	17.42
Interest expense	(9,266.44)	(8,014.42)	(1,252.02)	15.62
Net interest income	9,229.58	7,737.30	1,492.28	19.29

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest income/expense	Annualized average yield/cost rate (%)	Average balance	Interest income/expense	Annualized average yield/cost rate (%)
Loans and advances to customers	505,488.18	13,873.32	5.49	397,236.27	11,821.76	5.95
Financial investments	167,841.38	3,127.57	3.73	132,397.77	2,439.65	3.69
Placements and deposits with banks and other financial institutions	50,253.29	672.53	2.68	36,081.61	690.37	3.83
Financial assets held under resale agreements	34,411.85	298.07	1.73	24,246.78	298.92	2.47
Deposits with central bank	74,688.59	524.53	1.40	67,814.22	501.02	1.48
Total interest-earning assets	832,683.29	18,496.02	4.44	657,776.65	15,751.72	4.79
Due to customers	659,880.40	6,967.33	2.11	540,696.27	5,410.09	2.00
Placements and deposits from banks and other financial institutions and others	50,090.71	672.48	2.69	47,765.82	967.88	4.05
Financial assets sold under repurchase agreements	11,476.12	89.84	1.57	8,703.27	99.86	2.29
Debt securities issued	90,223.24	1,376.85	3.05	78,451.82	1,487.76	3.79
Borrowing from central bank	10,644.73	159.94	3.01	3,238.83	48.83	3.02
Total interest-bearing liabilities	822,315.20	9,266.44	2.25	678,856.01	8,014.42	2.36
Net interest income		9,229.58			7,737.30	
Net interest spread			2.19			2.43
Net interest margin			2.22			2.35

Note:

- (1) Financial investments consist of financial assets at fair value through other comprehensive income and financial assets at amortized cost.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, compared with the corresponding period of last year, the overall average yield of interest-earning assets decreased by 35 basis points to 4.44%, the overall average cost rate of interest-bearing liabilities decreased by 11 basis points to 2.25%, net interest spread decreased by 24 basis points to 2.19%, and net interest margin decreased by 13 basis points to 2.22%.

The following table sets forth changes in the Group's interest income and interest expense as compared to the corresponding period of last year due to changes in volume and interest rate. Changes in volume are measured by movement of the average balance, while changes in interest rate are measured by the movement of the average interest rate:

Item (Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	3,221.58	(1,170.02)	2,051.56
Financial investments	653.11	34.81	687.92
Placements and deposits with banks and other financial institutions	271.15	(289.00)	(17.85)
Financial assets held under resale agreements	125.32	(126.17)	(0.85)
Deposits with central bank	50.80	(27.28)	23.52
Changes in interest income	4,321.96	(1,577.66)	2,744.30
Liabilities			
Due to customers	1,192.53	364.71	1,557.24
Placements and deposits from banks and other financial institutions and others	47.11	(342.51)	(295.40)
Financial assets sold under repurchase agreements	31.82	(41.84)	(10.02)
Debt securities issued	223.23	(334.14)	(110.91)
Borrowing from central bank	111.66	(0.55)	111.11
Changes in interest expense	1,606.35	(354.33)	1,252.02

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income

In the first half of 2020, interest income of the Group amounted to RMB18,496 million, representing an increase of RMB2,744 million or 17.42% as compared to the corresponding period of last year.

(1) INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
Corporate loans	324,872.78	9,666.64	5.95	276,758.89	8,711.26	6.30
Personal loans	134,186.86	3,613.93	5.39	109,014.85	2,939.71	5.39
Discounted bills	46,428.54	592.75	2.55	11,462.53	170.79	2.98
Total loans and advances to customers	505,488.18	13,873.32	5.49	397,236.27	11,821.76	5.95

Interest income from loans and advances to customers amounted to RMB13,873 million, representing a year-on-year increase of RMB2,052 million, or 17.35%, and the average yield decreased by 46 basis points to 5.49% as compared with last year, which was mainly because, firstly, the Group proactively implemented a series of supporting policies for enterprises that led to a decrease in interest rate of loans; and secondly, the existing loan business was gradually converted to loan prime rate (LPR) pricing.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest income and average yield for each component of amounts due from banks and other financial institutions of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
Placements and deposits with banks and other financial institutions	50,253.29	672.53	2.68	36,081.61	690.37	3.83
Financial assets held under resale agreements	34,411.85	298.07	1.73	24,246.78	298.92	2.47
Total amounts due from banks and other financial institutions	84,665.14	970.60	2.29	60,328.39	989.29	3.28

In the first half of 2020, the interest income from amounts due from banks and other financial institutions of the Group amounted to RMB971 million, which basically remained stable as compared to the corresponding period of last year, while the average yield decreased by 99 basis points to 2.29% as compared to the corresponding period of last year. It was mainly due to the continuation of loose monetary policy in the market amid the COVID-19 pandemic this year, which led to a decrease in interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Interest expense

In the first half of 2020, the Group's interest expense increased by RMB1,252 million, or 15.62%, to RMB9,266 million as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

The average balance, interest expense and average cost rate for each component of amounts due to customers of the Group are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Corporate deposits						
Demand	114,983.24	279.51	0.49	102,859.35	254.02	0.49
Time	185,439.73	3,036.15	3.27	147,980.15	2,532.17	3.42
Subtotal	300,422.97	3,315.66	2.21	250,839.50	2,786.19	2.22
Personal deposits						
Demand	111,708.62	166.30	0.30	96,511.97	154.99	0.32
Time	220,052.37	3,183.51	2.89	151,749.71	2,159.19	2.85
Subtotal	331,760.99	3,349.81	2.02	248,261.68	2,314.18	1.86
Other deposits	27,696.44	301.86	2.18	41,595.09	309.72	1.49
Due to customers	659,880.40	6,967.33	2.11	540,696.27	5,410.09	2.00

In the first half of 2020, the Group's interest expense on amounts due to customers amounted to RMB6,967 million, representing a year-on-year increase of RMB1,557 million or 28.78%. In the first half of 2020, the cost rate of deposits was 2.11%, which increased by 11 basis points as compared to the corresponding period of last year, mainly due to a further increase in the proportion of time deposits, which had a higher interest cost.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest expense and average cost rate for each component of the Group's amounts due to banks and other financial institutions are set forth as follows:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020			For the six months ended 30 June 2019		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Placements and deposits from banks and other financial institutions and others	50,090.71	672.48	2.69	47,765.82	967.88	4.05
Financial assets sold under repurchase agreements	11,476.12	89.84	1.57	8,703.27	99.86	2.29
Total amounts due to banks and other financial institutions	61,566.83	762.32	2.48	56,469.09	1,067.74	3.78

In the first half of 2020, the Group's interest expense on amounts due to banks and other financial institutions amounted to RMB762 million, representing a year-on-year decrease of RMB305 million or 28.60%, which was mainly due to the continuation of loose monetary policy in the market amid the COVID-19 pandemic, leading to a decrease in interest rate of interbank liabilities.

3. *Net interest spread and net interest margin*

In the first half of 2020, net interest spread decreased by 24 basis points to 2.19% as compared to the corresponding period of last year, and net interest margin decreased by 13 basis points to 2.22% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) *Non-interest Income*

1. *Net fee and commission income*

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Fee and commission income				
Fee income from bank card business	281.07	329.29	(48.22)	(14.64)
Fee income from agency and custodian business	232.00	157.83	74.17	46.99
Guarantee and commitment fee income	83.52	29.36	54.16	184.47
Fee income from settlement and electronic channel business	76.30	76.34	(0.04)	(0.05)
Fee income from wealth management products	43.68	60.42	(16.74)	(27.71)
Fee income from advisory and consulting business	36.13	82.40	(46.27)	(56.15)
Financial leasing fee income	32.62	77.45	(44.83)	(57.88)
Fee income from foreign exchange business	19.99	28.26	(8.27)	(29.26)
Others	76.34	93.88	(17.54)	(18.68)
Subtotal	881.65	935.23	(53.58)	(5.73)
Fee and commission expense				
Fee expense on bank card business	(33.26)	(13.77)	(19.49)	141.54
Fee expense on settlement and electronic channel business	(8.25)	(6.68)	(1.57)	23.50
Others	(79.37)	(98.16)	18.79	(19.14)
Subtotal	(120.88)	(118.61)	(2.27)	1.91
Net fee and commission income	760.77	816.62	(55.85)	(6.84)

In the first half of 2020, net fee and commission income of the Group amounted to RMB761 million, representing a year-on-year decrease of RMB56 million or 6.84%, which was mainly due to the decrease in fee income from bank card business and fee income from advisory and consulting business. Net fee and commission income accounted for 6.45% of the total operating income, which was mainly the fee income from bank card business and agency and custodian business.

2. *Net trading gains*

In the first half of 2020, the net trading gains of the Group amounted to RMB1,036 million, which were mainly interest income from financial investments at fair value through profit or loss and gains or losses from change in fair value.

3. *Net gains on financial investments*

In the first half of 2020, the net gains on financial investments of the Group amounted to RMB364 million, which were mainly the bid-ask spread from financial assets at fair value through other comprehensive income.

4. *Other income, gains or losses*

In the first half of 2020, "other income, gains or losses" of the Group amounted to RMB404 million, which was mainly foreign exchange gains or losses.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Operating Expenses

In the first half of 2020, the operating expenses of the Group increased by RMB20 million, or 0.73% to RMB2,721 million as compared to the corresponding period of last year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Staff costs	1,719.03	1,649.09	69.94	4.24
Tax and surcharges	98.97	73.61	25.36	34.45
Depreciation and amortization	394.05	412.83	(18.78)	(4.55)
Others	508.82	565.52	(56.70)	(10.03)
Total operating expenses	2,720.87	2,701.05	19.82	0.73

1. Staff costs

Staff costs represent the largest component of operating expenses of the Group, accounting for 63.18% and 61.05% of our operating expenses for the first half of 2020 and 2019, respectively.

The following table sets forth the principal components of staff costs of the Group for the periods indicated:

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Salaries, bonuses and allowances	1,319.07	1,192.90	126.17	10.58
Benefits, social insurance, housing fund and other insurances	345.97	389.00	(43.03)	(11.06)
Early and supplemental retirement benefits	7.73	26.85	(19.12)	(71.21)
Gross amount of labour union expenditure, education costs and other staff costs	46.26	40.34	5.92	14.68
Total staff costs	1,719.03	1,649.09	69.94	4.24

In the first half of 2020, staff costs of the Group amounted to RMB1,719 million, representing a year-on-year increase of RMB70 million or 4.24%.

2. Tax and surcharges

In the first half of 2020, the tax and surcharges incurred amounted to RMB99 million, representing a year-on-year increase of RMB25 million or 34.45%, which was mainly because the VAT paid this year increased as compared to the corresponding period of last year, leading to an increase in surcharges.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Depreciation and amortization

In the first half of 2020, depreciation and amortization of the Group was RMB394 million, representing a year-on-year decrease of RMB19 million, or 4.55%.

4. Others

In the first half of 2020, other expenses amounted to RMB509 million, representing a year-on-year decrease of RMB57 million, or 10.03%.

(IV) Impairment Losses

The following table sets forth the principal components of impairment losses on assets of the Group for the periods indicated:

1. Credit impairment losses

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Loans and advances to customers	3,430.98	2,152.86	1,278.12	59.37
Loans and advances at fair value through other comprehensive income	231.04	366.30	(135.26)	(36.93)
Others	1,314.53	1,035.50	279.03	26.95
Total	4,976.55	3,554.66	1,421.89	40.00

2. Impairment losses on foreclosed assets

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020	For the six months ended 30 June 2019	Change in amount	Rate of change (%)
Foreclosed assets	1.61	0.44	1.17	265.91

As of the end of June 2020, all scale of loans and the balance of non-performing loans increased as compared to the end of the corresponding period of last year and the end of last year, and impairment losses to be accrued correspondingly increased. Meanwhile, being affected by the COVID-19 pandemic, the expected probability of default for certain loans and financial investments increased, and impairment allowances are provided accordingly.

(V) Income Tax Expense

In the first half of 2020, income tax expense amounted to RMB772 million, representing a year-on-year decrease of RMB99 million, mainly due to a decrease in profit before income tax. The effective income tax rate was 18.86%.

MANAGEMENT DISCUSSION AND ANALYSIS

II. ANALYSIS OF STATEMENT OF FINANCIAL POSITION

(I) Assets

The following table sets forth the composition of the Group's total assets as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total loans and advances to customers	551,979.57	56.77	479,968.13	53.68
Allowances for impairment losses	(18,670.05)	(1.92)	(16,916.76)	(1.89)
Loans and advances to customers, net	533,309.52	54.85	463,051.37	51.79
Financial investments ⁽¹⁾	237,568.24	24.44	237,674.38	26.58
Cash and deposits with the central bank	85,665.06	8.81	99,562.34	11.13
Deposits with banks and other financial institutions	20,803.00	2.14	30,700.32	3.43
Placements with banks and other financial institutions	37,630.45	3.87	20,604.23	2.30
Financial assets held under resale agreements	41,948.51	4.31	28,593.49	3.20
Others ⁽²⁾	15,299.19	1.58	13,968.16	1.57
Total assets	972,223.97	100.00	894,154.29	100.00

Notes:

- (1) Financial investments included financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost.
- (2) Other assets consisted of property and equipment, goodwill, deferred income tax assets, right-of-use assets and others.

As at 30 June 2020, the Group's total assets amounted to RMB972,224 million, representing an increase of RMB78,070 million, or 8.73%, as compared to the end of last year. Among them, the total loans and advances to customers increased by RMB72,011 million, or 15.00%, as compared to the end of last year. This was primarily due to the faster growth in the scale of corporate loans, non-bank loans and discounted bills in the first half of the year.

Financial investments decreased by RMB106 million, or 0.04%, from the end of last year, which basically remained stable as compared to the end of last year.

Cash and deposits with the central bank decreased by RMB13,897 million or 13.96% from the end of last year, primarily due to three rate cuts by the central bank in the first half of the year decreasing the statutory deposit reserve ratio by 2.0 percentage points as compared to the end of last year.

Gross amount of deposits with banks and other financial institutions and placements with banks and other financial institutions increased by RMB7,129 million or 13.90% as compared to the end of last year, primarily due to the increased interbank borrowings.

Financial assets held under resale agreements increased by RMB13,355 million or 46.71% as compared to the end of last year. This was mainly due to an appropriate increase in the scale of financial assets held under resale agreements according to the funding arrangements.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate loans	355,733.00	64.45	326,135.41	67.95
Personal loans	135,426.80	24.53	124,718.88	25.98
Discounted bills	60,819.77	11.02	29,113.84	6.07
Total loans and advances to customers	551,979.57	100.00	479,968.13	100.00

As at 30 June 2020, total loans and advances to customers of the Group increased by RMB72,011 million, or 15.00%, to RMB551,980 million as compared to the end of last year. As compared to the end of last year, the Group's total corporate loans increased by RMB29,598 million, or 9.08%, to RMB355,733 million; total personal loans increased by RMB10,708 million, or 8.59%, to RMB135,427 million; and total discounted bills increased by RMB31,706 million, or 108.90%, to RMB60,820 million.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total corporate loans	355,733.00	64.45	326,135.41	67.95
Working capital loans	162,125.47	29.37	148,972.52	31.04
Fixed asset loans	168,500.16	30.53	161,442.87	33.64
Finance lease receivables	16,139.64	2.92	14,034.86	2.92
Others	8,967.73	1.63	1,685.16	0.35
Total personal loans	135,426.80	24.53	124,718.88	25.98
Personal mortgage loans	66,573.02	12.06	63,694.13	13.27
Personal business loans	48,364.98	8.76	40,502.80	8.44
Personal consumption loans	11,498.03	2.08	11,287.47	2.35
Balance of credit cards	8,990.77	1.63	9,234.48	1.92
Total discounted bills	60,819.77	11.02	29,113.84	6.07
Bank acceptance bills	57,705.73	10.45	27,478.90	5.73
Commercial acceptance bills	3,114.04	0.57	1,634.94	0.34
Total loans and advances to customers	551,979.57	100.00	479,968.13	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, the Group's balances of working capital loans, fixed asset loans and finance lease receivables were RMB162,125 million, RMB168,500 million and RMB16,140 million, respectively, representing 45.58%, 47.37% and 4.54% of total corporate loans, respectively. Among them, working capital loans and fixed asset loans increased by RMB13,153 million and RMB7,057 million, or 8.83% and 4.37%, as compared to the end of last year, respectively.

As at 30 June 2020, the Group's personal mortgage loans, personal business loans, personal consumption loans and balance of credit cards were RMB66,573 million, RMB48,365 million, RMB11,498 million and RMB8,991 million, respectively, representing 49.16%, 35.71%, 8.49% and 6.64% of total personal loans, respectively. Among them, the balances of personal mortgage loans and personal business loans increased by RMB2,879 million and RMB7,862 million, or 4.52% and 19.41%, as compared to the end of last year, respectively.

As at 30 June 2020, the Group's discounted bank acceptance bills and discounted commercial acceptance bills were RMB57,706 million and RMB3,114 million, respectively. Among them, discounted bank acceptance bills increased by RMB30,227 million and discounted commercial acceptance bills increased by RMB1,479 million, as compared to the end of last year.

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Collateralized loans	293,373.75	53.15	276,622.25	57.64
Pledged loans	43,187.66	7.82	37,773.66	7.87
Guaranteed loans	124,839.39	22.62	109,401.88	22.79
Credit loans	90,578.77	16.41	56,170.34	11.70
Total loans and advances to customers	551,979.57	100.00	479,968.13	100.00

As at 30 June 2020, the Group's collateralized loans, pledged loans, guaranteed loans and credit loans increased by RMB16,752 million, RMB5,414 million, RMB15,438 million and RMB34,408 million, or 6.06%, 14.33%, 14.11% and 61.26%, respectively, as compared to the end of last year. Overall, the proportion of collateralized loans and pledged loans to total loans remained high at 60.97%, reflecting the prudent risk management policy.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Financial investments

The following table sets forth the composition of financial investments of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial assets at fair value through profit or loss	75,610.90	31.83	85,432.18	35.95
Financial assets at fair value through other comprehensive income	86,279.49	36.32	69,706.11	29.33
Financial assets at amortized cost	75,677.85	31.85	82,536.09	34.72
Total financial investments	237,568.24	100.00	237,674.38	100.00

As at 30 June 2020, the financial investments of the Group totaled RMB237,568 million, which basically held flat as compared to the end of last year, and the overall scale remained stable.

(II) Liabilities

The following table sets forth the composition of total liabilities of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Amounts due to customers	727,023.96	81.07	658,243.09	80.23
Deposits from banks and other financial institutions	42,174.26	4.70	41,039.19	5.00
Placements from banks and other financial institutions	1,672.59	0.19	984.92	0.12
Financial assets sold under repurchase agreements	8,836.67	0.99	9,730.36	1.19
Debt securities issued	83,048.97	9.26	79,240.06	9.66
Others ⁽¹⁾	34,051.93	3.79	31,207.36	3.80
Total liabilities	896,808.38	100.00	820,444.98	100.00

Note:

- (1) Mainly including tax payable, borrowings from other banks, salaries, bonuses, allowances and subsidies payable, lease liabilities, etc.

As at 30 June 2020, the Group's total liabilities amounted to RMB896,808 million, representing an increase of RMB76,363 million or 9.31% as compared to the end of last year. As the most important source of the Group's capital, amounts due to customers increased by RMB68,781 million or 10.45% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Amounts due to customers

The following table sets forth the amounts due to customers of the Group by product type as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate deposits⁽¹⁾				
Time	196,478.18	27.03	177,449.45	26.96
Demand	137,492.08	18.91	131,828.17	20.03
Subtotal	333,970.26	45.94	309,277.62	46.99
Personal deposits				
Time	247,152.89	34.00	209,169.74	31.78
Demand	111,720.69	15.36	107,750.92	16.37
Subtotal	358,873.58	49.36	316,920.66	48.15
Pledged deposits	16,202.82	2.23	12,654.10	1.92
Other deposits⁽²⁾	17,977.30	2.47	19,390.71	2.94
Amounts due to customers	727,023.96	100.00	658,243.09	100.00

Notes:

- (1) Mainly including deposits from corporate customers and government bodies.
- (2) Mainly including structured deposits, treasury time deposits, fiscal deposits, etc. raised from the launch of principal-preservation wealth management products by the Group.

As at 30 June 2020, amounts due to customers increased by RMB68,781 million or 10.45% to RMB727,024 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 49.36% of the total amount due to customers, and the balance of personal deposits increased by RMB41,953 million or 13.24% as compared to the end of last year; corporate deposits accounted for 45.94% of the total amount due to customers, and the balance of corporate deposits increased by RMB24,693 million or 7.98% as compared to the end of last year. With respect to the maturity structure, demand deposits accounted for 34.27% of the total amount due to customers, representing a decrease of 2.13 percentage points over the end of last year, while time deposits accounted for 61.03%, representing an increase of 2.29 percentage points over the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Composition of Shareholders' Equity

The following table sets forth the composition of shareholders' equity of the Group as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	9,808.27	13.01	9,808.27	13.31
Preference shares	9,820.73	13.02	9,820.73	13.32
Capital reserve	10,920.40	14.48	10,920.40	14.82
Surplus reserve	5,055.78	6.70	5,055.78	6.86
General risk reserve	11,236.83	14.90	11,236.83	15.24
Investment revaluation reserve	1,197.62	1.58	1,134.29	1.54
Remeasurement gains on defined benefit plans	(33.37)	(0.04)	(20.61)	(0.03)
Retained earnings	20,850.23	27.65	20,391.00	27.66
Non-controlling interests	6,559.10	8.70	5,362.62	7.28
Total shareholders' equity	75,415.59	100.00	73,709.31	100.00

As at 30 June 2020, the Group recorded a paid-in capital of RMB9,808 million, and capital reserve reached RMB10,920 million, both remained stable as compared to the end of last year. Please refer to the notes to financial statements for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

III. LOAN QUALITY ANALYSIS

(I) Five-Category Classification of Loans

The following table sets forth the distribution of the Group's loans by the five-category classification as at the dates indicated, under which non-performing loans include loans classified into substandard, doubtful and loss categories.

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	518,003.76	93.84	456,703.96	95.16
Special mention	23,838.80	4.32	14,944.12	3.11
Substandard	2,684.65	0.49	523.19	0.11
Doubtful	6,799.84	1.23	7,159.26	1.49
Loss	652.52	0.12	637.60	0.13
Total loans and advances to customers	551,979.57	100.00	479,968.13	100.00
Non-performing loan ratio⁽¹⁾	–	1.84	–	1.73

Note:

(1) Calculated by dividing the total amount of non-performing loans by total loans.

Under the increasingly complicated and different economic and financial circumstances at home and abroad, coupled with the combined effect of the COVID-19 pandemic and the non-performing assets of Shaoguan Rural Commercial Bank acquired by the Bank, the non-performing loan ratio of the Group as at 30 June 2020 was 1.84%, which increased by 0.11 percentage point from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) *Distribution of Non-performing Corporate Loans by Industry*

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020			As at 31 December 2019		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Wholesale and retail	319.61	4.20	0.51	443.48	7.36	0.83
Real estate	1,305.54	17.14	2.04	174.98	2.90	0.26
Leasing and commercial services	1,760.48	23.12	2.49	1,987.63	33.01	3.18
Manufacturing	457.93	6.01	1.22	1,300.74	21.59	3.63
Construction	53.79	0.71	0.17	111.53	1.85	0.41
Water conservation, environment and public utilities management	11.52	0.15	0.14	11.52	0.19	0.16
Accommodation and catering	78.05	1.02	0.39	64.19	1.07	0.39
Transportation, storage and postal services	2,269.76	29.80	20.82	809.67	13.44	6.97
Agriculture, forestry, animal husbandry and fishery	1,033.93	13.58	10.34	1,015.11	16.85	10.89
Information transmission, software and information technology services	258.32	3.39	5.58	14.44	0.24	0.33
Education	26.75	0.35	0.26	–	–	–
Household, repair and other services	7.23	0.09	0.08	11.96	0.20	0.18
Production and supply of electricity, heat, gas and water	4.18	0.06	0.15	4.77	0.08	0.17
Others	28.93	0.38	0.23	73.44	1.22	0.63
Total non-performing corporate loans	7,616.02	100.00	2.14	6,023.46	100.00	1.85

Note:

- (1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) of each industry by gross loans granted to such industry.

As at 30 June 2020, the Group's non-performing corporate loans in the real estate industry increased from the end of last year, which was mainly because individual customers faced a slow sales progress of their high-end real estate projects amid the economic downturn and pandemic, resulting in a tight capital chain. The Group's non-performing corporate loans in transportation, storage and postal services industries increased from the end of last year, which was mainly because individual customers failed to run their business properly and made more external investments amid the economic downturn and pandemic, leading to a capital chain rupture.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Distribution of Non-performing Loans by Product Type

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020			As at 31 December 2019		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Corporate loans	7,616.02	100.00	2.14	6,023.46	100.00	1.85
Personal loans	1,871.99	100.00	1.38	1,547.91	100.00	1.24
Personal mortgage loans	326.63	17.45	0.49	243.48	15.73	0.38
Personal business loans	975.11	52.09	2.02	846.20	54.66	2.09
Personal consumption loans	242.97	12.98	2.11	197.31	12.75	1.75
Balance of credit cards	327.28	17.48	3.64	260.92	16.86	2.83
Discounted bills	649.00	100.00	1.07	748.67	100.00	2.57
Total non-performing loans	10,137.01	100.00	1.84	8,320.04	100.00	1.73

Note:

- (1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) in each product type by gross loans in that product type.

Due to the combined effect of the economic downturn, the COVID-19 pandemic and the non-performing assets of Shaoguan Rural Commercial Bank acquired by the Bank, as at 30 June 2020, the non-performing ratio of corporate loans increased by 0.29 percentage point to 2.14% as compared to the end of last year, whereas the non-performing ratio of personal loans increased by 0.14 percentage point to 1.38% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Overdue Loans to Customers

The following table sets forth the aging timetable of the Group's loans by loan certificate as at the dates indicated:

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that were not past due	533,097.01	96.58	465,744.76	97.04
Loans that were past due	18,882.56	3.42	14,223.37	2.96
Within 3 months	12,143.58	2.20	8,211.00	1.71
3 months to 1 year	3,746.90	0.68	3,329.86	0.69
1 year to 3 years	2,353.48	0.43	2,233.60	0.47
Over 3 years	638.60	0.11	448.91	0.09
Total loans and advances	551,979.57	100.00	479,968.13	100
Loans that were past due for more than 3 months	6,738.98	1.22	6,012.37	1.25

Due to the combined effect of the economic downturn, the COVID-19 pandemic and the non-performing assets of Shaoguan Rural Commercial Bank acquired by the Bank, as at 30 June 2020, overdue loans amounted to RMB18,883 million, representing an increase of RMB4,659 million from the end of last year and accounting for 3.42% of the total loans, representing an increase of 0.46 percentage point from the end of last year.

(V) Rescheduled Loans and Advances

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020		As at 31 December 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Rescheduled loans and advances	9,032.90	1.64	10,808.49	2.25

As at 30 June 2020, rescheduled loans and advances amounted to RMB9,033 million, representing a decrease of RMB1,776 million from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) to calculate its capital adequacy ratio, under which credit risks are measured by weighted method, market risks are measured by standard method and operational risks are measured by basic indicator approach, and the scope of this calculation covers all branches of the Bank as well as subsidiaries which are financial institutions which comply with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》). The following table sets forth the relevant information of the Group's capital adequacy ratio as at the dates indicated.

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020	As at 31 December 2019
Core Tier 1 capital adequacy ratio	9.41%	9.96%
Tier 1 capital adequacy ratio	10.99%	11.65%
Capital adequacy ratio	13.44%	14.23%
Portion of paid-in capital that may be included	9,808.27	9,808.27
Portion of capital reserve that may be included	10,920.40	10,920.40
Surplus reserve	5,055.78	5,055.78
General risk reserve	11,236.83	11,236.83
Retained earnings	20,850.23	20,391.00
Portion of minority interests that may be included	2,313.50	1,955.72
Others	1,164.24	1,113.68
Total core Tier 1 capital	61,349.25	60,481.68
Regulatory deductions for core Tier 1 capital		
Goodwill and other intangible assets (excluding land use rights)	(893.90)	(900.96)
Core Tier 1 capital, net	60,455.35	59,580.72
Other Tier 1 capital		
Other Tier 1 capital instruments and their premium	9,820.73	9,820.73
Portion of minority interests that may be included	304.98	259.47
Net Tier 1 capital	70,581.06	69,660.92
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	9,998.80	9,998.74
Excessive loan loss allowances	5,174.81	4,924.20
Portion of minority interests that may be included	604.10	509.17
Net capital	86,358.77	85,093.03
Total risk-weighted assets	642,423.19	597,980.14

As at 30 June 2020, the capital adequacy ratio of the Group was 13.44%, representing a decrease of 0.79 percentage points over the end of last year, mainly due to the growth of risk-weighted assets over the end of last year exceeding the growth of net capital. Net capital amounted to RMB86,359 million, representing an increase of RMB1,266 million or 1.49% over the end of last year, mainly due to the Bank's replenishment of capital by retained profit in the first half of the year. Risk-weighted assets amounted to RMB642,423 million, representing an increase of RMB44,443 million or 7.43% over the end of last year, mainly attributable to the increase in credit risk-weighted assets as result of the increases in the scales of loan business and placements with non-bank institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

V. ANALYSIS OF LEVERAGE RATIO

As at 30 June 2020, the Group measured and disclosed the leverage ratio in accordance with the Administrative Measures for the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》).

Item (Expressed in RMB million, unless otherwise stated)	As at 30 June 2020
Net Tier 1 capital	70,581.06
The balance of assets on and off balance sheet after adjustments	1,036,538.40
Leverage ratio (%)	6.81%

VI. SEGMENT INFORMATION

The Group conducts its business principally in Guangdong Province, the PRC. Its major customers and non-current assets are located in Guangdong Province, the PRC.

Summary of business distribution

Operating income

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate banking business	6,232.44	52.85	5,810.04	53.80
Personal banking business	3,501.27	29.68	3,747.99	34.70
Financial market business	1,872.68	15.88	1,241.08	11.49
Other businesses	187.29	1.59	1.00	0.01
Total operating income	11,793.68	100.00	10,800.11	100.00

VII. OFF-BALANCE-SHEET ITEMS

The Group's off-balance-sheet items include loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit. Acceptance bills, issuance of letters of guarantee and issuance of letters of credit were deemed as key business segments. As at 30 June 2020, the balances of loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit were RMB83,299 million, RMB28,804 million, RMB15,830 million, RMB38,885 million and RMB1,389 million, respectively.

VIII. CONTINGENT LIABILITIES AND ASSETS PLEDGED AS SECURITY

For details of the Group's contingent liabilities and assets pledged as security as at 30 June 2020, please refer to notes 41 and 43 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OPERATION

I. Corporate Banking Business

(I) Corporate Deposit Business

Throughout the first half of 2020, the Bank adhered to its principle of holding deposits as its base, and emphasized its work on securing deposits strictly. By a number of measures, the Bank took full advantage of being a local banking corporation in Guangzhou to intensively cultivate the financial field of rural revitalization and reinforce the business of deposits of village communities. Meanwhile, it pushed hard the development of bank-and-government business such as provincial and municipal fiscal payment, urban renewal funds supervision and land auction deposit, and promoted the measure of keeping institutional funds in the Bank. On the other hand, its effort was put at strengthening the fund management of corporate settlement, increasing the deposit settlement rate of corporate payment and settlement, and enhancing the quality of comprehensive financial services and fiscal management value-added services through the capabilities of trading banks and investment banks. The Bank also expanded the deposit sales channels, deepened the cooperation with enterprises and underpinned its customer base for supporting the steady growth of corporate deposit business.

(II) Corporate Loan Business

In the first half of 2020, given the Bank's active response to the national strategic guidance, it firmly supported the real economy and the economic development of private enterprises, as well as the development of the Guangdong-Hong Kong-Macau Greater Bay Area. The Bank strived to improve the effectiveness of serving the real economy through innovation in its product, business model and system. In the first half of 2020, the Bank thoroughly implemented the relevant government requirements to effectively reduce the financing costs of medium, small and micro-sized enterprises, satisfy the financing needs of enterprises and implement the policy of postponing principal and interest repayment, so as to facilitate the resumption of their work and production. The Bank continued to enhance product innovation and launch innovative products such as the "loans for aiding enterprises to fight against COVID-19 (援企戰疫貸)" and "Zheng Cai Dai (政採貸)", so as to help resume work and production and effectively support the development of the real economy. The Bank optimized the loan interest rate pricing mechanism and the credit approval process to continuously improve the efficiency of serving the real economy. In addition, the Bank solidly conducted the "six-stability" work, fully implemented the "six-guarantee" task, and fully performed its social responsibilities in the normalized prevention and control of the pandemic and the promotion of economic and social development.

(III) Trading Bank Business

The Bank insisted on serving entities and people's livelihood. It achieved steady development of its trading bank business by empowering its businesses with the help of financial technology integrating domestic and overseas resources online and offline and continuously optimizing the trading bank product system. In the first half of 2020, facing the sudden COVID-19 pandemic, the Bank actively fulfilled its social responsibilities, by quickly adjusting the electronic channel system limits and business hours, reducing various transfer and remittance fees, simplifying the handling of imports of epidemic prevention materials and foreign exchange donations, and opening up a "green channel" for foreign exchange financial services, so as to help resume work and production. At the same time, in order to ensure the implementation of various policies to stabilize foreign trade, enterprises and employment, the Bank provided customers with innovative high-quality financial services: innovative use of blockchain technology, launch of new product "Chain Financing (鏈融通)", and promotion

MANAGEMENT DISCUSSION AND ANALYSIS

of the foreign currency “Lian Lian Dai (連連貸)” business, providing SMEs with strong support for ongoing operation, and giving full play to the advantages of financial services to stabilize foreign trade. The Bank actively responded to the rural revitalization strategy, by launching the “Cun Zi Bao (村資寶)” business, and providing online rural collective fund services for governmental departments at various levels and customers in village communities. In addition, the Bank vigorously promoted the online service process, sped up the business handling process, launched various businesses, such as the discount service of electronic bank acceptance bills – “Sun•Cloud e-Discount (太陽•雲e貼)”, the electronic channels for transfers of personal foreign currencies between current and demand deposits, the online VIP call deposit, the online printing and inspection of electronic statements, etc..

In the midst of business development, the Bank accelerated the functional development of the supporting system of its trading bank business, and created a new international business system, village-level financial management platform and Sun e-financing chain, to achieve the digital transformation of financial services and enhance its comprehensive service capability, making financial services easily accessible and developing the layout for the market in the future.

II. Personal Banking Business

(I) *Personal Deposit Business*

While keeping a fast-growing scale, the Bank set its external pricing strategy in a proactive, flexible and competitive manner and diversified the product sales strategies, further optimizing the structure of deposit. The first was to refine the product sales strategies and proactively guide customers to formulate the compositions of their product portfolios through taking into account both liquidity and investment return. The second was to enhance the promotion of current and medium- and short-term deposit products with high profits while maintaining a steady growth of fixed lump-sum time deposits, large-denomination certificates of deposit and other products. The third was to launch new products of high liquidity and small and dispersed deposits such as Huoqibao (活期寶) and Merchant Exclusive (商戶專享), to increase the profit contribution of the Bank. The fourth was to provide uninterrupted returns of deposit rights to strengthen the sense of presence and competitiveness of the Bank through the systematic deposit service activities such as the payment of bonus at the Spring Festival, the recovery of amounts at the end of the year, serving newborns and elderly customers and the offline plus online services. As of the end of June 2020, in terms of market share, the Bank’s saving deposits continued to rank second among banks in Guangzhou with higher level of saving deposits than the average level of banks in Guangzhou.

(II) *Personal Loan Business*

Through proactively implementing the national regulation policy on real estate industry, the Bank supported the real housing needs of residents, and maintained the steady growth of personal housing loan business. Its online and offline consumption loan products were updated to support the consumption upgrade of residents. Thus, the personal consumption loan business grew steadily. In order to provide customers with more financing convenience and enhance customer experience, the Bank optimized the personal credit approval process, simplified the filing requirements and opened up green approval channels. The increasing consumer demand from customers was therefore gradually satisfied.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Personal Wealth Management Business

During the transition period of the new wealth management regulations, facing the rigid conversion expectations broken in the market, the Bank focused its wealth management sales on medium- and low-risk products, and moderately allocated medium- and high-risk products for qualified investors. As such, the income contribution of wealth management business remained stable. Secondly, in order to enhance the competitiveness of the wealth management business, the Bank innovatively launched a series of periodic net-value wealth management products named “Sun Great Wealth (太陽嘉富)” and promoted the gradual transformation of personal wealth management products into net-value products. As of the end of June 2020, the balance of the net-value wealth management products amounted to RMB13,440 million, and the balance of personal wealth management products with expected yield was RMB64,128 million, representing an increase of RMB116 million as compared to the beginning of the year, while the sales reached RMB81,944 million in the first half of the year.

(IV) Bank Card Business

Keeping abreast of the government’s policy guidance, and in active response to the Guangdong-Hong Kong-Macao Greater Bay Area development strategy, the Bank vigorously expanded the base of customers in the field of various high-end talents introduced by government, and made full support for the development of Guangdong-Hong Kong-Macao Greater Bay Area and the high-end talent introduction. As of the end of June 2020, the Bank issued a total of 4,497 “Sun•Leading Yue Cards” (太陽•領粵卡) exclusively for talents of Guangdong-Hong Kong-Macao Greater Bay Area and, as a representative, released 8,479 allowances for talents of different kinds amounting to RMB167 million. Meanwhile, the Bank provided integrated financial services to cardholders through card products, and focused on promoting social security card service upgrade, building the retail customer value-added service right system and constantly enhancing the ability to serve people’s livelihood.

As of 30 June 2020, the Bank issued an accumulation of 409,400 new personal debit cards, and had 7,466,100 existing personal debit cards. The cumulative deposit balance of personal debit cards amounted to RMB121,999 million, representing a year-on-year increase of RMB12,578 million. The cumulative spending related to the debit cards of the Bank amounted to RMB38,830 million, and the various fee income arising from personal debit cards reached RMB8 million.

With respect to the credit card business, the Bank strengthened product innovation. For optimizing customer structure, the Bank introduced high-quality credit customers, and developed and launched the “Sun•Elite Card (太陽•菁英卡)”. For enriching credit card products and promoting the diversion of channels of customer acquisition to mass customer acquisition, the Bank developed and launched the “Sun•Unicom Co-branded Card (太陽•聯通聯名卡)”. In addition, the Bank strengthened the promotion of official credit card WeChat operation, created the first WeChat tweet with “100,000+” reading rates, actively promoted the brand building of credit cards and enhanced customers’ loyalty.

Closely keeping up with the pace of consumption upgrades, the Bank maintained sound operation based on the customer groups and interest rates of different products for existing customers, improved the professionalism, scientificity and systematicness of data application, with an aim to provide quality financial services for customers.

As of the end of June 2020, the total number of credit cards in issue reached 1.6765 million, representing a year-on-year increase of 5.3%. In the first half of 2020, the Bank’s intermediate business income from credit card business amounted to RMB264 million. In the first half of 2020, the operating income generated from the credit card business of the Bank reached RMB400 million.

MANAGEMENT DISCUSSION AND ANALYSIS

III. Financial Market Business

In the first half of 2020, due to the impact of the COVID-19 pandemic at home and abroad, the international financial market fluctuated violently, which brought challenges to the domestic economic development. Faced with the complicated and changing external environment, the Bank always adhered to stable operation, actively promoted the transformation and innovation of the financial market business, solidly promoted the all-round transformation of business development model, profit model and the research and investment decision-making mechanisms, and constantly improved management level and profitability.

(I) *Continuously improving the investment decision-making mechanism, lifting the investment and research level and enhancing the swing-trading ability*

The Bank continuously improved the investment decision-making mechanism to enhance the scientific and forward-looking decision-making. Through continuously improving its investment and research capabilities and its market research and judgment capabilities, the Bank continued to optimize its investment and trading strategies based on the development of the COVID-19 pandemic at home and abroad as well as the strength and rhythm of counter-cyclical adjustment policies, and accurately grasped the swing-trading opportunities with significant improvement in the profitability of transactions.

(II) *Vigorously promoting the transformation of wealth management business to enhance the scale of net-value products*

On the one hand, the Bank revised the wealth management business portfolio proactively to diminish the portion of interbank wealth management and boost the retail wealth management business. On the other hand, the Bank proactively promoted product innovation, and cash management, non-fixed-period open net-value wealth management products were launched successively. As of the end of June 2020, the balance of net-value wealth management products of the Bank was RMB19,015 million.

The Bank's wealth management investment focused on money market instruments, debt securities and enhanced bond funds. As of the end of June 2020, the investment balance of debt securities and money market instruments amounted to RMB49,910 million, accounting for 62.51% of the total; the investment balance of enhanced bond funds amounted to RMB8,360 million, accounting for 10.47% of the total; and the rest of the investment amounted to RMB21,576 million, accounting for 27.02% of the total.

In the national wealth management capability ranking report for the first quarter of 2020 issued by PY Standard, the Bank ranked 1st in terms of comprehensive wealth management capabilities, profitability, risk management capabilities and diversification of wealth management products among rural financial institutions. In the appraisal of open net-value bank wealth management products by CSJ Golden Bull (中證金牛) in the first quarter of 2020, five products of the Bank, including "Enjoy Wealth 35-Day Type-A (私享嘉富35天A款)" and "Sun Great Wealth No. 2 (太陽嘉富2號)", received a 5-star rating by jnl.com (金牛理財), and the Bank ranked 5th, in terms of the number of products selected, among 28 banks selected in the country.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Others

The Bank continued to promote the construction of Zhujiang financial institutions cooperation platform, actively expand the platform cooperation institutions, and strengthen the business cooperation with financial institutions. At present, there are 73 member institutions which have signed contracts with the platform. Online trading on the platform has seen initial results, with a trading volume of RMB1,800 million in the first half of 2020.

The Bank proactively developed the bond underwriting and distribution business and supported the issuance of anti-epidemic bonds. In the first half of 2020, the Bank was awarded as the outstanding underwriter of the export-import bank of China and the Agricultural Development Bank in 2019, with the accumulatively underwritten anti-epidemic bonds amounting to RMB2,450 million in the first half of the year.

The Bank promoted the steady development of the asset custody business and provided efficient and quality services on settlement, accounting and investment supervision, etc. In the first half of 2020, the average daily size of asset custody of the Bank was RMB386,697 million.

IV. Inclusive Financial Business

In the first half of 2020, the Bank thoroughly implemented the decisions and deployment of inclusive finance and the SME-supporting refinancing policies of governments at all levels and regulatory institutions, supported epidemic prevention and control through timely release of guiding opinions, innovative research and development of special products, and facilitated the “incremental expansion, quality improvement and cost reduction” of the inclusive and SME business financial services, so as to support the high-quality development of the real economy.

As of 30 June 2020, the balances of the inclusive and SME loans of the Bank amounted to RMB29,545 million, an increase of RMB6,296 million, or 27.08%, over the beginning of the year, and its growth rate was higher than other loan types of the Bank. It served 23,917 SME loan customers, an increase of 6,510 over the beginning of the year. In the first half of 2020, the weighted average interest rate of loans cumulatively granted was 4.99%, representing a decrease of 0.97 percentage points as compared to the full year of 2019.

(I) Team Building

The Bank continued to improve the inclusive finance specialized system to promote the healthy development of inclusive finance and SME business. As of 30 June 2020, the Bank had 33 inclusive finance teams and 1 inclusive finance sub-branch, namely Zhujiang Sub-branch, in Guangzhou, and 5 inclusive finance teams in branches in other regions, providing a good foundation for better serving the inclusive finance and SME customers. The Bank attached importance to the cultivation of employees’ professional quality and business skills, as well as the building of a professional and high-performance team.

(II) Promoting Businesses

The Bank proactively implemented the SME-supporting refinancing policy of the central bank. As of 30 June 2020, the Bank received the PBOC funding of RMB5,546 million for granting the SME-supporting refinancing loans, ranking first in Guangzhou region.

MANAGEMENT DISCUSSION AND ANALYSIS

During the COVID-19 pandemic, the Bank took various measures and precisely adopted them to relieve the difficulties of medium, small and micro-sized enterprises, and spared no effort to help resume work and production.

The Bank continuously promoted the grid-based inclusive and SME financial service projects in villages, communities and professional markets. It continued to adopt a batch business model in various major professional markets and business circles in Guangzhou, and achieved the financial service coverage of small and micro-sized merchants in batches through business cooperation with market operators and industry associations in business circles.

(III) Product Innovation

Based on the categories of villagers and non-villagers and online and offline, the Bank created the “Sun Inclusive” brand, with the focus on launching a series of products of inclusive and SME businesses such as Sun • SME Loans (太陽•小微貸), Sun • Housing Loans (太陽•房易貸), Sun • Excess Credit Loans (太陽•超額信用貸), Sun • Business Loans for Villagers (太陽•村民致富貸), Sun • Micro E-loan (太陽•微貸), and Sun • Villager E-loan (太陽•村民e貸).

(IV) Technological Support

In line with the new online and offline retail formats for the synchronous development of SMEs and individual proprietors, the Bank actively promoted online credit loan products and service functions such as self-service online application, inquiry, money withdrawal and repayment on internet banking and direct banking, to provide customers with “7 x 24 hours” online service and maximize the convenience of financing. The Bank actively connected with the financing platform of medium, small and micro-sized businesses, well-known third-party e-commerce platforms and big data platforms in China so as to gradually achieve transformation of inclusive and SME businesses in batches based on scenarios.

V. “Sannong” Financial Business

By adhering to its objectives of keeping a foothold in “Sannong” and serving rural revitalization, the Bank proactively established a flexible and comprehensive rural revitalization financial service system, so as to fully play its pivotal role in supporting the economic development of “Sannong”. As of the end of June 2020, the scale of the Bank’s agricultural loans amounted to RMB36,797 million, increasing by RMB491 million from the beginning of the year.

I. Improving the overall work plan

Firstly, the Bank regularly reviewed the execution of the “Three-year Action Plan for Promotion of the Rural Revitalization Strategy of Guangzhou Rural Commercial Bank (2018-2020)”, and gradually improved and steadily promoted the implementation of the action plan and various measures to serve rural revitalization.

Secondly, according to the work requirements of the central, provincial and municipal governments regarding the implementation of the rural revitalization strategy, and in combination with its actual situation, the Bank carefully summarized and reported the phased achievements of implementing the rural revitalization strategy, and actively devised the work plan and deployment with major tasks for next phase.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Clarifying the direction of the credit policy

In the 2020 credit policy, the Bank clarified the strategic positioning of supporting agriculture, and established the business orientation of continuous growth in agriculture-related loans throughout the year. At the same time, it continued to include agriculture, forestry, animal husbandry, fishery and other sectors into the encouraged and supported category and formulated the credit policy for sub-sectors. On the basis of the due diligence and liability exemption mechanism established in the early stage, the Bank revised and optimized the implementation rules for the due diligence and liability exemption work on the credit granting to inclusive and SME businesses, so as to provide a ground for serving rural revitalization and inclusive finance.

III. Helping village communities with pandemic prevention and control

During the pandemic, the Bank took various measures to help village communities with pandemic prevention and control. The Bank carried out pandemic prevention and control jointly with village communities by reinforcing major pandemic prevention checkpoints in relevant village communities and quickly offering the necessities for pandemic prevention. As of the end of June 2020, the Bank donated supplies to 577 village communities, and the relief supplies included 177,400 surgical masks, 21,500 bottles of sanitizers, 140,900 pairs of gloves and other anti-pandemic supplies.

IV. Supporting the resumption of work and production with credit grants

The Bank issued the “Work Plan of Guangzhou Rural Commercial Bank for Supporting Resumption of Work and Production of Agriculture-related Enterprises”, and sorted out the key leading enterprises of agricultural industrialization at all levels (Guangzhou) and the “Vegetable Basket (菜篮子)” agricultural producers in the Guangdong-Hong Kong-Macao Greater Bay Area (Guangzhou). It purposely put forward nine work measures including offering the preferential loan interest rates and opening up the green credit approval channels to vigorously promote the resumption of work and production of agriculture-related enterprises.

V. Promoting the improvement and upgrading of the village-level industrial parks

The Bank and Guangzhou Municipal Industry and Information Technology Bureau jointly launched the “Financial Service Plan for Supporting Improvement and Upgrading of Village-Level Industrial Parks in Guangzhou”, with the provision of a special fund of RMB60 billion. Through the launch of exclusive credit products, the offering of exclusive preferential loan interest rates, the establishment of a rapid response mechanism, the implementation of bond financing and other measures, the Bank assisted in the transformation and upgrading of the industrial parks and the financing of small and micro-sized enterprises in those parks.

VI. Further carrying out the “Thousand Enterprises Help Thousand Villages” (千企幫千村) project

With reference to its past successful experience in related projects, the Bank actively introduced Yuewang Group (粤旺集團) to Gaoping Village, Aotou Town, Conghua District to invest in the frog and rice symbiosis project. At present, it has grown more than 300 mu of rice and operated more than 50 mu of frog farming area. Through the project development, 370 mu of idle land in the village has been revitalized, driving the improvement in the employment level of the village and the per capita income of local villagers.

MANAGEMENT DISCUSSION AND ANALYSIS

VII. Promoting the “Internet + Finance” model

The Bank actively utilized the rural mobile payment application in carrying out the “Ten-Hundred-Thousand Project (十百千示范工程)”, and vigorously promoted the “Internet + finance” business model, so as to give better play to financial services in serving rural revitalization. As of the end of June 2020, the scale of the Bank’s merchant acquirers was approximately 17,000, with a total of approximately 6.24 million transactions and a cumulative transaction amount of RMB9,200 million. Among the administrative villages in Guangzhou, merchants in approximately 80% of village communities have used our payment services. The Bank had approximately 9,500 merchants in village community.

VI. Distribution Channels

(I) Physical Outlets

As of 30 June 2020, the Bank had 651 operating outlets, of which 633 were located in the Guangzhou region and 18 were non-local outlets in the province. In terms of the number of outlets in the Guangzhou region, the Bank ranked first among the banks in the Guangzhou region. The Bank operated 5 non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai, 12 sub-branches (of which 2 sub-branches were newly established in 2020) and 1 sub-office.

(II) Self-service Equipment

As of 30 June 2020, the number of ATMs, self-service inquiry terminals and smart service terminals of the Bank amounted to 2,649, among which 1,772 were ATMs, 721 were self-service inquiry terminals and 156 were smart service terminals.

(III) Smart Banking

As of 30 June 2020, the Bank had a total of 102 smart banking outlets and smart facilities including VTM and STM were installed. Transactions worth RMB3,000 million have been settled.

(IV) Internet Finance

1. Mobile banking

With an aim to provide customers with safe and convenient “contactless” internet financial services, the Bank comprehensively promoted the innovation and integration of biometrics and financial technology. The function of face scan transfer was launched, using facial recognition technology to increase transaction limits and optimize registration process. It realized the 7×24 uninterrupted identity authentication service which enhanced the efficiency of mobile banking services and customer experience. In June 2020, the Bank’s mobile banking successfully passed the comprehensive security assessment and professional evaluation of China Internet Finance Association and other authoritative institutions, and was shortlisted for the first batch of mobile financial apps in the country. As of 30 June 2020, the Bank had approximately 4.51 million mobile banking customers with 6.4526 million financial transactions, representing a year-on-year increase of 0.17%, and a transaction amount of RMB168,482 million, representing a year-on-year increase of 0.47%. Of which, the number of the mobile banking corporate customers was approximately 17,500, which made 178,900 financial transactions with the monetary amount of RMB9,067 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Internet banking*

The Bank continued to enrich its internet banking product system and enhance customer experience. With respect to the personal internet banking, it launched various services such as money transfer for wealth management, transfer of foreign currencies between current and demand deposits, inquiry relating to letter of guarantee, etc. As of 30 June 2020, the Bank had approximately 2.33 million personal internet banking customers with 3.3475 million financial transactions, representing a year-on-year increase of 2.09%, and a transaction amount of RMB127,565 million, representing a year-on-year decrease of 4.08%. In order to meet the market needs, the Bank has developed its online corporate financial services in the face of the pandemic, and the corporate internet banking business is developing at an accelerated pace. As of 30 June 2020, the Bank had approximately 24,900 corporate internet banking customers, and the number of financial transactions made through the corporate internet banking was 1.0243 million, representing a year-on-year increase of 27.8%, and the transaction amount was RMB582,155 million, representing a year-on-year increase of 48.72%.

3. *Direct banking*

With the aim of establishing an open, shared, and win-win financial ecosystem, the Bank actively explored integration of financial services and convenient scenarios, which deepened the self-development of scenarios such as “smart campus” and “smart community” while looking into the scenarios including “smart medical” and “smart transport”, thereby providing users with a diversified online financial value-added service experience. As of 30 June 2020, the Bank had approximately 1.27 million direct banking customers with 0.8326 million financial transactions, representing a year-on-year increase of 68.57%, and a transaction amount of RMB15,785 million, representing a year-on-year decrease of 32.82%.

4. *WeChat banking*

The Bank’s WeChat banking integrates publicity, customer service and financial tools, and provides the customers with fast and easy “finger-tip” financial services such as wealth management and purchase, financial information, latest offer, account enquiry, and appointment for corporate account opening, through which the products of the Bank are promoted in a casual manner. As a result, it has gradually become an important channel for the Bank’s brand publicity and business promotion. As of 30 June 2020, the Bank’s customers of WeChat banking reached 0.7755 million, representing an increase of 10% as compared to the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

5. *Online mall (Sun Market (太陽集市))*

The Sun Market strived to integrate the advantageous agricultural service resources to implement the disintermediation of the agricultural industry chain, thereby establishing a new golden age for the transformation and upgrade of modern agricultural enterprises and farmers. A new mode of poverty alleviation through the industry of "Internet + Agriculture Industry Leader + Base + Farmer" was explored proactively, by which Sun Market could fully exert its new leading function of helping to alleviate poverty. By establishing an integrated online and offline Internet trading system, the Bank has launched a new "retailing" model of dual-channel shopping in both physical stores and online malls and achieved the provision of one-stop service for the display and sales of poverty alleviation products, which facilitated the purchase of agricultural and sideline products for customers, and at the same time, contributed in the truly going out of poverty alleviation commodities and a quick well-off realization of the poor farmer households. As of 30 June 2020, the number of Sun Market's customers was 501,800. The Bank received 208,900 orders, an increase of 3% year-on-year, while the total transaction amount amounted to RMB29.9803 million, an increase of 9% year-on-year.

VII. Principal Subsidiaries

Zhujiang County Bank is a new-type rural financial institution established by the Bank, as a main promoter, in accordance with relevant laws, regulations and regulatory policies. The objectives for which it is established are to fill the gaps in local rural financial services and increase the supply of financial services for Sannong and small and micro-sized businesses. It is of great significance for performing social responsibility by the Bank, conducting inclusive finance, and increasing the breadth and depth of the service to rural revitalization and the support to targeted poverty alleviation. During the Reporting Period, the Bank earnestly performed its duties as a promoter, continuously strengthened the consolidated management and resource support for the Zhujiang County Banks, and led the steady improvement of their operation and management. As of 30 June 2020, the Bank established 25 Zhujiang County Banks in 9 provinces and cities of China.

As a wholly-owned subsidiary promoted and established by the Bank, Zhujiang Financial Leasing Co., Ltd. was incorporated and commenced operation in December 2014, with a registered capital of RMB1 billion. It is mainly engaged in financial leasing related business.

As holding subsidiaries of the Bank, Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd., Chaozhou Rural Commercial Bank Co., Ltd., Guangdong Nanxiong Rural Commercial Bank Co., Ltd. and Shaoguan Rural Commercial Bank Co., Ltd. were incorporated and commenced operation in December 2017, June 2019, July 2019 and June 2020, respectively, with registered capital of RMB600 million, RMB2,633.34 million, RMB431.8 million and RMB1,373.71 million, respectively. They are mainly engaged in monetary financial business.

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VIII. Information Technology

In the first half of 2020, the Bank proactively propelled the establishment of information system and continuously intensified the supporting role of information technology in the development of banking business. In the first half of 2020, all important information systems of the Bank maintained a stable operation, and no unplanned system outages occurred. The networks operated stably.

(I) *Technology Governance*

The Bank focused on enhancing the ability of technology governance and technology management. The senior management and committees at all levels organized and convened multiple meetings, at which important proposals were considered, including the Information Technology Plan (2020-2022) (《信息科技規劃(2020-2022)》) and the Instructions on Building a Distributed Financial Cloud Platform (《關於建設分佈式金融雲平台的請示》). The Bank improved the software research and development management system, strengthened the IT infrastructure management and enhanced the technology outsourcing management, which effectively improved the capacity of science and technology in terms of independent research and development and business support.

(II) *Information Security Guarantee*

The Bank continued to strengthen its capability of information security guarantee with a focus on protecting data centers and important information infrastructure, introduced the advanced continuous threat protection system and upgraded the Internet portal security equipment to enhance external defense capabilities. It conducted the information system penetration tests and the host security loophole and security baseline verification to constantly strengthen the system security, improved the data security management system, and carried out the training of all its staff's awareness of information security, effectively improving the information security management level.

(III) *Business Continuity Management*

In the first half of 2020, firstly, the Bank organized and completed the comprehensive self-examination of business continuity risk and the special examination of operational interruptions in accordance with the requirements of the CBIRC. Secondly, it formulated the annual drill plan for important information systems and important businesses, and completed the intra-city disaster-related switchover drills for 5 important information systems and the business continuity drills for 4 important businesses, enhancing the Bank's emergency response capabilities for the information system of the Bank. Thirdly, it organized and implemented the overall business impact analysis on various business lines such as financial market, corporate finance and online finance, effectively identifying important businesses and expanding the coverage of the Bank's business continuity management.

(IV) *Development of Information Technology*

The Bank continued to increase the investment in technology resources, and promoted the construction of information system throughout the Bank by adhering to its "customer-centered" business philosophy. The Bank deepened the in-depth integration of technology and business with a view to enhancing product research and development in the real economy, inclusive small and micro-sized businesses, and Sannong business. It also proactively responded to changes in business and management models caused by the pandemic. Through the application of emerging technologies such as big data, artificial intelligence, cloud computing, etc., the Bank promoted financial product innovation and business model reform with a total of 14 information technology projects commencing operation during the first half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

IX. Human Resources Management

(I) Human Resources Management

As of 30 June 2020, the Group had 13,274 employees in total, representing an increase of 606 employees or 4.8% as compared to the end of 2019. Of which 12,790 employees entered into labor contracts with the Group, an increase of 856 employees as compared to the end of 2019; and 484 employees were dispatched workers, a decrease of 250 employees as compared to the end of 2019.

(II) Training

The Bank stayed committed to the improvement of the professional level and occupational quality of staff. The Bank went on perfecting its internal corporate university “Zhujiang Business School”. In 2020, the Bank implemented its training work according to the requirements of the strategic development of the whole Bank and its key tasks, innovated the online and offline learning methods, promoted the staff education and training across the Bank in a planned manner, conducted the key talent training projects and implemented precise training, so as to fully empower its staff and organizations. Affected by the COVID-19 pandemic, the training in the first half of the year was mainly conducted by way of online teaching, and took the form of live broadcast teaching, online special courses and online public courses. In the first half of the year, the Bank organized a total of 169 training projects, including 102 online projects. Those trainings covered more than 25,000 trainees. The online learning time per individual was 55.5 hours, and the average satisfaction of trainees under key training projects was 95 points. At the same time, it held the workshops for optimizing the courses and system for posts such as account managers of inclusive finance and small- and micro-sized customers and operation supervisors to gradually develop standardized quality courses and unremittedly lay a solid foundation for training operation.

RISK MANAGEMENT

In the first half of 2020, the Group strictly implemented the decisions and deployment of governments and regulatory authorities at all levels, issued the special credit policy as a guideline, and actively implemented the tasks of “six stabilities (六穩)” and “six guarantees (六保)”. Focusing on the further promotion of “one project and two activities (一工程兩行動)”¹, the Group comprehensively promoted the implementation of risk management work to make up for shortcomings, and raised the overall risk management level, so as to effectively enhance the risk prevention and mitigation capabilities.

During the Reporting Period, the Group’s risk management capabilities and levels were improving as a result of the Group’s ability to control its overall risks and the effective internal control and management.

I. Credit Risk Management

Credit risk refers to the risk of economic losses arising from failure of the borrower or the counterparty of the Bank to fulfil relevant obligations as per the contract for various reasons.

The Compliance and Risk Management Committee of the Group is responsible for formulating policies and strategies relating to the overall credit risk management of the Group, and the Risk Management Department, the Credit Approval Department and the Asset Monitoring Department are responsible for the specific implementation, monitoring and evaluation of credit risk management policies and strategies. Various business lines provide active cooperation in risk management and control.

1. Risk prevention project, risk prevention activities and absolute collection activities

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the Group pushed forward the improvement of the risk management structure and mechanism and process, strengthened the management of business personnel and developed system management tools, so as to enhance its ability to prevent and control the credit risk. First of all, it optimized the risk control organization structure, comprehensively implemented the risk director appointment system and established multiple regional review and approval centers, so as to strengthen the vertical management and enhance the independence of risk control. Secondly, it optimized the risk management and control policies, introduced credit policies, investment policies and the specialized credit policies for epidemic prevention and control, enhanced access management in high-risk areas and strengthened financial support for the real economy, so as to promote economic and social development and financial stability. Thirdly, it optimized the credit authorization management system, and introduced the system of key personnel in charge of operation to highlight the responsibilities of business-operating principals. Fourthly, it upgraded the “risk prevention project” to focus on the two main lines of people and businesses, tightened the system defense, strengthened technical protection, promoted the optimization of risk management measures within the Bank, and enhanced its risk identification and control capabilities and the guarantee capability of risk management system to prevent the occurrence of new risks. Fifthly, it promoted the two activities of risk prevention and absolute collection, implemented the “two-books” (兩本台賬) management by the way of one group and one policy for one account, strengthened the process of supervision and guidance, actively resolved high-risk businesses, disposed of non-performing assets, strengthened the accountability for risk assets, and kept zero tolerance and rigid attitude towards incompliance with rules and disciplines and criminal offences. Sixthly, it boosted the establishment of project group for the risk management system, expanded the introduction of external risk information, and facilitated intelligent and digital risk management. Seventhly, it strengthened team management, optimized performance evaluation, and enhanced the evaluation of asset quality management and control. Eighthly, it carried out the supervision and inspection of system implementation, actively implemented the rectification of internal and external inspection problems through the risk prevention project, and established a long-term risk control mechanism.

In the first half of 2020, the overall credit risks of the Group were under control, and the non-performing rate of the Group was kept within the control objectives.

II. Liquidity Risk Management

Liquidity risk refers to the risk that sufficient funds cannot be obtained at a reasonable cost in time to meet debts falling due, perform other payment obligations and meet other capital needs of normal business.

The objective of liquidity risk management of the Group is to meet the liquidity needs arising from assets, liabilities and off-balance sheet businesses and fulfil payment obligations to external parties in a timely manner under the normal operating environment of the Group or at a highly stressed condition through the establishment of a scientific and comprehensive liquidity risk management mechanism and effective identification, measurement, monitoring and reporting of liquidity risks, so as to maintain the balance between effectiveness and security of funds.

The Asset/Liability Management Committee is responsible for formulating policies and strategies relating to overall liquidity risk management of the Group, and the Asset/Liability Management Department is responsible for implementing liquidity risk management policies and strategies and monitoring and evaluating liquidity risks. Various business lines provide active cooperation in liquidity management.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the Group continued to implement liquidity risk policies and various measures for liquidity risk management, and enhanced the uniform and centralized management of liquidity risk. The specific management measures included: Firstly, the Group ensured the management of daily capital positions to conduct centralized management of funds of the Bank, and conducted timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Group included the requirements for liquidity risk management into its business plan to ensure limiting the existing quality liquidity assets within a safe range. Thirdly, based on the risk preference in liquidity risk approved by the Board of Directors, the Group formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure liquidity risk is under control. Fourthly, the Group monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Group carried out stress testing for liquidity risk quarterly to timely assess the Group's liquidity risk tolerance and risk mitigating capability, and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis. Sixthly, the Group regularly carried out liquidity risk emergency drills in order to improve the efficiency of its response under emergency situation.

In the first half of 2020, the overall liquidity risks of the Group were under control, without any significant liquidity risk incidents, all key liquidity risk indicators of each month were able to meet the standards, and results of the stress test also showed that the Group had adequate risk mitigating capability to deal with crises under pressure.

III. Market Risk Management

Market risk refers to the risk of losses in on- and off-balance sheet businesses from adverse changes in market prices (interest rate, exchange rate, stock prices and commodity prices). Interest rate risk is the major market risk of bank accounts. The Group calculates interest rate sensitivity gap on a regular basis, and evaluates, through gap analysis, the interest rate risk that it undertakes, and further evaluates the impacts of changes in interest rate on net interest income and enterprises' net worth under different interest rates.

According to the requirements of Guidelines for Market Risk Management of Commercial Banks, Guidelines for Internal Control of Commercial Banks and Guidelines for the Stress Testing of Commercial Banks formulated by regulators, the Group manages its interest rate risk and foreign exchange risk with reference to relevant provisions under the New Basel Capital Accord, and has established a market risk management system by making provisions on, monitoring and reporting the authorization, credit extension and risk limits.

In the first half of 2020, the Group remained concerned about changes in currency policies and market prices, and took a number of measures to enhance the capability to manage market risk. Firstly, it formulated the basic investment policy, adjusted risk preference, promoted business transformation towards fixed income, transactions, position operation and active management, and strictly controlled high-risk investment business. Secondly, it implemented the risk monitoring mechanism, and established the full-calibre risk monitoring mechanism for on- and off-balance sheet credit bonds, implemented the penetrate-through principle, dynamically collected the underlying bond holdings, conducted overall analysis from the dimensions of scale, limit, and profit and loss on a monthly basis, timely indicated risks and supervised rectifications for abnormal deviations in indicators. Thirdly, it strengthened the cultivation of professional talents, supported its employees to obtain high-level qualifications such as CFA and FRM, and strengthened cooperation and communication with external excellent investment research teams, so as to continuously improve the professional level of its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the overall market risks of the Group were under control. None of the asset type had exceeded the policy limit control, and the overall risk preference was reduced.

IV. Operational Risk Management

Operational risk refers to the risk of losses caused by imperfections or faults of internal procedures, staff and system, or external events. Operational risks of the Group are classified mainly into internal risks and external risks. Internal risks mainly include risks arising from human factors, inappropriate procedures and operational processes, and failure of IT system. External risks mainly include risks caused by external emergencies.

In the first half of 2020, the Group combined the prevention of cases with operational risk management, continuously strengthened the standardized management of business procedures, and enhanced its efforts in the risk prevention and control to strictly prevent operational risk. Firstly, it formulated the “Implementation Plan for Case Prevention and Control and Operational Risk in 2020” (《2020年案件防控及操作風險工作實施方案》), and organized all units to strengthen the prevention and control of cases and operational risk management from the aspects of system development, system implementation, inspection and supervision. Secondly, it steadily carried out business continuity management, and introduced and implemented the overall plan for rectification of business continuity risk, put the work plans into practice, carried out the training of business continuity management, and raised the Bank’s risk awareness towards business continuity management. Thirdly, it optimized and improved the information technology risk monitoring mechanism, released new version of monitoring indicators, and carried out the “look-back” specialized inspection of information technology risks in batches. Fourthly, it carried out the specialized examination of information technology outsourcing risk and the comprehensive risk assessment of outsourcing.

V. Implementation of the New Basel Capital Accord

The Group promoted the implementation of the New Basel Capital Accord in accordance with regulatory requirements, consolidated infrastructure, created and optimized risk models, and improved the effectiveness of the comprehensive risk measurement system.

In the first half of 2020, firstly, the Group formulated the 2020 risk appetite statement and the indicator system based on the changes in external regulatory situation and risk control requirements. Secondly, it updated and optimized the non-retail internal rating model, developed the corporate and retail risk pre-warning model, and introduced and applied the PBOC’s digital interpretation score for the first time to improve the timeliness and accuracy of the identification of risk customers. Thirdly, it completed the risk identification assessment and stress test in the internal capital adequacy assessment, and continuously promoted the establishment, monitoring and optimization of various risk measurement information systems such as IFRS9 impairment and risk-weighted assets.

VI. Anti-money Laundering Conditions

The Group strictly implemented the regulatory requirements, conscientiously fulfilled the basic obligations of anti-money laundering, strengthened the management of anti-money laundering work, and formulated the emergency plans during the epidemic prevention and control to ensure that the overall anti-money laundering work would not be suspended, and that the basic requirements are not compromised. It constantly adapted to the new situation and new changes of anti-money laundering, further improved the money laundering risk management system of the Bank, and raised the money laundering risk prevention level of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the Group conscientiously organized and implemented the publicity and training of anti-money laundering. On the one hand, it actively responded to the publicity program of the People's Bank of China, Guangzhou Branch, organized and implemented essay contests, micro-video publicity of anti-money laundering and other activities, and produced online soft advertising text in phases for WeChat promotion, and conducted publicity to raise the public's awareness of anti-money laundering. On the other hand, it actively utilized online channels, engaged experts to give lectures and took other ways to carry out anti-money laundering training at different levels, thus enriching the anti-money laundering knowledge at all levels of the Bank, and enhancing our awareness of duty performance.

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit management system. The independent internal audit department was established under the Board of Directors. Under the leadership and guidance of the Bank's Party committee and the Board of Directors and the supervision and guidance of the Board of Supervisors, the internal audit department is responsible for the overall management of the Bank's internal audit work. The internal audit department regularly reports to the Party committee and the Board of Directors, and submits major audit matters to the Bank's Party committee for pre-study and consideration before submitting to the Board of Directors for consideration.

The internal audit department fully performed the audit supervisory function of the third risk defence, and established a beneficial cooperation mechanism with various business management departments, risk management department, discipline inspection and supervision department, etc. Through audit and evaluation, the internal audit department continued to improve the Bank's operation management, risk management, internal control and corporate governance, so as to help the Bank to enhance operation management and curb irregularities.

During the Reporting Period, the internal audit department fully implemented the work requirements of the superior management organizations and the work arrangements of the Bank's Party committee, the Board of Directors and the Board of Supervisors. It improved its political position and promoted the reform of the internal audit supervision system, with the commitment to build a centralized, full-coverage, authoritative and efficient internal audit supervision system. Systematic and standardized audit methods were utilized to conduct various audit projects in order to strengthen the management of audit quality and audit process control, promote the continuous improvement of the Bank's internal control level, and facilitate stable business development. The internal audit department was risk-oriented and carried out special audits in performance appraisal, information technology, bad debt write-off, fund sales, custody business, the Party fee management and other fields, conducted internal control evaluation audits on the whole Bank in a bid to enhance the overall improvement of the Bank's internal control level as well as facilitate the sustainable and stable development of various business segments. Meanwhile, follow-up audits were performed, in which the rectification of the audited units were tracked on dynamically. It also upgraded and transformed the audit information system based on audit management. A normalized and specialized construction of audit team was developed to continuously improve the comprehensive quality of audit staff members.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In the first half of 2020, China's macro-economy slowed down significantly amid the COVID-19 pandemic. Its macro-economic growth rate in the first quarter was -6.8%, which was the lowest level since the National Bureau of Statistics has published such quarterly economic growth rate in 1992. Investment, consumption and exports segments have reported negative growth of various degrees. SMEs were severely hit by the pandemic, and catering, accommodation, tourism, transportation and other industries had a hard time. During the second quarter, as the pandemic was basically under control within the country, enterprises resume their work and production steadily. Coupled with the counter-cyclical control effects brought by the loose monetary policy and proactive fiscal policy, investment and consumption have rebounded steadily and exports have become stable. Thus, in comparison with last quarter, the economy growth sharply bounced back up to 3.2%. For the first half of the year, China recorded its economic growth rate of -1.60%, which was the negative economic growth of half year for the first time since 1992.

Looking forward to the second half of the year, economic stimulus will be gradually implemented. Among them, the issuance of special purpose debt will boost the infrastructure development for maintaining growth, the subsidy policies for commodities such as automobiles and home appliances will promote the continued recovery of consumption, and the gradual re-start of overseas economy will stabilize exports. As such, it is expected to achieve a positive growth of more than 5% for the economy in the third and fourth quarters, and maintain an annual economic growth rate of about 2%. However, we have to stay alert on the risk factors such as the uncertainty of the overseas pandemic and the possible escalation of Sino-US tension.

In the face of the COVID-19 pandemic, the Bank maintained stable operations during the first half of 2020. While the Bank was helping entities to ride out the pandemic, the Bank's scale of assets and liabilities was growing steadily with stable asset quality and resilient profitability. In the second half of the year, based on the changes in domestic and international macro-economic conditions, the Bank will make use of the policy advantages of the Greater Bay Area to optimize the credit resources allocation and continue to enhance the business and product innovation capabilities, thereby contributing to the economic growth of the Greater Bay Area.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARES

Unit: Share, %

	31 December 2019		Change during the Reporting Period Amount of change	30 June 2020	
	Quantity	Proportion		Quantity	Proportion
Total share capital	9,808,268,539	100	–	9,808,268,539	100
Non-overseas listed shares held by legal persons	5,501,947,888	56.09	–	5,501,947,888	56.09
Including: Shares held by state-owned legal person shareholders	1,796,589,712	18.32	–	1,796,589,712	18.32
Non-overseas listed shares held by natural persons	2,485,985,651	25.35	–	2,485,985,651	25.35
Including: Shares held by internal staff members	370,778,208	3.78	–	370,778,208	3.78
Overseas listed foreign shares	1,820,335,000	18.56	–	1,820,335,000	18.56

Notes:

- As of the end of the Reporting Period, the total number of shareholders of the Bank's Non-overseas Listed Shares was 29,146, and all were deposited in China Securities Depository and Clearing Corporation Limited. The total number of shareholders of H Shares was 93 (of which HKSCC Nominees Limited, as a nominee, acted on behalf of several shareholders).
- The shares held by state-owned legal persons represent the Non-overseas Listed Shares of the Bank held by 14 state-owned legal person shareholders, including Guangzhou Finance Holdings Group Co., Ltd., Guangzhou Pearl River Enterprises Group Co., Ltd., etc.
- As of the end of the Reporting Period, 171,504 Non-overseas Listed Shares of the Bank were involved in judicial freezing, representing 0.0017% of the total share capital of the Bank.

II. SHAREHOLDINGS OF SHAREHOLDERS

(I) Total Number of Shareholders

As of 30 June 2020, the Bank had a total share capital of 9,808 million shares, comprising 7,988 million Non-overseas Listed Shares and 1,820 million overseas listed shares. There were 715 legal person shareholders in possession of 5,502 million Non-overseas Listed Shares, accounting for 56.09% of the total share capital. Among which, 14 were state-owned shareholders in possession of 1,797 million shares, accounting for 18.32% of the total share capital, while 28,431 were natural person shareholders in possession of 2,486 million Non-overseas Listed Shares, accounting for 25.35% of the total share capital.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(II) Top Ten Shareholders as of the End of the Reporting Period

As of 30 June 2020, the top ten shareholders of Guangzhou Rural Commercial Bank together held 41.56% of the Bank's total share capital, with no single holder of Non-overseas Listed Shares having control of more than 5% of the total share capital, marking a dispersed shareholding structure. Among the top ten shareholders, the largest shareholder of Non-overseas Listed Shares was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of the total share capital. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of the total share capital, and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of the total share capital. All of these top three shareholders of Non-overseas Listed Shares are enterprises solely-owned by the state.

As at 30 June 2020, the top ten shareholders are as follows:

No.	Name	Class of shareholder	Nature of shareholder	Number of shares (Share)	Shareholding proportion (%)
1	HKSCC Nominees Limited ⁽¹⁾	H Shares	Other	1,819,981,900	18.56
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Non-overseas Listed Shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Non-overseas Listed Shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Non-overseas Listed Shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Non-overseas Listed Shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Non-overseas Listed Shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou Business Investment Holding Group Co., Ltd. (廣州商貿投資控股集團有限公司)	Non-overseas Listed Shares	State-owned legal person	191,749,019	1.95
8	Nanjing Gaoke Co., Ltd. (南京高科股份有限公司)	Non-overseas Listed Shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司)	Non-overseas Listed Shares	Non-state-owned legal person	160,020,000	1.63
10	Shenzhen Weiluo Investment Holding Co., Ltd. (深圳市偉祿投資控股有限公司)	Non-overseas Listed Shares	Non-state-owned legal person	140,010,000	1.43
Total				4,076,654,784	41.56

Notes:

1. HKSCC Nominees Limited, as a nominee, held 1,819,981,900 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.56% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for clients.
2. The above proportions are calculated on the basis of the total share capital of the Bank of 9,808,268,539 shares.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(III) Internal Staff Members' Shareholdings

As of 30 June 2020, the Bank had a total of 5,688 internal staff member shareholders, holding 370 million shares, which accounted for 3.78% of the total share capital of the Bank.

(IV) Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares under the Hong Kong Laws and Regulations

Based on the knowledge of the directors and chief executives of the Bank, as at 30 June 2020, the following persons (other than the directors, chief executives and supervisors of the Bank) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO with details as follows:

Name of shareholder	Nature of interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Guangzhou Municipal People's Government ⁽¹⁾	Interest of a controlled corporation	Non-overseas Listed Shares	Long	1,786,589,712	18.22%	22.37%
Aeon Life Insurance Company Limited	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
Guangzhou HongHui Investment Co., Ltd. ⁽²⁾	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Zeng Weipeng ⁽²⁾	Interest of a controlled corporation	H Shares	Long	114,558,840	1.17%	6.29%
Liu Feng ⁽³⁾	Interest of a controlled corporation	H Shares	Long	294,530,203	3.00%	16.18%
Good Prospect Corporation Limited ⁽³⁾	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Deng Geng ⁽⁴⁾	Interest of a controlled corporation	H Shares	Long	294,554,000	3.00%	16.18%
East Lake Technology Limited ⁽⁴⁾	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
Su Jiaohua ⁽⁵⁾	Interest of the spouse	H Shares	Long	221,424,797	2.26%	12.16%
Lin Xiaohui ⁽⁵⁾	Interest of a controlled corporation	H Shares	Long	221,424,797	2.26%	12.16%
Manureen Investment Limited ⁽⁵⁾	Beneficial owner	H Shares	Long	221,424,797	2.26%	12.16%
Lead Straight Limited ⁽⁶⁾	Beneficial owner	H Shares	Long	195,229,000	1.99%	10.72%
Grandbuy International Trade (HK) Limited ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guangzhou General Merchandise Group Co., Ltd. ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guang Rong Finance Company Limited ⁽⁷⁾	Beneficial owner	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings (HK) Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings Group Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) These 1,786,589,712 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou Business Investment Holding Group Co., Ltd. (廣州商貿投資控股集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 9,152,261 shares directly held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司).

Pursuant to the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou Business Investment Holding Group Co., Ltd. (廣州商貿投資控股集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司), which are controlled by Guangzhou Municipal People's Government.

- (2) Guangzhou HongHe Investment Co., Ltd. is owned as to 90% by Zeng Weipeng, and Guangzhou HongHe Investment Co., Ltd. owns Guangzhou HongHui Investment Co., Ltd. Therefore, Zeng Weipeng is deemed to be interested in the 200,991,000 shares by virtue of the SFO.
- (3) Liu Feng wholly owns Good Prospect Corporation Limited. Therefore, Liu Feng is deemed to be interested in the 294,530,203 shares by virtue of the SFO.
- (4) Deng Geng wholly owns East Lake Technology Limited. Therefore, Deng Geng is deemed to be interested in the 294,554,000 shares by virtue of the SFO.
- (5) Manureen Investment Limited is owned as to 70% by Lin Xiaohui. Therefore, Lin Xiaohui is deemed to be interested in the 221,424,797 shares by virtue of the SFO. Su Jiaohua is the spouse of Lin Xiaohui. Therefore, Su Jiaohua is deemed to be interested in the 221,424,797 shares by virtue of the SFO.
- (6) Grandbuy International Trade (HK) Limited is wholly owned by Guangzhou General Merchandise Group Co., Ltd. Lead Straight Limited is wholly owned by Grandbuy International Trade (HK) Limited. Hence, Guangzhou General Merchandise Group Co., Ltd. and Grandbuy International Trade (HK) Limited Co., Ltd. are deemed to be interested in the 195,229,000 shares by virtue of the SFO.
- (7) Guangzhou Finance Holdings (HK) Co., Ltd. is owned as to 62.49% by Guangzhou Finance Holdings Group Co., Ltd. Guang Rong Finance Company Limited is wholly owned by Guangzhou Finance Holdings (HK) Co., Ltd. Hence, Guangzhou Finance Holdings Group Co., Ltd. and Guangzhou Finance Holdings (HK) Co., Ltd. are deemed to be interested in the 104,347,000 shares by virtue of the SFO.

Save as disclosed above, the Bank is not aware of any other person (other than the directors, chief executives and supervisors of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 30 June 2020 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(V) Major Shareholders under “Interim Measures for Equity Management of Commercial Banks” (《商業銀行股權管理暫行辦法》)

Pursuant to the requirements concerning major shareholders under “Interim Measures for Equity Management of Commercial Banks”, the shareholders listed in the table below were the major shareholders of the Bank as at the end of the Reporting Period:

No.	Name of shareholder	Number of shares held (share)	Reason for being major shareholder	Whether over 50% of the shares held were pledged	Controlling shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners	Related parties
1	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	366,099,589.00	Delegated director Mr. Li Fangjin	No	Guangzhou Municipal People's Government	Guangzhou Municipal People's Government	–	Guangzhou Finance Holdings Group Co., Ltd.	18 related natural persons and 76 related legal persons
2	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	319,880,672.00	Delegated supervisor Mr. Huang Yong	No	Guangzhou Industrial Investment Holding Group Co., Ltd. (廣州工業投資控股集團有限公司)	Guangzhou Municipal People's Government	–	Guangzhou Vanlead Group Co., Ltd.	3 related natural persons and 231 related legal persons
3	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋樑投資有限公司)	160,020,000.00	Delegated director Mr. Zhu Kelin	Yes	Guangdong Pearl River Investment Management Group Co., Ltd. (廣東珠江投資管理集團有限公司)	Zhu Yihang (朱一航)	–	Zhu Yihang	4 related natural persons and 592 related legal persons
4	Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司)	60,020,000.00	Delegated director Mr. Su Zhigang	No	Guangdong Chimelong Group Co., Ltd. (廣東長隆集團有限公司)	Su Zhigang, Zhang Liushen (張柳深)	–	Guangzhou Chimelong Group Co., Ltd.	2 related natural persons and 44 related legal persons
5	Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司)	20,000,000.00	Delegated director Mr. Liu Guojie	No	Liu Guojie	Liu Guojie	–	Guangzhou Haojin Motorcycle Co., Ltd.	2 related natural persons and 18 related legal persons

Note: For the definition of major shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirements of the Interim Measures for Equity Management of Commercial Banks. The major shareholders of the Bank have submitted their lists of related parties, and the Bank will regularly maintain and update the list of related parties to continuously lift the level of management of related party transactions. The Bank has disclosed the related party transactions in this report. Due to limitations on space, it does not provide the list of related parties of major shareholders.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(VI) Issuance of Offshore Preference Shares through a Private Offering

1. Issuance and listing of offshore preference shares

To supplement the capital of the Bank in a diversified way, further enhance the capital strength of the Bank and enhance its ability to resist risks, upon the approvals by Guangdong Bureau of the China Banking and Insurance Regulatory Commission (Guangdong Bureau of CBIRC) (Yue Yin Bao Jian (Chou) Fu [2018] No. 27) and the China Securities Regulatory Commission (CSRC) (Zheng Jian Xu Ke [2019] No. 355), the Bank issued non-cumulative perpetual Offshore Preference Shares in the amount of USD1,430 million on 20 June 2019. The Offshore Preference Shares (abbreviated as GRCB 19USDPRF with code of 04618) were listed on the Hong Kong Stock Exchange on 21 June 2019 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 71,500,000, all of which were issued and fully paid in US dollars.

Based on the Renminbi central parity rate published by the China Foreign Exchange Trade System on 20 June 2019, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB9.839 billion. The proceeds raised from the issuance of the Offshore Preference Shares, after deduction of the issuance expenses, as of the end of the Reporting Period, have been fully used to replenish the additional tier 1 capital of the Bank, increase the tier 1 capital adequacy ratio of the Bank and optimize the capital structure, which is consistent with the specific use disclosed beforehand.

For the issuance terms and relevant details of the Offshore Preference Shares, please refer to the announcements of the Bank published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) and the official website of the Bank (www.grcbank.com).

2. Number of offshore preference shareholders and shareholdings

As of the end of the Reporting Period, the Bank had 1 offshore preference shareholder.

Shareholdings of the offshore preference shareholders (or their nominees) of the Bank are as follows (the following data are based on the register of offshore preference shareholders as at 30 June 2020):

Name of shareholder	Nature of shareholder	Class of shares	Increase or decrease during the Reporting Period (share)	Shareholding ratio (%)	Total number of shares held (share)	Number of shares subject to selling restrictions (share)	Number of shares pledged or frozen (share)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore preference shares	71,500,000	100	71,500,000	–	Unknown

Notes:

- (1) Shareholdings of offshore preference shareholders are based on the information listed in the register of offshore preference shareholders of the Bank.
- (2) As the Offshore Preference Shares were offered through a private offering, the register of offshore preference shareholders presented the information on nominees of the allotted investors.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3. Profit distribution of the Offshore Preference Shares

Dividends will be paid in cash by the Bank to offshore preference shareholders. Each dividend will be payable annually in arrears on the dividend payment date. During the Reporting Period, dividends for the Offshore Preference Shares of USD93,744,444.44 was distributed by the Bank on 20 June 2020, of which USD84,370,000 was paid to the holders of Offshore Preference Shares at a nominal dividend rate of 5.9%, and income tax of USD9,374,444.44 was withheld.

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 experience of any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments (2017 revised), Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments (2017 revised) and Rules on the Differences between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Financial Reporting Standards No. 9 – Financial Instruments and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the issued and existing Offshore Preference Shares are eligible to be classified as equity instruments, and will be accounted for as equity instruments.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. DIRECTORS OF THE BANK

As of 30 June 2020, the Board of Directors of the Bank comprised a total of nine directors, including one executive director, namely Mr. Yi Xuefei (Deputy Secretary of the Party Committee, Vice Chairman and President); four non-executive directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Liu Guojie and Mr. Zhu Kelin; and four independent non-executive directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui and Mr. Zheng Jianbiao.

Mr. Yung Hin Man Raymond resigned as an independent non-executive director of the Bank on 14 January 2020.

The appointment of Mr. Zhang Jian as a director of the Bank was passed by the Board of Directors and shareholders' general meeting of the Bank, and is subject to approval of qualification by the regulatory authority.

II. SUPERVISORS OF THE BANK

As of 30 June 2020, the Board of Supervisors of the Bank comprised a total of seven supervisors, including three employee representative supervisors, namely Ms. Wang Xigui, Ms. He Heng, and Mr. Lai Jiaxiong; three external supervisors, namely Mr. Mao Yunshi, Mr. Chen Dan, and Mr. Shao Baohua; and one shareholder representative supervisor, namely Mr. Huang Yong.

Mr. Zhang Dalin resigned as a supervisor of the Bank on 10 March 2020.

III. SENIOR MANAGEMENT OF THE BANK

As of 30 June 2020, the senior management of the Bank comprised a total of nine members: Mr. Yi Xuefei (Deputy Secretary of the Party Committee, Vice Chairman and President); Mr. Zhao Wei (Chief of the Discipline Inspection Team of the Commission for Discipline Inspection and the National Supervision Commission of Guangzhou stationed in Guangzhou Rural Commercial Bank); two Vice Presidents, namely Mr. Chen Jianming and Mr. Lin Ripeng; one assistant to the President, namely Mr. Tan Bo; two business directors, namely Ms. Chen Linjun and Ms. Yang Xuan; Mr. Cai Huiran (Chief Information Officer); and Ms. Zheng Ying (Secretary of the Board of Directors).

IV. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted a code of conduct regarding securities transactions by the directors, supervisors and relevant employees no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors and supervisors, all directors and supervisors of the Bank confirmed that they have complied with the aforesaid code throughout the six months from 1 January 2020 to 30 June 2020.

MAJOR EVENTS

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improve its corporate governance in strict compliance with laws and regulations such as the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China as well as the Listing Rules and in line with actual conditions of the Bank.

During the Reporting Period, the Bank has observed and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank has complied with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon the approval of the 2019 AGM of the Bank, the Bank distributed a final dividend in cash for 2019 on 22 June 2020 of RMB0.20 per share (tax inclusive) and RMB1,962 million (tax inclusive) in aggregate to holders of Non-overseas Listed Shares and holders of H Shares whose names appeared on the register of members of the Bank on 4 June 2020. The Bank did not declare any interim dividend for 2020 (2019: nil).

REPURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Bank and its subsidiaries did not repurchase, sell or redeem any of the Bank's securities.

MATERIAL RELATED PARTY TRANSACTIONS

As of the end of June 2020, the loan balance of material related party transactions between the Bank and related parties amounted to RMB7,148 million.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

As of 30 June 2020, pending non-credit extension legal proceedings in which the Bank was a defendant or third party involved an amount of RMB1,517,000,000. The verified amount of provision for loss on the pending non-credit extension legal proceedings in which the Bank was a defendant or third party was RMB3,022,500. The bank is of the view that it will not have any material impact on the Bank's operating activities.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS IN THE COMPANY

As of 30 June 2020, based on the information available to the Bank and as far as the directors are aware, the interests and short positions of the directors, chief executives and supervisors of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors', supervisors' and chief executives' interests in the Bank							
Name	Capacity	Nature of interest	Class of shares	Long/Short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interests in the Bank	Approximate percentage of the relevant class of shares of the Bank
Yi Xuefei	Director	Beneficial owner	Non-overseas Listed Shares	Long	500,000	0.005%	0.006%
Su Zhigang	Director	Interest of a controlled corporation ⁽¹⁾	Non-overseas Listed Shares	Long	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Non-overseas Listed Shares	Long	1,201,000	0.012%	0.015%
Liu Guojie	Director	Interest of a controlled corporation ⁽²⁾	Non-overseas Listed Shares	Long	20,000,000	0.204%	0.250%
Zhang Dalin (resigned on 10 March 2020)	Supervisor	Beneficial owner/	Non-overseas Listed Shares	Long	1,201,000	0.012%	0.015%
		Interest of a controlled corporation ⁽³⁾	Non-overseas Listed Shares	Long	5,000,000	0.051%	0.063%
Mao Yunshi	Supervisor	Interest of spouse	Non-overseas Listed Shares	Long	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/	Non-overseas Listed Shares	Long	1,201,000	0.012%	0.015%
		Interest of spouse/	Non-overseas Listed Shares	Long	2,407,000	0.025%	0.030%
		Interest of a controlled corporation ⁽⁴⁾	Non-overseas Listed Shares	Long	42,010,000	0.428%	0.526%
Lai Jiaxiong	Supervisor	Beneficial owner	Non-overseas Listed Shares	Long	452,224	0.005%	0.006%

Notes:

- (1) These shares were held by Guangzhou Chimelong Group Co., Ltd., which was owned as to 87.14% by Su Zhigang. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Chimelong Group Co., Ltd.
- (2) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司), which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司).

MAJOR EVENTS

- (3) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin is deemed or taken to be interested in all the shares held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).
- (4) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at 30 June 2020, none of the directors, supervisors and chief executives of the Bank had any interests or short positions in any shares, underlying shares or debentures of the Bank or 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 pursuant to Section 352 of the Hong Kong SFO, or required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, the Bank and all the directors, supervisors and senior management of the Bank had no record of being subject to inspections, administrative penalties and circulating criticisms by the CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts to be performed.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, Shaoguan Rural Commercial Bank, in which the Bank holds 50.1% of the equity interests, officially started operations on 24 June 2020.

SUBSEQUENT EVENTS

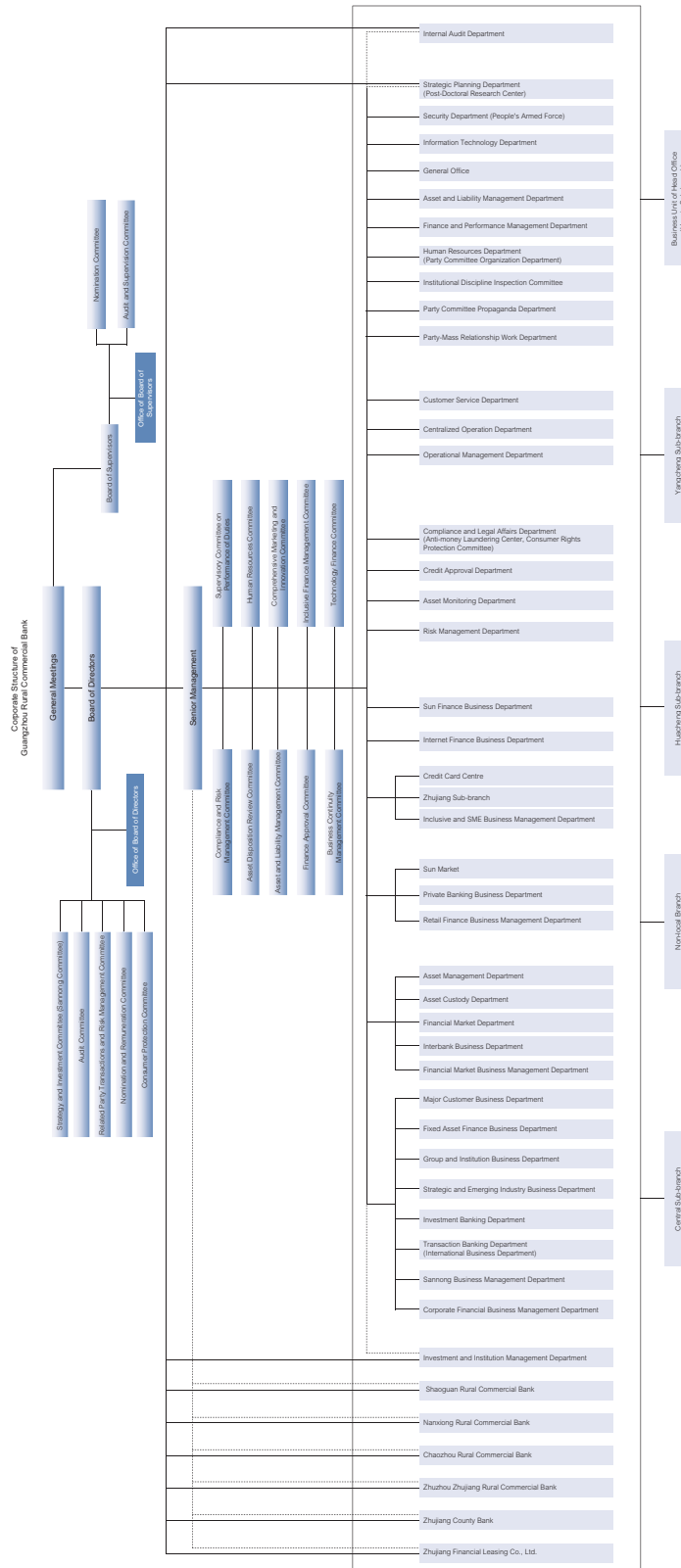
The Bank intends to issue A shares with the total amount of no more than 1,596,694,878 shares, and the issuance proportion does not exceed 14% of the total share capital after the issuance. The relevant proposal on the above matter was considered and approved by the general meeting of the Bank held on 6 September 2018.

REVIEW OF INTERIM RESULTS

The Bank's interim condensed consolidated financial data for the six months ended 30 June 2020 prepared in accordance with the IFRS has been reviewed by PricewaterhouseCoopers.

The Bank's interim results report for the six months ended 30 June 2020 has been reviewed by the Audit Committee under the Board of Directors of the Bank and the Board of Directors.

CORPORATE STRUCTURE



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

To the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd.

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 59 to 151, which comprises the interim condensed consolidated statement of financial position of Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

		Six months ended 30 June	
	Note	2020	2019
Interest income	5	18,496,018	15,751,717
Interest expense	5	(9,266,434)	(8,014,414)
Net interest income		9,229,584	7,737,303
Fee and commission income	6	881,651	935,229
Fee and commission expense	6	(120,885)	(118,607)
Net fee and commission income		760,766	816,622
Net trading gains	7	1,035,954	2,000,070
Net gains on financial investments	8	363,550	211,525
Other income, gains or losses	9	403,830	34,590
Operating income		11,793,684	10,800,110
Operating expenses	10	(2,720,873)	(2,701,050)
Credit impairment losses	11	(4,976,547)	(3,554,664)
Impairment losses on foreclosed assets	11	(1,619)	(436)
Profit before income tax		4,094,645	4,543,960
Income tax expense	12	(772,386)	(871,259)
Net Profit for the period		3,322,259	3,672,701
Attributable to:			
Shareholders of the Bank		3,085,657	3,591,552
Non-controlling interests		236,602	81,149
		3,322,259	3,672,701
Earnings per share (RMB yuan)			
– basic and diluted	14	0.25	0.37

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

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

	Note	Six months ended 30 June 2020	2019
Net Profit for the period		3,322,259	3,672,701
Other comprehensive income (after tax, net):	36	—	—
Items that may be reclassified to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income		(396,569)	(110,496)
Changes in the expected credit losses of financial assets at fair value through other comprehensive income		455,877	762,671
Items that will not be reclassified to profit or loss			
Remeasurement (losses)/ income on defined benefit plans		(12,758)	3,224
Subtotal of other comprehensive income for the period		46,550	655,399
Total comprehensive income for the period		3,368,809	4,328,100
Total comprehensive income attributable to:			
Shareholders of the Bank		3,136,223	4,246,886
Non-controlling interests		232,586	81,214
		3,368,809	4,328,100

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	As at 30 June 2020	As at 31 December 2019
ASSETS			
Cash and deposits with central bank	15	85,665,058	99,562,341
Deposits with banks and other financial institutions	16	20,803,002	30,700,318
Placements with banks and other financial institutions	17	37,630,449	20,604,232
Financial assets held under resale agreements	18	41,948,512	28,593,493
Loans and advances to customers	19	533,309,523	463,051,371
Financial investments			
– Financial assets at fair value through profit or loss	20	75,610,904	85,432,178
– Financial assets at fair value through other comprehensive income	21	86,279,491	69,706,113
– Financial assets at amortized cost	22	75,677,847	82,536,087
Property and equipment	23	2,882,021	2,921,638
Goodwill	24	734,237	734,237
Deferred tax assets	25	5,906,375	5,054,904
Other assets	26	5,776,551	5,257,379
Total assets		972,223,970	894,154,291
LIABILITIES			
Due to the central bank		13,088,233	8,867,584
Deposits from banks and other financial institutions	27	42,174,257	41,039,193
Placements from banks and other financial institutions	28	1,672,592	984,917
Financial assets sold under repurchase agreements	29	8,836,665	9,730,355
Customer deposits	30	727,023,962	658,243,086
Income tax payable		1,758,385	2,323,077
Debt securities issued	31	83,048,968	79,240,055
Other liabilities	32	19,205,319	20,016,713
Total liabilities		896,808,381	820,444,980

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2020

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

	Note	As at 30 June 2020	As at 31 December 2019
EQUITY			
Share capital	33	9,808,269	9,808,269
Preference shares	34	9,820,734	9,820,734
Reserves	35	28,377,255	28,326,689
Retained earnings		20,850,233	20,391,000
Equity attributable to shareholders of the Bank		68,856,491	68,346,692
Non-controlling interests		6,559,098	5,362,619
Total equity		75,415,589	73,709,311
Total liabilities and equity		972,223,970	894,154,291

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

The interim condensed consolidated financial information was approved by the Board of Directors on 28 August 2020 and were signed on its behalf by:

Yi Xuefei
Vice Chairman

Chen Jianming
Chief Financial Officer

Ding Bin
Head of Financial Department

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank							
	Share capital	Preference shares	Reserves				Non-Controlling interests	Total
			Capital reserve	Surplus reserve	General reserve	Other comprehensive income		
	Note 33	Note 34					Note 35	
Balance at 1 January 2020	9,808,269	9,820,734	10,920,403	5,055,777	11,236,832	1,113,677	28,326,689	73,709,311
Net profit for the period	-	-	-	-	-	-	-	3,322,259
Other comprehensive income for the period	-	-	-	-	-	50,566	50,566	46,550
Total comprehensive income	-	-	-	-	-	50,566	50,566	3,368,809
Acquisition of subsidiaries	-	-	-	-	-	-	-	1,045,376
Dividends declared and paid to ordinary shareholders	-	-	-	-	-	-	-	(81,483)
Dividends declared and paid to preference shareholders	-	-	-	-	-	-	-	(664,770)
Balance at 30 June 2020	9,808,269	9,820,734	10,920,403	5,055,777	11,236,832	1,164,243	28,377,255	75,415,589

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

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

	Attributable to shareholders of the Bank								Non-Controlling interests	Total
	Reserves									
	Share capital	Preference shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Subtotal	Retained earnings		
	Note 33	Note 34					Note 35			
Balance at 1 January 2019	9,808,269	-	10,860,995	4,398,573	9,448,545	1,067,148	25,775,261	17,277,797	2,719,741	55,581,068
Net profit for the period	-	-	-	-	-	-	-	3,591,552	81,149	3,672,701
Other comprehensive income for the period	-	-	-	-	-	655,334	655,334	-	65	655,399
Total comprehensive income	-	-	-	-	-	655,334	655,334	3,591,552	81,214	4,328,100
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	26,000	26,000
Issuance of preferences shares	-	9,820,734	-	-	-	-	-	-	-	9,820,734
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	1,907,675	1,907,675
Dividends declared and paid	-	-	-	-	-	-	-	(1,961,654)	(41,690)	(2,003,344)
Balance at 30 June 2019	9,808,269	9,820,734	10,860,995	4,398,573	9,448,545	1,722,482	26,430,595	18,907,695	4,692,940	69,660,233

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank						
	Reserves						
	Share capital	Preference shares	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	
	Note 33	Note 34					
					Subtotal	Retained earnings	Total
					Note 35		Non-Controlling interests
							Total
Balance at 1 January 2019	9,808,269	-	10,860,995	4,398,573	9,448,545	1,067,148	52,861,327
Net profit for the year	-	-	-	-	-	7,520,348	7,520,348
Other comprehensive income for the year	-	-	-	-	46,529	-	46,529
Total comprehensive income	-	-	-	-	46,529	7,520,348	7,566,877
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	72,280
Transactions with non-controlling interests	-	-	(43,884)	-	(43,884)	-	43,884
Issuance of preference shares	-	9,820,734	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-
Shareholders' donation	-	-	103,292	-	-	-	-
Appropriation to surplus reserve	-	-	-	657,204	103,292	-	2,272,514
Dividends declared and paid	-	-	-	-	657,204	(657,204)	2,272,514
Appropriation to general reserve	-	-	-	-	1,788,287	(1,961,654)	105,875
	-	-	-	-	1,788,287	(1,788,287)	-
Balance at 31 December 2019	9,808,269	9,820,734	10,920,403	5,055,777	11,236,832	1,113,677	73,709,311

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

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

	Note	Six months ended 30 June 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,094,645	4,543,960
Adjustments for:			
Interest income on financial investments		(3,127,567)	(2,439,646)
Interest income accrued on impaired financial assets		(47,833)	(35,046)
Interest expense on debt securities	5	1,376,849	1,487,756
Net trading gains		(371,930)	(918,326)
Net gains on financial investments	8	(363,550)	(211,525)
Net foreign exchange gains		(151,591)	(23,070)
Negative goodwill		(76,229)	-
Net (gains)/losses on disposal of property and equipment and foreclosed assets		(36,961)	1,440
Depreciation and amortization	10	394,053	412,830
Depreciation of investment properties		9,918	11,401
Interest expense on lease liabilities		23,464	-
Impairment losses	11	5,128,662	3,555,100
Other		1,921	-
		6,853,851	6,384,874
Net decrease/(increase) in operating assets			
Deposits with central bank		7,036,826	(3,919,196)
Deposits with banks and other financial institutions		2,229,396	1,666,977
Placements with banks and other financial institutions		(12,565,084)	(7,305,185)
Financial assets held under resale agreements		(4,773,028)	798,384
Loans and advances to customers		(68,309,703)	(58,570,302)
Financial assets at fair value through profit or loss		94,789	(13,182,822)
Other assets		(1,845,639)	(565,537)
		(78,132,443)	(81,077,681)
Net increase/(decrease) in operating liabilities			
Due to the central bank		4,125,149	2,231,722
Deposits from banks and other financial institutions		969,613	(36,052,351)
Placements from banks and other financial institutions		687,675	(618,463)
Financial assets sold under repurchase agreements		(895,690)	(5,285,861)
Customer deposits		58,043,722	46,848,840
Other liabilities		(993,081)	(215,847)
		61,937,388	6,908,040
Net cash flows used in operating activities before tax		(9,341,204)	(67,784,767)
Income tax paid		(2,220,121)	(1,961,333)
Net cash flows used in operating activities		(11,561,325)	(69,746,100)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

		Six months ended 30 June	
	Note	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(135,200)	(139,748)
Proceeds from disposal of property and equipment and other long-term assets		44,146	2,204
Cash paid for investments		(62,224,909)	(52,073,178)
Dividends received		–	586
Proceeds from sale and redemption of investments		61,906,796	48,361,452
Acquisition of a subsidiary, net of cash acquired	40(b)	1,289,955	2,049,590
Return on investments		4,413,587	3,664,114
Net cash flows from investing activities		5,294,375	1,865,020
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of preference shares	34	–	9,839,115
Cash payments for transaction cost of preference shares issued	34	–	(18,381)
Capital contributed by non-controlling shareholders		–	26,000
Shareholders' donation		269	42,633
Proceeds from issuance of debt securities		69,617,162	77,896,282
Repayment of debt securities issued		(65,245,325)	(39,168,197)
Interest paid on debt securities		(1,939,772)	(1,659,303)
Dividends paid to ordinary shares		(1,961,654)	(1,961,654)
Dividends paid to preference shares		(664,770)	–
Payment for lease contracts		(159,662)	(111,882)
Dividends paid to non-controlling shareholders		(81,483)	(41,690)
Net cash flows (used in)/from financing activities		(435,235)	44,842,923
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,702,185)	(23,038,157)
Cash and cash equivalents at the beginning of the period		86,870,896	77,319,617
Effect of exchange rate changes on cash and cash equivalents		127,839	18,070
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	37	80,296,550	54,299,530
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		15,611,538	12,769,332
Interest paid		(7,542,084)	(6,788,240)

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

1 CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the “Bank”), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. Under the “Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd.” (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission (the “CBRC”, which was renamed to China Banking Insurance Regulatory Commission (the “CBIRC”) in 2018), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No.B1048H244010001 from the CBIRC and its business license of Unified Social Credit code No.914401017083429628 from the Administration for Industry and Commerce of Guangzhou Municipality. The registered office is located at No.9 Yingri Road, Huangpu District, Guangzhou, the PRC.

On 20 June 2017, the Bank was listed on The Stock Exchange of Hong Kong Limited.

The Bank and its subsidiaries (the “Group”) conducts its operating activities in the PRC.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currency), granting short, medium and long-term loans (including domestic and foreign currency), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government bonds, trading government bonds, trading and issuing financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, settlement and sale of foreign exchange, foreign credit investigations, advisory and attestation service, fund and insurance assets trusteeship, financing services, fund consignment business, e-bank services, securitization of credit assets, and other financial business activities approved by the CBIRC or other relevant regulators.

As at 30 June 2020, the Bank had a total of 30 subsidiaries, including 25 county banks, a financial leasing company and 4 rural commercial banks across China.

The interim condensed consolidated financial information was authorized for issue by the Board of Directors of the Bank on 28 August 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

The Bank and its subsidiaries are collectively referred to as the "Group". As at 30 June 2020, the Bank had a total of 30 subsidiaries, including 25 county banks, a financial leasing company and 4 rural commercial banks. The details of the Bank's subsidiaries as at 30 June 2020 are as follows:

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		2020-6-30	2019-12-31	2020-6-30	2019-12-31	2020-6-30	2019-12-31	
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	60,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Xuyi Zhujiang County Bank	Xuyi, Jiangsu Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	80,000	51.00%	51.00%	56.00%	56.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	70,000	51.00%	51.00%	51.00%	51.00%	Banking
Huixian Zhujiang County Bank (i)	Huixian, Henan Province	100,000	100,000	35.00%	35.00%	53.57%	53.57%	Banking
Pengshan Zhujiang County Bank (i)	Meishan, Sichuan Province	50,000	50,000	35.00%	35.00%	51.00%	51.00%	Banking
Xinjin Zhujiang County Bank (i)	Xinjin, Sichuan Province	100,000	100,000	35.00%	35.00%	53.00%	53.00%	Banking
Guanghan Zhujiang County Bank (i)	Guanghan, Sichuan Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank	Dalian Bonded Area, Liaoning Province	350,000	350,000	81.43%	81.43%	87.43%	87.43%	Banking
Jizhou Zhujiang County Bank (i)	Jian, Jiangxi Province	87,820	87,820	33.79%	33.79%	57.19%	57.19%	Banking
Heshan Zhujiang County Bank (i)	Heshan, Guangdong Province	150,000	150,000	34.00%	34.00%	71.00%	71.00%	Banking
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank (i)	Xinyang, Henan Province	414,200	414,200	39.60%	39.60%	54.13%	54.13%	Banking
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	100,000	93.00%	93.00%	100.00%	100.00%	Banking

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		2020-6-30	2019-12-31	2020-6-30	2019-12-31	2020-6-30	2019-12-31	
Anyang Zhujiang County Bank (i)	Anyang, Henan Province	60,000	60,000	35.00%	35.00%	55.50%	55.50%	Banking
Qingdao Chengyang Zhujiang County Bank (i)	Qingdao, Shandong Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Suzhou Wuzhong Zhujiang County Bank	Suzhou, Jiangsu Province	150,000	150,000	51.00%	51.00%	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank (i)	Foshan, Guangdong Province	200,000	200,000	33.40%	33.40%	50.50%	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank (i)	Dongfeng, Guangdong Province	150,000	150,000	35.00%	35.00%	55.00%	55.00%	Banking
Xingning Zhujiang County Bank (i)	Meizhou, Guangdong Province	50,000	50,000	34.00%	34.00%	100.00%	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank (i)	Shenzhen, Guangdong Province	300,000	300,000	35.00%	35.00%	83.00%	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank (i)	Dongguan, Guangdong Province	150,000	150,000	35.00%	35.00%	100.00%	100.00%	Banking
Zhengzhou Zhujiang County Bank (i)	Zhengzhou, Henan Province	200,000	200,000	35.00%	35.00%	90.00%	90.00%	Banking
Zhuzhou Zhujiang Rural Commercial Bank (the "ZZRCB")	Zhuzhou, Hunan Province	600,000	600,000	51.00%	51.00%	61.00%	61.00%	Banking
Chaozhou Rural Commercial Bank (the "CZRCB")	Chaozhou, Guangdong Province	2,633,342	2,633,342	57.72%	57.72%	74.38%	74.38%	Banking
Nanxiong Rural Commercial Bank (the "NXRCB")	Nanxiong, Guangdong Province	431,800	431,800	51.00%	51.00%	53.39%	53.39%	Banking
Shaoguan Rural Commercial Bank (the "SGRCB")	Shaoguan, Guangdong Province	1,373,718	N/A	50.10%	N/A	50.10%	N/A	Banking
Zhujiang Financial Leasing Co., Ltd. (the "ZJFL")	Guangzhou, Guangdong Province	1,000,000	1,000,000	100.00%	100.00%	100.00%	100.00%	Financial leasing

- (i) The Bank holds less than majority equity interests in these investees. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank has controls over these investees.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting issued by the International Accounting Standard Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

This condensed consolidated interim financial information has been prepared on an accrual basis and under the historical cost convention except for certain financial instruments that have been measured at fair value. This condensed consolidated interim financial information is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

This condensed consolidated interim financial information of the Group should be read in conjunction with the 2019 annual consolidated financial statements.

Except as described below, the Group’s accounting policies applied in preparing this condensed consolidated interim financial information are consistent with those policies applied in preparing the 2019 annual consolidated financial statements.

2.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Revised Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform

The adoption of the above amendments does not have a significant impact on the operation results, comprehensive income and financial position of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

		Effective for annual periods beginning on or after
IFRS 17	Insurance Contracts	Originally 1 January 2021, but extended to 1 January 2023 by the IASB in March 2020
Amendments to IFRS 16	Covid-19-related Rent Concessions	1 June 2020
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022 (possibly deferred to 1 January 2023)
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	Onerous Contracts	1 January 2022

The adoption of the above new IFRS issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

4 OPERATING SEGMENT INFORMATION

4.1 Operating segments

For management purposes, the Group is organized into four different operating segments as follows:

Corporate banking

The corporate banking segment covers financial products and services for corporate customers including deposits, loans, settlement, clearing and other trade-related services.

Retail banking

The retail banking segment covers financial products and services for individual customers including deposits, debit and credit cards, personal and collateral loans and personal wealth management services.

Financial market business

The financial market business segment covers proprietary tradings and agent services including money market placements, investments, repurchases and foreign exchange transactions.

Others

This segment covers businesses other than corporate banking, retail banking and financial market business, of which the assets, liabilities, income and expenses cannot be directly attributable or allocated to certain segment on a reasonable basis.

Inter-segment transfer pricing is in accordance with the sources, funding periods and interest rates announced by the People's Bank of China (the "PBOC") and the interbank market rates. The allocation of expenses between segments above is based on the benefits received.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Six months ended 30 June 2020 (Unaudited)					
Interest income	9,971,195	4,546,218	3,978,605	–	18,496,018
Interest expense	(3,495,249)	(3,352,130)	(2,419,055)	–	(9,266,434)
Inter-segments Interest (expense)/income	(834,888)	1,952,788	(1,117,900)	–	–
Net interest income	5,641,058	3,146,876	441,650	–	9,229,584
Fee and commission income	426,421	411,546	43,684	–	881,651
Fee and commission expense	(54,510)	(55,004)	(11,371)	–	(120,885)
Net fee and commission income	371,911	356,542	32,313	–	760,766
Net trading gains	–	–	1,035,281	673	1,035,954
Net gains on financial investments	–	–	363,550	–	363,550
Other income, gains or losses	219,468	(2,144)	(110)	186,616	403,830
Operating income	6,232,437	3,501,274	1,872,684	187,289	11,793,684
Operating expenses	(841,390)	(1,664,002)	(155,661)	(59,820)	(2,720,873)
Credit impairment (losses)/reversed	(3,074,855)	(589,798)	(1,312,230)	336	(4,976,547)
Impairment losses on foreclosed assets	(1,000)	(192)	(427)	–	(1,619)
Profit before tax	2,315,192	1,247,282	404,366	127,805	4,094,645
Income tax expense					(772,386)
Net profit for the period					3,322,259
Other segment information					
Depreciation and amortization	122,731	254,090	20,602	6,548	403,971
Capital expenditure	42,002	80,726	8,650	3,822	135,200
As at 30 June 2020 (Unaudited)					
Segment assets	347,300,320	136,540,038	474,854,194	13,529,418	972,223,970
Segment liabilities	(365,869,222)	(386,004,462)	(144,132,053)	(802,644)	(896,808,381)
Other segment information					
Credit commitments	145,958,158	22,248,265	–	–	168,206,423

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Six months ended 30 June 2019					
(Unaudited)					
Interest income	7,939,713	3,010,448	4,801,556	–	15,751,717
Interest expense	(2,203,913)	(1,735,385)	(4,075,116)	–	(8,014,414)
Inter-segments Interest (expense)/income	(290,795)	2,026,477	(1,735,682)	–	–
Net interest income	5,445,005	3,301,540	(1,009,242)	–	7,737,303
Fee and commission income	405,415	467,921	61,893	–	935,229
Fee and commission expense	(63,110)	(32,384)	(23,113)	–	(118,607)
Net fee and commission income	342,305	435,537	38,780	–	816,622
Net trading gains	–	–	2,000,070	–	2,000,070
Net gains on financial investments	–	–	211,525	–	211,525
Other income, gains or losses	22,732	10,914	(56)	1,000	34,590
Operating income	5,810,042	3,747,991	1,241,077	1,000	10,800,110
Operating expenses	(810,534)	(1,565,517)	(305,965)	(19,034)	(2,701,050)
Credit impairment (losses)/reversed	(2,668,391)	(434,780)	(451,558)	65	(3,554,664)
Impairment losses on foreclosed assets	(327)	(53)	(55)	(1)	(436)
Profit/(losses) before tax	2,330,790	1,747,641	483,499	(17,970)	4,543,960
Income tax expense					(871,259)
Net profit for the period					3,672,701
Other segment information					
Depreciation and amortization	129,052	271,567	7,101	16,511	424,231
Capital expenditure	42,512	89,458	2,339	5,439	139,748
As at 31 December 2019					
Segment assets	312,376,309	124,736,024	445,175,152	11,866,806	894,154,291
Segment liabilities	(334,129,769)	(327,898,220)	(158,151,288)	(265,703)	(820,444,980)
Other segment information:					
Credit commitments	151,159,649	23,927,825	–	–	175,087,474

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.2 Geographical information

The Group mainly operates in Guangdong Province, China. The main customers and non-current assets are located in Guangdong Province, China.

5 NET INTEREST INCOME

	Six months ended 30 June	
	2020	2019
Interest income		
Loans and advances to customers	13,873,323	11,821,760
Financial investments	3,127,567	2,439,646
– Financial assets at amortized cost	1,534,632	1,082,804
– Financial assets at fair value through other comprehensive income	1,592,935	1,356,842
Financial assets held under resale agreements	298,067	298,922
Due from central bank	524,532	501,022
Placements and deposits with banks and other financial institutions	672,529	690,367
Subtotal	18,496,018	15,751,717
Interest expense		
Customer deposits	(6,967,328)	(5,410,087)
Debt securities issued	(1,376,849)	(1,487,756)
Deposits from banks and other financial institutions	(478,131)	(704,164)
Financial assets sold under repurchase agreements	(89,840)	(99,862)
Borrowings from other banks (i)	(170,886)	(263,714)
Due to central bank	(159,936)	(48,831)
Lease liabilities	(23,464)	–
Subtotal	(9,266,434)	(8,014,414)
Net interest income	9,229,584	7,737,303
Including		
Interest income accrued on impaired financial assets	47,833	35,046

- (i) The interest expenses for borrowings from other banks were incurred by the ZJFL, a wholly-owned subsidiary of the Bank.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2020	2019
Fee and commission income:		
Bank card	281,065	329,293
Agency and custodian service	231,999	157,825
Advisory and consultancy service	36,130	82,400
Settlement and electronic channel business	76,300	76,340
Guarantee and commitment service	83,515	29,356
Wealth management service	43,679	60,424
Financial lease business	32,621	77,448
Foreign exchange business	19,988	28,262
Others	76,354	93,881
Subtotal	881,651	935,229
Fee and commission expense:		
Settlement and electronic channel business fees	(8,256)	(6,683)
Bank card fees	(33,258)	(13,764)
Others	(79,371)	(98,160)
Subtotal	(120,885)	(118,607)
Net fee and commission income	760,766	816,622

7 NET TRADING GAINS

	Six months ended 30 June	
	2020	2019
Debt securities		
Unrealised losses from debt securities	(787,076)	(556,663)
Realised gains from debt securities	1,533,943	2,151,526
Subtotal	746,867	1,594,863
Funds		
Unrealised gains from funds	12,377	43,574
Realised gains from funds	276,710	361,047
Subtotal	289,087	404,621
Others	—	586
Total	1,035,954	2,000,070

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

8 NET GAINS ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2020	2019
Net gains from financial assets at fair value through other comprehensive income	361,130	211,565
Net gains/(losses) from financial assets at amortized cost	2,420	(40)
Total	363,550	211,525

9 OTHER INCOME, GAINS OR LOSSES

	Six months ended 30 June	
	2020	2019
Net foreign exchange gains	219,953	21,731
Government grants and subsidies	53,210	14,835
Negative goodwill	76,229	–
Net gains/(losses) on disposal of property and equipment	37,571	(1,440)
Net (losses)/gains disposal of foreclosed assets	(610)	1,366
Others	17,477	(1,902)
Total	403,830	34,590

10 OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
Staff costs (i)	1,719,033	1,649,093
Depreciation and amortization	394,053	412,830
Tax and surcharges	98,966	73,613
Labor dispatch fee	32,071	98,293
Consulting fees	3,126	3,639
Professional service fees	5,174	8,091
Others	468,450	455,491
Total	2,720,873	2,701,050

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

10 OPERATING EXPENSES (CONTINUED)

(i) Staff costs

	Six months ended 30 June	
	2020	2019
Salaries, bonuses and allowances	1,319,067	1,192,901
Social insurance and employee benefits	345,965	388,999
Benefits for early retirement and supplemental retirement	7,730	26,845
Labour union expenditure and education costs	46,271	40,348
Total	1,719,033	1,649,093

11 IMPAIRMENT LOSSES

(a) Credit impairment losses

	Six months ended 30 June	
	2020	2019
Loans and advances to customers	3,430,982	2,152,864
Placements with banks and other financial institutions	35,009	1,523
Loans and advances at fair value through other comprehensive income	231,042	366,302
Financial investments	982,786	842,744
Others	296,728	191,231
Total	4,976,547	3,554,664

(b) Impairment losses on Foreclosed assets

	Six months ended 30 June	
	2020	2019
Foreclosed assets	1,619	436
Total	1,619	436

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
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12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
Current income tax	1,670,991	1,521,249
Deferred income tax	(898,605)	(649,990)
Total	772,386	871,259

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Six months ended 30 June	
	2020	2019
Profit before income tax	4,094,645	4,543,960
Tax calculated at a tax rate of 25%	1,023,661	1,135,990
Tax effect arising from income not subject to tax (i)	(261,832)	(268,976)
Tax effect of expenses that are not deductible for tax purposes (ii)	23,596	6,166
Adjustments on income tax for prior years which affect current period profit or loss	(13,039)	(1,921)
Income tax expense	772,386	871,259

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses, which are not deductible for tax purposes according to the PRC tax regulations.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

13 DIVIDENDS

	Six months ended 30 June	
	2020	2019
Dividends on ordinary shares declared	1,961,654	1,961,654
Dividend per share (in RMB yuan)	0.20	0.20
Dividends on preference shares declared	664,770	–

(a) Distribution of ordinary dividend for 2019

A cash dividend of RMB0.2 per ordinary share related to 2019, amounting to RMB1,961,654 thousands in total was approved in the annual general meeting held on 22 May 2020.

The above dividend was recognized as distribution and paid during the six months ended 30 June 2020.

(b) Distribution of preference dividend

A cash dividend of preference share, amounting to RMB664,770 thousands in total was approved by the board of directors on 29 April 2020.

The above dividend was recognized as distribution and paid during the six months ended 30 June 2020.

14 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the periods.

	Six months ended 30 June	
	2020	2019
Profit for the period attributable to shareholders of the Bank	3,085,657	3,591,552
Less: profit for the period attributable to preference shareholders of the Bank	(664,770)	–
Net profit for the period attributable to ordinary shareholders of the Bank	2,420,887	3,591,552
Divided: Weighted average number of ordinary shares in issue	9,808,269	9,808,269
Basic and diluted earnings per share (in RMB yuan)	0.25	0.37

For the six months ended 30 June 2020, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on 20 June 2019 and the terms and conditions are detailed in Note 34. When calculating the basic earnings per share of ordinary shares, the preferred dividends declared in the current period have been deducted from the net profit for the period attributable to ordinary shareholders of the Bank, RMB664,770 thousand in total. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the period ended 30 June 2020, and therefore the conversion feature of preference shares has no effect on the basic earnings per share calculation.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

15 CASH AND DEPOSITS WITH CENTRAL BANK

	As at 30 June 2020	As at 31 December 2019
Cash on hand	4,707,104	3,085,852
Mandatory reserves with central bank (a)	58,995,656	65,728,258
Surplus reserves with central bank (b)	20,728,153	29,845,402
Fiscal deposits with central bank	1,241,430	910,705
Subtotal	85,672,343	99,570,217
Less:		
ECL allowance	(7,285)	(7,876)
Total	85,665,058	99,562,341

(a) The Group is required to place mandatory reserves with the PBOC, and these mandatory reserves with central bank are not available for use in the Group's daily operations. As at 30 June 2020, the ratio of the Bank for RMB deposits mandatory reserves was 8.5% (31 December 2019: 10.5%), and different ratios are applicable to the subsidiaries based on their locations. The ratio for foreign currency deposits was 5% at 30 June 2020 (31 December 2019: 5%). The reserves for RMB and foreign currencies are interest bearing based on the requirement of the PBOC.

(b) Surplus reserves are maintained with the PBOC are mainly for settlement purpose.

16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Deposits with banks operating in Mainland China	15,297,379	16,782,835
Deposits with other financial institutions operating in Mainland China	2,697,840	1,102,940
Deposits with banks operating outside Mainland China	2,724,844	12,691,816
Interest receivable	93,519	141,744
Subtotal	20,813,582	30,719,335
Less:		
ECL allowance	(10,580)	(19,017)
Total	20,803,002	30,700,318

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
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17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Placements with banks operating in Mainland China	2,552,030	2,612,201
Placements with other financial institutions operating in Mainland China	28,407,750	16,722,023
Placements with banks operating outside Mainland China	6,581,359	1,215,272
Interest receivable	131,362	61,779
Subtotal	37,672,501	20,611,275
Less: ECL allowance	(42,052)	(7,043)
Total	37,630,449	20,604,232

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENT

	As at 30 June 2020	As at 31 December 2019
Notes purchased under resale agreements	188,159	1,423,194
Securities purchased under resale agreements	41,738,076	27,153,429
Interest receivable	26,043	19,205
Subtotal	41,952,278	28,595,828
Less: ECL allowance	(3,766)	(2,335)
Total	41,948,512	28,593,493

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	As at 30 June 2020	As at 31 December 2019
Loans and advances at amortized cost		
Corporate loans and advances		
Corporate loans	355,733,004	326,135,408
Discounted bills	1,814,752	7,608,189
	357,547,756	333,743,597
Personal loans and advances		
Personal residential mortgages	66,573,024	63,694,134
Personal business loans	48,364,976	40,502,802
Personal consumption loans	11,498,033	11,287,473
Credit cards overdraft	8,990,768	9,234,471
	135,426,801	124,718,880
Gross amount of loans and advances at amortized cost	492,974,557	458,462,477
Less: ECL allowance of loans and advances at amortized cost	(18,670,046)	(16,916,755)
Net amount of loans and advances at amortized cost	474,304,511	441,545,722
Loans and advances at fair value through other comprehensive income		
Corporate loans and advances		
Discounted bills	59,005,012	21,505,649
Net amount of loans and advance to customers	533,309,523	463,051,371

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Loans listed by assessment method for allowance

	As at 30 June 2020				Total
	Stage I	Stage II	Stage III	Purchased or originated credit-impaired	
Gross amount of loans and advances at amortized cost					
Corporate loans	304,142,385	35,687,831	17,356,490	361,050	357,547,756
Personal loans	131,668,414	1,824,737	1,773,489	160,161	135,426,801
	435,810,799	37,512,568	19,129,979	521,211	492,974,557
Less: ECL allowance					
Corporate loans	(1,764,719)	(4,804,442)	(7,904,829)	(3,943)	(14,477,933)
Personal loans	(2,131,934)	(693,069)	(1,364,615)	(2,495)	(4,192,113)
	(3,896,653)	(5,497,511)	(9,269,444)	(6,438)	(18,670,046)
Net amount of loans and advances at amortized cost	431,914,146	32,015,057	9,860,535	514,773	474,304,511
Gross amount of loans and advances at fair value through other comprehensive income	58,356,014	–	648,998	–	59,005,012
ECL allowance on loans and advances to customers at fair value through other comprehensive income	(12,622)	–	(515,187)	–	(527,809)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Loans listed by assessment method for allowance (continued)

	As at 31 December 2019				Total
	Stage I	Stage II	Stage III	Purchased or originated credit-impaired	
Gross amount of loans and advances at amortized cost					
Corporate loans	267,058,001	56,399,955	10,197,917	87,724	333,743,597
Personal loans	121,590,758	1,527,041	1,548,626	52,455	124,718,880
	388,648,759	57,926,996	11,746,543	140,179	458,462,477
Less: ECL allowance					
Corporate loans	(1,239,986)	(7,048,784)	(5,173,062)	–	(13,461,832)
Personal loans	(1,685,516)	(532,606)	(1,236,801)	–	(3,454,923)
	(2,925,502)	(7,581,390)	(6,409,863)	–	(16,916,755)
Net amount of loans and advances at amortized cost	385,723,257	50,345,606	5,336,680	140,179	441,545,722
Gross amount of loans and advances at fair value through other comprehensive income	20,756,976	–	748,673	–	21,505,649
ECL allowance on loans and advances to customers at fair value through other comprehensive income	(3,014)	–	(393,428)	–	(396,442)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance

Movements in ECL allowance on corporate loans and advances to customers at amortized cost

	Six months ended 30 June 2020				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Corporate loans and advances					
ECL allowance as at 1 January 2020	1,239,986	7,048,784	5,173,062	–	13,461,832
Originated or purchased	603,354	–	–	–	603,354
Derecognition or settlements	(227,792)	(121,698)	(110,109)	–	(459,599)
Remeasurement					
– Parameter changes	147,791	631,092	1,248,222	3,943	2,031,048
– Stage transfer	(1,199,626)	724,178	1,942,104	–	1,466,656
Write-off	–	–	(2,581,685)	–	(2,581,685)
Transfers	1,201,006	(3,477,914)	2,276,908	–	–
Transfer from Stage I to Stage II	(33,780)	33,780	–	–	–
Transfer from Stage I to Stage III	(3,090)	–	3,090	–	–
Transfer from Stage II to Stage I	1,237,876	(1,237,876)	–	–	–
Transfer from Stage II to Stage III	–	(2,324,950)	2,324,950	–	–
Transfer from Stage III to Stage II	–	51,132	(51,132)	–	–
Transfer from Stage III to Stage I	–	–	–	–	–
Others	–	–	(43,673)	–	(43,673)
ECL allowance as at 30 June 2020	1,764,719	4,804,442	7,904,829	3,943	14,477,933

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on corporate loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Corporate loans and advances					
ECL allowance as at 1 January 2019	1,161,864	4,935,028	2,540,606	–	8,637,498
Originated or purchased	737,621	3,449,173	216,828	954,331	5,357,953
Derecognition or settlements	(467,640)	(1,165,590)	(155,253)	–	(1,788,483)
Remeasurement					
– Parameter changes	(104,328)	(215,072)	610,236	–	290,836
– Stage transfer	(2,189,075)	2,140,716	3,270,329	–	3,221,970
Write-off	–	–	(1,247,921)	(954,331)	(2,202,252)
Transfers	2,101,544	(2,095,471)	(6,073)	–	–
Transfer from Stage I to Stage II	(124,511)	124,511	–	–	–
Transfer from Stage I to Stage III	(39,023)	–	39,023	–	–
Transfer from Stage II to Stage I	2,265,078	(2,265,078)	–	–	–
Transfer from Stage II to Stage III	–	(264,866)	264,866	–	–
Transfer from Stage III to Stage II	–	309,962	(309,962)	–	–
Transfer from Stage III to Stage I	–	–	–	–	–
Others	–	–	(55,690)	–	(55,690)
ECL allowance as at 31 December 2019	1,239,986	7,048,784	5,173,062	–	13,461,832

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on personal loans and advances to customers at amortized cost

	Six months ended 30 June 2020				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Personal loans and advances					
ECL allowance as at 1 January 2020	1,685,516	532,606	1,236,801	–	3,454,923
Originated or purchased	659,161	–	–	–	659,161
Derecognition or settlements	(282,149)	(115,854)	(27,271)	–	(425,274)
Remeasurement					
– Parameter changes	104,335	14,339	50,493	2,495	171,662
– Stage transfer	(140,703)	482,310	375,391	–	716,998
Write-off	–	–	(381,197)	–	(381,197)
Transfers	105,774	(220,332)	114,558	–	–
Transfer from Stage I to Stage II	(22,250)	22,250	–	–	–
Transfer from Stage I to Stage III	(17,691)	–	17,691	–	–
Transfer from Stage II to Stage I	141,118	(141,118)	–	–	–
Transfer from Stage II to Stage III	–	(108,714)	108,714	–	–
Transfer from Stage III to Stage II	–	7,250	(7,250)	–	–
Transfer from Stage III to Stage I	4,597	–	(4,597)	–	–
Others	–	–	(4,160)	–	(4,160)
ECL allowance as at 30 June 2020	2,131,934	693,069	1,364,615	2,495	4,192,113

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on personal loans and advances to customers at amortized cost

	Year ended 31 December 2019				Total
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased or originated credit- impaired	
Personal loans and advances					
ECL allowance as at 1 January 2019	2,659,922	435,016	1,288,503	–	4,383,441
Originated or purchased	752,653	137,446	46,022	84,340	1,020,461
Derecognition or settlements	(1,403,954)	(138,306)	(152,327)	–	(1,694,587)
Remeasurement					
– Parameter changes	(281,260)	(34,758)	138,374	–	(177,644)
– Stage transfer	(91,973)	301,095	447,711	–	656,833
Write-off	–	–	(649,565)	(84,340)	(733,905)
Transfers	50,128	(167,887)	117,759	–	–
Transfer from Stage I to Stage II	(25,410)	25,410	–	–	–
Transfer from Stage I to Stage III	(18,425)	–	18,425	–	–
Transfer from Stage II to Stage I	92,123	(92,123)	–	–	–
Transfer from Stage II to Stage III	–	(111,620)	111,620	–	–
Transfer from Stage III to Stage II	–	10,446	(10,446)	–	–
Transfer from Stage III to Stage I	1,840	–	(1,840)	–	–
Others	–	–	324	–	324
ECL allowance as at 31 December 2019	1,685,516	532,606	1,236,801	–	3,454,923

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income

	Six months ended 30 June 2020			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Discounted bills				
ECL allowance as at 1 January 2020	3,014	–	393,428	396,442
Originated or purchased	11,849	–	–	11,849
Derecognition or settlements	(2,311)	–	–	(2,311)
Remeasurement				
– Parameter changes	70	–	221,434	221,504
– Stage transfer	–	–	–	–
Write-off	–	–	(99,675)	(99,675)
Transfers	–	–	–	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 30 June 2020	12,622	–	515,187	527,809

	Year ended 31 December 2019			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Discounted bills				
ECL allowance as at 1 January 2019	12,059	95,488	164,182	271,729
Originated or purchased	3,014	–	–	3,014
Derecognition or settlements	(9,457)	(43,989)	(164,182)	(217,628)
Remeasurement				
– Parameter changes	–	–	–	–
– Stage transfer	–	–	339,327	339,327
Transfers	(2,602)	(51,499)	54,101	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	(2,602)	–	2,602	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(51,499)	51,499	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	3,014	–	393,428	396,442

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20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020	As at 31 December 2019
Government bonds	10,951,604	13,775,230
Bonds issued by policy banks	8,116,544	13,807,955
Bonds issued by financial institutions	2,958,797	3,204,462
Certificates of deposit issued by other financial institutions	6,178,233	399,681
Assets backed securities issued by other banks and non-bank financial institutions	996,744	1,029,534
Corporate bonds	1,832,123	751,953
Trust and asset management plans	23,770,782	31,321,554
Fund and other investments	19,387,303	19,401,208
Interest receivable	1,418,774	1,740,601
Total	75,610,904	85,432,178

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2020	As at 31 December 2019
Government bonds	25,751,392	22,604,131
Bonds issued by policy banks	36,678,510	24,587,039
Bonds issued by financial institutions	1,232,236	2,213,074
Assets backed securities issued by other banks and non-bank financial institutions	166,000	190,332
Corporate bonds	6,022,427	3,201,728
Certificates of deposit issued by other financial institutions	952,240	499,810
Trust and asset management plans	13,723,882	14,971,879
Interest receivable	1,752,804	1,438,120
Total	86,279,491	69,706,113

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21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(a) Movements in ECL allowance are summarised as follows:

	Six months ended 30 June 2020			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL allowance as at 1 January 2020	89,162	173,841	1,211,722	1,474,725
Originated or purchased	20,014	–	–	20,014
Derecognition or settlements	(7,728)	(203)	(41,018)	(48,949)
Remeasurement				
– Parameter changes	9,243	88,818	103,391	201,452
– Stage transfer	–	303,444	508	303,952
Transfers:	(34,255)	34,205	50	–
Transfer from Stage I to Stage II	(34,205)	34,205	–	–
Transfer from Stage I to Stage III	(50)	–	50	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 30 June 2020	76,436	600,105	1,274,653	1,951,194

	Year ended 31 December 2019			
	Stage I	Stage II	Stage III	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL allowance as at 1 January 2019	148,361	329,802	292,843	771,006
Originated or purchased	48,927	–	–	48,927
Derecognition or settlements	(48,555)	(13,511)	(11,108)	(73,174)
Remeasurement				
– Parameter changes	(4,383)	(28,986)	(90,413)	(123,782)
– Stage transfer	–	119,766	731,982	851,748
Transfers:	(55,188)	(233,230)	288,418	–
Transfer from Stage I to Stage II	(24,223)	24,223	–	–
Transfer from Stage I to Stage III	(30,965)	–	30,965	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(257,453)	257,453	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	89,162	173,841	1,211,722	1,474,725

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

22 FINANCIAL ASSETS AT AMORTIZED COST

	As at 30 June 2020	As at 31 December 2019
Government bonds	25,904,578	26,268,742
Bonds issued by policy banks	22,588,429	26,609,634
Bonds issued by financial institutions	430,000	430,000
Certificates of deposit issued by other financial institutions	12,457,806	11,776,155
Assets backed securities issued by other banks and non-bank financial institutions	–	358,000
Corporate bonds	2,222,576	2,399,981
Trust and asset management plans	12,248,690	14,049,518
Interest receivable	1,019,337	1,331,309
Subtotal	76,871,416	83,223,339
Less:		
ECL allowance	(1,193,569)	(687,252)
Total	75,677,847	82,536,087

(a) Movements in ECL allowance are summarised as follows:

	Six months ended 30 June 2020			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2020	142,820	311,645	232,787	687,252
Originated or purchased	8,899	–	–	8,899
Derecognition or settlements	(55,906)	(1,970)	–	(57,876)
Remeasurement				
– Parameter changes	4,178	62,510	50,894	117,582
– Stage transfer	–	174,476	263,236	437,712
Transfers:	(37,542)	(92,952)	130,494	–
Transfer from Stage I to Stage II	(33,648)	33,648	–	–
Transfer from Stage I to Stage III	(3,894)	–	3,894	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	(126,600)	126,600	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 30 June 2020	62,449	453,709	677,411	1,193,569

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For the six months ended 30 June 2020
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22 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

(a) Movements in ECL allowance are summarised as follows: (continued)

	Year ended 31 December 2019			Total
	Stage I	Stage II	Stage III	
	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL allowance as at 1 January 2019	228,647	72,840	–	301,487
Originated or purchased	92,204	–	–	92,204
Derecognition or settlements	(153,321)	(72,840)	–	(226,161)
Remeasurement				
– Parameter changes	16,840	–	–	16,840
– Stage transfer	–	279,104	223,778	502,882
Transfers:	(41,550)	32,541	9,009	–
Transfer from Stage I to Stage II	(32,541)	32,541	–	–
Transfer from Stage I to Stage III	(9,009)	–	9,009	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
ECL allowance as at 31 December 2019	142,820	311,645	232,787	687,252

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

23 PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
As at 1 January 2020	5,773,065	170,377	585,727	1,242,634	51,734	7,823,537
Additions	9,247	72,078	550	23,940	170	105,985
Transfer from construction in progress	12,266	(33,159)	1,185	19,708	–	–
Transfer from investment properties	4,410	–	–	–	–	4,410
Acquisition of a subsidiary	94,571	–	–	6,432	1,189	102,192
Other transfer-in	–	–	–	–	–	–
Disposals	(9,676)	–	(341)	(29,855)	(5,633)	(45,505)
Other transfer-out	–	(20,397)	(481)	–	–	(20,878)
As at 30 June 2020	5,883,883	188,899	586,640	1,262,859	47,460	7,969,741
Accumulated depreciation						
As at 1 January 2020	3,433,199	–	497,978	922,690	48,032	4,901,899
Charge for the period	133,054	–	16,831	71,947	3,002	224,834
Transfer from investment properties	4,410	–	–	–	–	4,410
Other transfer-in	–	–	–	–	–	–
Disposals	(9,589)	–	(169)	(28,377)	(5,288)	(43,423)
As at 30 June 2020	3,561,074	–	514,640	966,260	45,746	5,087,720
Net book value						
As at 30 June 2020	2,322,809	188,899	72,000	296,599	1,714	2,882,021
As at 1 January 2020	2,339,866	170,377	87,749	319,944	3,702	2,921,638

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

23 PROPERTY AND EQUIPMENT (CONTINUED)

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2019	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Additions	42,854	192,166	25,638	78,673	1,139	340,470
Transfer	106,807	(204,362)	3,006	94,549	–	–
Acquisition of a subsidiary	673,546	17,051	–	10,902	2,251	703,750
Other transfer-in	–	–	–	–	–	–
Disposals	(25,328)	–	–	(191,454)	(19,494)	(236,276)
Other transfer-out	–	(38,771)	–	–	–	(38,771)
At 31 December 2019	5,773,065	170,377	585,727	1,242,634	51,734	7,823,537
Accumulated depreciation						
At 1 January 2019	3,187,342	–	456,209	967,522	61,550	4,672,623
Charge for the year	–	–	–	–	–	–
Other transfer-in	–	–	–	–	–	–
Depreciation	265,023	–	41,769	132,554	4,233	443,579
Disposals	(19,166)	–	–	(177,386)	(17,751)	(214,303)
Other transfer-out	–	–	–	–	–	–
At 31 December 2019	3,433,199	–	497,978	922,690	48,032	4,901,899
Net book value						
At 31 December 2019	2,339,866	170,377	87,749	319,944	3,702	2,921,638
At 1 January 2019	1,787,844	204,293	100,874	282,442	6,288	2,381,741

The original value and net value of the property and equipment that have been used but are in the process of applying for the right certificates and that have been used but have not yet applied for the right certificates are listed as follows:

	As at 30 June 2020	As at 31 December 2019
Original value	1,578,529	1,575,300
Net value	825,612	847,057

Management expects that the aforesaid matter would not affect the rights of the Group to these assets or have any significant impact on the business operation of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

24 GOODWILL

	As at 1 January 2020	Additions	As at 30 June 2020
ZZRCB	382,216	–	382,216
CZRCB	476,181	–	476,181
Impairment allowance (i)	(124,160)	–	(124,160)
	734,237	–	734,237

	As at 1 January 2019	Additions	As at 31 December 2019
ZZRCB	382,216	–	382,216
CZRCB	–	476,181	476,181
Impairment allowance (i)	(124,160)	–	(124,160)
	258,056	476,181	734,237

(i) Impairment

The recoverable amount of the asset group is based on the five-year budget approved by the management, which is then estimated based on a fixed growth rate (as described in the table below) and calculated using the cash flow forecast method.

The assumptions of the future cash flow discount method are as follows:

	As at 30 June 2020	As at 31 December 2019
Growth rate	3%	3%
Discount rate	15%	15%

The growth rate is the weighted average growth rate used by the Group to forecast the cash flow after five years, which is consistent with the forecast data contained in the industry report and does not exceed the long-term average growth rate of each business. The management uses the interest rate of profit-before-tax as the discount rate which can reflect the specific risks of the relevant asset groups and the portfolio of asset groups. The above assumptions are used to analyse the recoverable amounts of each asset group and portfolio of asset groups within the business division.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

25 DEFERRED INCOME TAXES

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

	30 June 2020		31 December 2019	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	4,983,891	19,935,570	4,498,397	17,993,586
Provisions	147,222	588,886	94,767	379,067
Changes in the expected credit losses of financial assets at FVOCI	487,799	1,951,194	368,681	1,474,725
Changes in fair value of financial assets at FVOCI	211,498	845,994	80,803	323,210
Changes in the expected credit losses of loans and advances to customers at FVOCI	131,953	527,809	99,111	396,442
Changes in fair value of loans and advances to customers at FVOCI	10,810	43,231	9,314	37,256
Changes in fair value of financial assets at FVPL	137,985	551,940	–	–
Staff salary and welfare payable	480,682	1,922,727	463,166	1,852,664
Others	66,051	264,205	49,266	197,065
Subtotal	6,657,891	26,631,556	5,663,505	22,654,015
Deferred income tax liabilities:				
Changes in the expected credit losses of financial assets at FVOCI	(487,799)	(1,951,194)	(368,681)	(1,474,725)
Changes in the expected credit losses of loans and advances to customers at FVOCI	(131,953)	(527,809)	(99,111)	(396,442)
Changes in fair value of financial assets at FVPL	(3,762)	(15,048)	(40,172)	(160,687)
Adjustment of book value of assets and liabilities on the date of acquisition	(127,840)	(511,360)	(100,475)	(401,901)
Unrealized gains of foreclosed assets	(162)	(646)	(162)	(646)
Subtotal	(751,516)	(3,006,057)	(608,601)	(2,434,401)
Net deferred income tax	5,906,375	23,625,499	5,054,904	20,219,614

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

25 DEFERRED INCOME TAXES (CONTINUED)

The movements for deferred tax assets and liabilities recognised are as follows:

	As at 30 June 2020	As at 31 December 2019
Balance at the end of the last year	5,054,904	3,542,727
Charged to profit or loss	898,605	1,630,659
Charged to other comprehensive income	(19,769)	(18,007)
Acquisition of a subsidiary	(27,365)	(100,475)
At the end of the period/year	5,906,375	5,054,904

26 OTHER ASSETS

	As at 30 June 2020	As at 31 December 2019
Receivables and payments (a)	583,394	1,423,077
Intangible assets (b)	159,661	166,722
Right-of-use assets (c)	1,964,245	1,911,079
Foreclosed assets (d)	735,805	600,622
Prepayment of properties and buildings	567,555	520,295
Settlement and clearing accounts	1,196,955	419,502
Assets to be settled	297,366	297,366
Interest receivable	856,801	359,693
Investment properties	117,262	126,794
Long-term deferred expenses	87,416	116,108
Others	46,867	54,959
Total	6,613,327	5,996,217
Less: Allowance for impairment losses	(836,776)	(738,838)
Total	5,776,551	5,257,379

(a) Receivables and payments

According to the agreements which the Bank signed (the "Agreements") for the restructuring of Shaoguan Rural Commercial Bank to be restructured from rural credit cooperatives into a rural commercial bank (the "Restructuring"), the Bank made a total payment of investment, credit-impaired loans and foreclosed assets. According to the terms of the Agreements, the above payments can be refunded if the Restructuring cannot be completed. As at 30 June 2020, the Restructuring of the Shaoguan Rural Commercial Bank was completed and the Bank accounted for no remaining balance in receivables and payments (31 December 2019: RMB860,291 thousand).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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26 OTHER ASSETS (CONTINUED)

(b) Intangible assets

	Intangible assets
Cost	
As at 1 January 2020	595,825
Additions	26,325
Transfer from construction in progress	12,347
	<u>634,497</u>
As at 30 June 2020	634,497
Accumulated amortization	
As at 1 January 2020	429,103
Amortization for the period	45,733
	<u>474,836</u>
As 30 June 2020	474,836
Net book value	
As at 30 June 2020	<u>159,661</u>
As at 1 January 2020	<u>166,722</u>
	Intangible assets
Cost	
As at 1 January 2019	494,517
Additions	76,778
Transfer from construction in progress	24,619
Disposals	(89)
	<u>595,825</u>
As at 31 December 2019	595,825
Accumulated amortization	
As at 1 January 2019	310,421
Amortization for the year	118,726
Disposals	(44)
	<u>429,103</u>
As at 31 December 2019	429,103
Net book value	
As at 31 December 2019	<u>166,722</u>
As at 1 January 2019	<u>184,096</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

26 OTHER ASSETS (CONTINUED)

(c) Right-of-use assets

	Properties and equipments	Land use rights	Total
Cost			
As at 1 January 2020	1,206,351	1,045,961	2,252,312
Additions	149,233	5,937	155,170
Acquisition of a subsidiary	–	46,407	46,407
Disposals	(103,566)	–	(103,566)
As at 30 June 2020	1,252,018	1,098,305	2,350,323
Accumulated depreciation			
As at 1 January 2020	297,960	43,273	341,233
Charge for the period	107,460	12,424	119,884
Disposals	(75,039)	–	(75,039)
As at 30 June 2020	330,381	55,697	386,078
Net book value			
As at 30 June 2020	921,637	1,042,608	1,964,245
As at 1 January 2020	908,391	1,002,688	1,911,079

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

26 OTHER ASSETS (CONTINUED)

(c) Right-of-use assets (continued)

	Properties and equipments	Land use rights	Total
Cost			
As at 31 December 2018	N/A	N/A	N/A
Restated	981,495	976,330	1,957,825
As at 1 January 2019	981,495	976,330	1,957,825
Additions	224,856	39,878	264,734
Acquisition of a subsidiary	–	29,753	29,753
Disposals	–	–	–
As at 31 December 2019	1,206,351	1,045,961	2,252,312
Accumulated depreciation			
As at 31 December 2018	N/A	N/A	N/A
Restated	–	21,918	21,918
As at 1 January 2019	–	21,918	21,918
Charge for the period	297,960	21,355	319,315
As at 31 December 2019	297,960	43,273	341,233
Net book value			
As at 31 December 2019	908,391	1,002,688	1,911,079
As at 1 January 2019	981,495	954,412	1,935,907

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

26 OTHER ASSETS (CONTINUED)

(d) Foreclosed assets

	As at 30 June 2020	As at 31 December 2019
Houses and buildings	714,622	580,145
Others	21,183	20,477
Subtotal	735,805	600,622
Less: Allowance for impairment losses	(65,528)	(64,017)
Total	670,277	536,605

Movements of allowance for foreclosed assets are as follows:

	Houses and buildings	Others	Total
At 1 January 2020	64,017	–	64,017
Charge and dispose for the period	1,511	–	1,511
At 30 June 2020	65,528	–	65,528
At 1 January 2019	62,684	2,955	65,639
Charge/(Restated) for the year	1,333	(2,955)	(1,622)
At 31 December 2019	64,017	–	64,017

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Deposits from banks operating in Mainland China	2,810,396	4,973,758
Deposits from other financial institutions operating in Mainland China	39,177,471	35,826,246
Interest payable	186,390	239,189
Total	42,174,257	41,039,193

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2020	As at 31 December 2019
Placements from banks operating in Mainland China	1,670,000	973,915
Placements from banks operating outside Mainland China	–	–
Interest payable	2,592	11,002
Total	1,672,592	984,917

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2020	As at 31 December 2019
Securities	8,835,610	9,725,600
Interest payable	1,055	4,755
Total	8,836,665	9,730,355

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

30 CUSTOMER DEPOSITS

	As at 30 June 2020	As at 31 December 2019
Demand deposits		
– Corporate customers	137,492,084	131,828,171
– Personal customers	111,720,692	107,750,918
	249,212,776	239,579,089
Time deposits		
– Corporate customers	196,478,181	177,449,451
– Personal customers	247,152,889	209,169,740
	443,631,070	386,619,191
Pledged deposits	16,202,819	12,654,096
Other deposits (i)	17,977,297	19,390,710
Total	727,023,962	658,243,086

- (i) As at 30 June 2020, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB9,912,790 thousands (31 December 2019: RMB13,267,360 thousands).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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31 DEBT SECURITIES ISSUED

	As at 30 June 2020	As at 31 December 2019
2018 tier 2 capital bonds (a)	9,998,804	9,998,740
Interbank certificates of deposit issued (b)	71,910,919	67,835,442
Financial bonds (c)	998,924	999,335
Interest payable	140,321	406,538
Total	83,048,968	79,240,055

(a) Tier 2 capital bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier 2 capital bonds in an amount of RMB10 billion in the domestic interbank bond market on 23 March 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.90% and annual interest payment on 23 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

(b) Interbank certificates of deposit issued

As at 30 June 2020 and 31 December 2019, the outstanding balance was RMB71,910,919 thousands and RMB67,835,442 thousands, with the interest rate ranging from 1.55% to 3.25% and from 2.90% to 3.45% respectively, and the amount would mature in 2021 and 2020 respectively.

(c) Financial bonds

Pursuant to the approval of the PBOC and the CBIRC, the ZJFL issued financial bonds in an amount of RMB1 billion in the domestic interbank bond market on 18 April 2019. The bonds have a maturity of 3 years, with a fixed coupon rate of 3.80% and annual interest payment on 22 April every year from 2020 to 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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32 OTHER LIABILITIES

	As at 30 June 2020	As at 31 December 2019
Borrowings from other banks (a)	9,772,414	10,029,867
Settlement and clearing accounts	2,559,279	3,068,025
Salaries, bonuses, allowances and subsidies payable (b)	2,139,202	2,646,339
Guarantee deposits from lessees (c)	1,458,726	1,419,581
Lease liabilities	930,409	925,531
Provisions	588,886	379,067
Sundry tax payables	656,908	516,684
Deferred revenue	261,496	253,708
Deposit insurance premium payable	–	56,010
Deposits and guarantees received	46,259	39,843
Payables for commission funds	25,000	25,000
Collection of foreclosed assets	–	15,000
Non-performing assets collection	3,959	3,690
Others	762,781	638,368
Total	19,205,319	20,016,713

(a) Borrowings from other banks

As at 30 June 2020, the wholly-owned subsidiary of the Bank, the ZJFL, borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 1 to 5 years (31 December 2019: from 1 to 5 years) and interest rates ranging from 2.20% to 5.39% (31 December 2019: from 3.10% to 5.60%).

(b) Salaries, bonuses, allowances and subsidies payable

	As at 30 June 2020	As at 31 December 2019
Salaries, bonuses and allowances	1,221,746	1,736,711
Social insurance	56,538	56,096
Housing fund	323	443
Employee benefits	14,547	9,418
Labor union expenditure and education costs	182,666	180,723
Defined contribution plans	2,961	969
Defined benefit plans		
– Supplemental retirement benefits (i)	559,821	555,945
Early retirement benefits	100,600	106,034
Total	2,139,202	2,646,339

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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32 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits

The movement of supplementary retirement benefits of the Group are as follows:

	As at 30 June 2020	As at 31 December 2019
At the beginning of the period/year	555,945	554,531
Benefits paid during the period/year	(7,105)	(16,260)
Defined benefit cost (reversed)/recognised in profit or loss	(1,777)	11,940
Defined benefit cost recognised in other comprehensive income	12,758	5,734
At the end of the period/year	559,821	555,945

The principal actuarial assumptions adopted at the end of 30 June 2020 and 31 December 2019 are as follows:

	As at 30 June 2020	As at 31 December 2019
Discount rate		
– Normal retirees	3.20%	3.38%
– Early retirees	3.41%	3.46%
Expected growth rate of benefits	0-5%	0-5%
Age of retirement		
– Male	60	60
– Female	50/55	50/55

Assumptions regarding future mortality are based on the China Life Insurance Mortality table, published in Mainland China.

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For the six months ended 30 June 2020

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32 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits (continued)

The sensitivity of the present value of supplemental retirement benefit obligations to changes in the principal assumption is:

	Discount rate	
	As at 30 June 2020	As at 31 December 2019
Change in basis points		
+50 basis points	(39,211)	(38,238)
-50 basis points	44,319	43,165
	Growth rate	
	As at 30 June 2020	As at 31 December 2019
Change in basis points		
+50 basis points	44,012	44,391
-50 basis points	(39,336)	(39,678)

(c) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, the ZJFL, received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

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33 SHARE CAPITAL

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	30 June 2020		31 December 2019	
	Number of shares '000	Nominal value	Number of shares '000	Nominal value
Opening balance	9,808,269	9,808,269	9,808,269	9,808,269
As at 30 June 2020/31 December 2019	9,808,269	9,808,269	9,808,269	9,808,269

34 PREFERENCE SHARES

(a) Preference shares outstanding at the end of the period

Offshore preference share	Issue date	Accounting classification	Dividend rate	Issue price	Number of shares	In original currency	In RMB	Maturity	Conversion condition	Conversion
Preference shares in USD	20 June 2019	Equity	5.90%	USD20/share	71,500,000	1,430,000	9,839,115	No maturity date	Mandatory	No conversion during the period
Total							9,839,115			
Less:										
Issuance fees							18,381			
Book value							9,820,734			

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34 PREFERENCE SHARES (CONTINUED)

(b) Main clauses

Offshore preference shares

(i) *Dividend*

The offshore preference shares accrue non-cumulative dividends on the issue price at the relevant dividend rate below:

- (1) From and including the issue date to but excluding the first reset date, at the rate of 5.90% per annum; and
- (2) Thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate, provided that the dividend rate shall not at any time exceed 13.57% per annum, being the mean of the weighted average return on equity of the Bank (as determined in accordance with the Rules for Preparation of Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share (as amended in 2010) and calculated based on the return attributable to the Ordinary Shareholders) for the two most recent financial years prior to the issue date.

(ii) *Conditions to distribution of dividends*

The payment of any dividend on any dividend payment date is subject to:

- (a) the Board (or within the delegated authorization of the Board) having passed a resolution to declare such dividend in accordance with the Articles of Association;
- (b) the Bank having distributable after-tax profit, after making up for the previous years' losses and contributing to the statutory reserve fund and general reserve; and
- (c) the capital adequacy ratios of the Bank meet the regulatory requirements.

Offshore preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends.

Subject to a resolution to be passed at a shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend. The Bank shall not distribute any dividends to its ordinary shareholders before it declares such dividends to preference shareholders for the relevant periods.

The cancellation of any amount of dividend (in whole or in part) shall not constitute a default for any purpose by the Bank. Dividend payments are non-cumulative. Under the circumstances where the Bank cancels a dividend (in whole or in part), any amount of dividend that has not been fully distributed to the offshore preference shareholders during the then current dividend period will not be accumulated to the following dividend periods.

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34 PREFERENCE SHARES (CONTINUED)

(b) Main clauses (continued)

Offshore preference shares (continued)

(iii) Mandatory conversion trigger events

Upon occurrence of the triggering events as stipulated by the offering documents and subject to regulatory approval, offshore preference share shall be mandatorily converted into ordinary H Shares of the Bank (as converted into Hong Kong dollars at the fixed exchange rate of USD1.00 to HKD7.8489), partially or entirely.

(iv) Order of distribution and liquidation method

On winding-up of the Bank, distribution to offshore preference shareholders is made after all debts of the Bank (including subordinated debts) and obligations that are issued or guaranteed by the Bank and specifically stated to be distributed prior to the offshore preference shares; all offshore preference shareholders are ranked the same in the distribution sequence without priority among them and have the same repayment sequence rights as holders of obligations with equivalent rights. In addition, distribution is made to offshore preference shareholders prior to ordinary shareholders.

On winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the terms and conditions of the offshore preference shares have been made, be applied to the claims of the offshore preference shareholders equally in all respects with the claims of holders of any parity obligations and in priority to the claims of the holders of ordinary shares.

The distribution amount obtained by the offshore preference shareholders shall be the total par value of the issued and outstanding preference shares plus dividends declared but not paid in the current period; if the distribution amount is insufficient, offshore preference shareholders will share the distribution amount on a proportional basis.

(v) Redemption

The offshore preference shares are perpetual and have no maturity date. The Bank may, subject to obtaining CBIRC approval and in compliance with the redemption preconditions, redeem all or some of the offshore preference shares after five years. The redemption period ends at the date when shares are fully converted or redeemed.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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35 RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

(b) Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the six months ended 30 June 2020, no appropriation was made to the statutory surplus reserve (For the year ended 31 December 2019: RMB657,204 thousands).

(c) General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, which starting from 1 July 2012, should not be less than 1.5% of the year-end balance of their respective risk assets as defined by the regulations.

For the six months ended 30 June 2020, no appropriation was made to the general reserve (For the year ended 31 December 2019: RMB1,788,287 thousands) and the reserve has reached 1.5% of the year ended balance of its risk assets as required on 31 December 2019.

(d) Other comprehensive income

Other comprehensive income included financial assets revaluation reserve and remeasurement losses on defined benefit plans. The financial assets revaluation reserve records the fair value changes and expected credit losses of financial assets at fair value through other comprehensive income. Remeasurement loss on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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36 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Other comprehensive income in statement of financial position		Other comprehensive income in income statement			
	As at 31 December 2019	Attributable to the shareholders of the Bank after tax	As at 30 June 2020	Amount before tax	Net amount transferred to the income statement	Attributable to the shareholders of the Bank after tax
Other comprehensive income to be reclassified to profit or loss in subsequent years:						
Financial assets at fair value through other comprehensive income	1,134,289	63,324	1,197,613	440,207	361,130	63,324
Other comprehensive income not to be reclassified to profit or loss in subsequent years:						
Remeasurement losses on defined benefit plans	(20,612)	(12,758)	(33,370)	(12,758)	-	(12,758)
Total	1,113,677	50,566	1,164,243	427,449	361,130	50,566
						(4,016)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

36 COMPONENTS OF OTHER COMPREHENSIVE INCOME (CONTINUED)

	Other comprehensive income in statement of financial position		Other comprehensive income in income statement				
	As at 01 January 2019 (restated)	Attributable to the shareholders of the Bank after tax	As at 31 December 2019	Amount before tax	Net amount transferred to the income statement	Attributable to the shareholders of the Bank after tax	Attributable to the non-controlling interests after tax
Other comprehensive income to be reclassified to profit or loss in subsequent years:							
Financial assets at fair value through other comprehensive income	1,082,026	52,263	1,134,289	415,462	343,432	52,263	1,760
Other comprehensive income not to be reclassified to profit or loss in subsequent years:							
Remeasurement losses on defined benefit plans	(14,878)	(5,734)	(20,612)	(5,734)	-	(5,734)	-
Total	1,067,148	46,529	1,113,677	409,728	343,432	46,529	1,760

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37 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

	As at 30 June 2020	As at 31 December 2019
Cash on hand	4,707,104	3,085,852
Surplus reserves with central bank	20,728,153	29,845,402
Deposits with banks and other financial institutions	11,456,231	22,824,144
Placements with banks and other financial institutions	6,245,017	2,538,875
Financial assets held under resale agreements	37,160,045	28,576,623
Total	80,296,550	86,870,896

38 TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets in the consolidated statement of financial position.

(a) Bond lending arrangements

The Group entered into bond lending agreements with securities borrowers to lend out its bond securities classified as financial assets at fair value through profit or loss of carrying amount totalling RMB839,982 thousands as at 30 June 2020 (31 December 2019: RMB90,762 thousands and financial assets at fair value through other comprehensive income of carrying amount totalling RMB4,900,683 thousands as at 30 June 2020 (31 December 2019: RMB678,406 thousands) and financial assets at amortized cost amount totalling RMB204,105 thousands as at 30 June 2020 (31 December 2019: nil). The counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them in the condensed consolidated interim financial information.

(b) Securitisation transactions

In the course of securitisation transactions, the Group sells assets to special purpose trusts and the asset-backed securities are subsequently sold to the investors. The Group may hold some asset-backed securities in these businesses, thus reserving part of risks and rewards of transferred credit assets. The Group analyses and judges whether to derecognise relevant credit assets based on degree of retention of risks and rewards.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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38 TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

(b) Securitisation transactions (continued)

As at 30 June 2020, there was no carrying amount of the credit assets transferred by the Group to special purpose trusts (31 December 2019: RMB6,017,962 thousands). The Group has derecognised the relevant credit assets. There was no carrying amount of the Group's share of the above asset-backed securities as at 30 June 2020 (31 December 2019: RMB37,752 thousands), with a maximum loss exposure similar to the carrying amount.

(c) Transfer of beneficial rights of credit assets

In the course of beneficial rights of credit assets transfer transactions, the Group transfers beneficial rights of credit assets to special purpose trusts from whom the trust schemes are subsequently transferred to the investors. The Group may subscribe some trust funds in these businesses, thus reserving part of risks and rewards of transferred beneficial rights of credit assets. The Group analyses and judges whether to derecognise relevant beneficial rights of credit assets based on degree of retention of risks and rewards.

As at 30 June 2020, there was no original amount of the beneficial rights of credit assets transferred by the Group to special purpose trust before transfer (31 December 2019: RMB3,444,851 thousands). The Group has derecognised relevant beneficial rights of credit assets. The Group has no share of the above beneficial rights of credit assets as at 30 June 2020 (31 December 2019: same).

39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

(a) Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. For the six month ended 30 June 2020, the Group recorded commission income as the manager of these wealth management products amounting to RMB43,679 thousands (For the six months ended 30 June 2019: RMB60,424 thousands). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss in such business. The Group considered its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 30 June 2020, there was no balance of the above repurchase and placement transactions (2019: Same).

As at 30 June 2020, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB76,464,451 thousands (31 December 2019: RMB79,359,695 thousands).

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39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group

As at 30 June 2020, the Group invested in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

The table below sets out the carrying value and the Group's maximum exposure to these unconsolidated structured entities.

As at 30 June 2020	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	24,291,105	24,291,105
Fund investments	17,757,328	17,757,328
Other investments	2,447,153	2,447,153
Subtotal	44,495,586	44,495,586
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	14,356,644	14,356,644
Other investments	166,686	166,686
Subtotal	14,523,330	14,523,330
<u>Financial assets at amortized cost</u>		
Trust plans and asset management plans	11,180,316	11,180,316
Other investments	–	–
Subtotal	11,180,316	11,180,316

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39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

As at 31 December 2019	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	27,679,726	27,679,726
Fund investments	19,237,866	19,237,866
Other investments	5,226,010	5,226,010
Subtotal	52,143,602	52,143,602
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	15,426,312	15,426,312
Other investments	191,158	191,158
Subtotal	15,617,470	15,617,470
<u>Financial assets at amortized cost</u>		
Trust plans and asset management plans	13,602,618	13,602,618
Other investments	371,303	371,303
Subtotal	13,973,921	13,973,921

40 BUSINESS COMBINATION

(a) Summary of acquisition

Pursuant to the approval notice of "Approval Regarding the Opening of Shaoguan Rural Commercial Bank Co., Ltd. (Shao Yinbaojianfu No. [2020]43)" issued by the CBIRC Shaoguan Bureau, Shaoguan Rural Commercial Bank Co., Ltd. ("SGRCB") obtained its finance permit from the CBIRC Shaoguan Bureau on 19 June 2020 and its business license from the Administration for Market Regulation of Shaoguan Municipality on 22 June 2020. The SGRCB was formed as a result of a combination of Shaoguan Urban District Rural Credit Cooperatives and ShaoGuan Urban QuJiang District Rural Credit Union with investments from some new investors. The Bank was one of strategic investors and holds 50.10% equity interests of the SGRCB and controls 50.10% voting rights in the SGRCB. Hence, management of the Bank believes that it has control over the SGRCB from 19 June 2020.

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40 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

ACQUISITION DATE	Fair value	Book value
ASSETS		
Cash and deposits with central bank	947,611	947,611
Deposits with banks and other financial institutions	4,781,894	4,781,894
Placements with banks and other financial institutions	790,000	790,000
Loans and advances to customers	5,191,035	5,151,438
Financial assets at fair value through profit or loss	47,281	37,000
Financial assets at amortized cost	748,160	748,160
Financial assets at fair value through other comprehensive income	541,320	541,320
Property and equipment	102,192	75,552
Deferred tax assets	535	535
Other assets	52,394	17,311
Total assets	13,202,422	13,090,821
LIABILITIES		
Due to the Central Banks	(95,500)	(95,500)
Deposits from banks and other financial institutions	(165,452)	(165,452)
Financial assets sold under repurchase agreements	(2,000)	(2,000)
Customer deposits	(10,737,154)	(10,737,154)
Income tax payable	(1,989)	(1,989)
Deferred tax liabilities	(27,900)	–
Other liabilities	(77,486)	(77,486)
Total liabilities	(11,107,481)	(11,079,581)
Net identifiable assets	2,094,941	2,011,240
Less: Non-controlling interests acquired (i)	(1,045,376)	(1,003,609)
Less: Negative goodwill	(76,229)	N/A
Satisfied by cash	973,336	N/A

The goodwill is attributable to the the high profitability of the acquired business. It will not be deductible for tax purposes.

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40 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (continued)

(i) *Accounting policy choice for non-controlling interests*

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in the SGRCB, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

(ii) *Profit contribution*

If the acquisition had occurred on 1 January 2020, consolidated pro-forma profit for the 6 month ended 30 June 2020 would have been RMB3,362,968 thousands.

(b) Net cash flow for acquisition

Net cash flow for acquisition of the SGRCB is analysed below:

	30 June 2020
Cash paid to acquire the SGRCB in this period	(113,045)
Add: cash and cash equivalents held by the SGRCB	1,403,000
Net cash inflow from acquisition of the SGRCB	1,289,955

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41 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan and credit card commitments are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the period had the counterparties failed to perform as contracted.

	As at 30 June 2020	As at 31 December 2019
Bank acceptances	28,804,455	28,469,095
Letters of credit issued	1,388,770	1,312,911
Guarantees issued	38,884,515	31,791,369
Loan and credit card commitments (i)	99,128,683	113,514,099
Subtotal	168,206,423	175,087,474
Allowance for credit commitments	583,371	375,473
Total	167,623,052	174,712,001

(i) Loan commitments of the Group are the unconditionally revocable loan commitments.

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41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Operating lease commitments

During the year, the Group leased certain of their office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	As at 30 June 2020	As at 31 December 2019
Within one year	3,124	5,494
After one year but not more than two years	3,492	3,822
After two years but not more than three years	3,542	3,853
After three years	13,326	13,493
Total	23,484	26,662

(c) Capital commitments

	As at 30 June 2020	As at 31 December 2019
Contracted, but not provided for	469,664	217,662

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	As at 30 June 2020	As at 31 December 2019
Financial guarantees and credit related commitments	34,215,231	28,522,733

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

(e) Legal proceedings

As at 30 June 2020, provisions of RMB5,515 thousands were made by the Group (2019: RMB3,594 thousands) based on advice of legal counsel. The litigation cases are not expected to have a significant impact on the Group's business, financial condition and performance.

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42 FIDUCIARY ACTIVITIES

The Group operates entrusted loans. The entrusted loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group only acts on behalf of trustors and assists them to administer the loans. Risks remain to trustors while the Group charges commission fee for the business. Entrusted loans are not included in the Group's consolidated balance sheet.

The Group manages assets for customers as an agent, which does not include in the Group's consolidated balance sheet. The Group only charges fees according to agent agreement and bears no risk and takes no benefit of these assets.

	As at 30 June 2020	As at 31 December 2019
Entrusted deposits	(8,058,396)	(8,403,956)
Entrusted loans	8,058,396	8,403,956

Entrusted wealth management refers to service that the Group makes investments and manages principal on behalf of customers within agreed investment plans and methods, and earnings will be paid to customers in accordance with terms of agreements and actual earnings. As at 30 June 2020 and 31 December 2019, entrusted wealth management service of the Group amounted to RMB76,464,451 thousands and RMB79,359,695 thousands respectively.

43 ASSETS PLEDGED AS SECURITY

(a) Financial assets which have been pledged

As at 30 June 2020 and 31 December 2019, financial assets of the Group, which refer to debt securities, have been pledged as security for liabilities or contingent liabilities, mainly arising from financial assets sold under repurchase agreements, time deposits and borrowings from the Central Bank. As at 30 June 2020 and 31 December 2019, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB17,825,540 thousands and RMB18,241,592 thousands.

(b) Collateral received

The Group received debt securities and bills as collateral in connection with the terms of the Financial assets held under resale agreements. The Group did not hold any collateral that can be resold or reused as at 30 June 2020 and 31 December 2019.

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44 RELATED PARTY DISCLOSURES

(a) Related party relationships

As at 30 June 2020 and 31 December 2019, there is no shareholder directly or indirectly holding 5% or above shares of the Bank.

(b) Related party transactions

Related party transactions of the Bank mainly include loans and deposits. Transactions between the Bank and its related parties follow general business terms and normal procedures and their pricing principle is the same as with independent third parties.

(i) *Transactions between the Bank and major shareholders and the companies controlled or jointly controlled by major shareholders*

Major shareholders include shareholders of the Bank with the power to appoint a director in the Bank.

	As at 30 June 2020	As at 31 December 2019
Balances at the end of the period/year		
Loans and advances to customers	6,996,365	6,102,972
Financial assets at fair value through profit or loss	54,691	472,790
Financial assets at amortized cost	798,156	–
Deposits from banks and other financial institutions	17,276	129,666
Customer deposits	4,449,734	2,242,668
Bank acceptance bills	10,033	28,389
Credit commitments	2,484,450	3,053,200
	Six months ended 30 June	
Transactions during the period	2020	2019
Interest income	140,848	135,298
Interest expense	(38,197)	(45,189)
Fee and commission income	1,795	363
Fee and commission expense	(1,115)	(3,638)
Interest rate ranges during the period		
Loans and advances to customers	4.41%-7.00%	4.41%-7.50%
Placements with banks and other financial institutions	1.50%-3.38%	1.50%-3.38%
Financial assets held under resale agreements	2.65%	2.65%
Customer deposits	0.25%-3.80%	0.25%-3.80%
Deposits from banks and other financial institutions	0.30%-0.72%	0.30%-0.72%

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44 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

(ii) Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the condensed consolidated interim financial information. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

(iii) Other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members, and the companies of which key management personnel and their close family members were appointed as directors and key management personnel. During the period/year, the Group entered into transactions with other related parties in the ordinary course of business. Details are as follows:

	As at 30 June 2020	As at 31 December 2019
Balances at the end of the period/year		
Loans and advances to customers	13,179,118	13,362,666
Financial assets at fair value through other comprehensive income	291,738	–
Customer deposits	11,232,993	11,265,844
Bank acceptance bills	604,085	742,789
Credit commitments	609,985	3,860,341
	Six months ended 30 June	
Transactions during the period	2020	2019
Interest income	335,329	347,810
Interest expense	(147,495)	(63,408)
Fee and commission income	7,653	4,701
Interest rate ranges during the period		
Loans and advances to customers	3.85%-10.00%	4.28%-10.00%
Financial assets held under resale agreements	0.00%	1.88%-1.90%
Customer deposits	0.05%-3.80%	0.30%-3.80%
Deposits from banks and other financial institutions	0.30%	0.30%

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

44 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

Key management personnel refer to those have power and directly or indirectly are responsible for planning, instruction and control of the Group.

Total amount of remuneration of key management personnel is listed below:

	Six months ended 30 June	
	2020	2019
Salary, remuneration and benefits	9,350	11,138

Transactions with key management personnel and their closed family members are listed below:

	As at 30 June 2020	As at 31 December 2019
Balances at the end of the period/year		
Loans and advances to customers	9,283	21,668
Customer deposits	50,570	40,183
Credit commitments	1,828	1,600

	Six months ended 30 June	
Transactions during the period	2020	2019
Interest income	265	785
Interest expense	(2,029)	(875)
Interest rate ranges during the period		
Loans and advances to customers	3.43%-7.27%	3.43%-6.84%
Customer deposits	0.25%-5.45%	0.25%-5.45%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT

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

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

A description and an analysis of the major risks faced by the Group are as follows:

The major types of risks are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and price risk.

The Board of Directors of the Group is responsible for determining the Group's overall risk preference. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for their implementation.

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, evaluating the Group's situation of risk management, risk tolerance ability and level regularly, and taking case precautions, reviewing and controlling the related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors and developing the specific rules and regulations of risk management. The Group has a Compliance and Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of compliance and risk management.

The Risk Management Department is the leading department of overall risk management, and is responsible for overall planning and coordination of risk management. The Risk Management Department, Credit Management Department, Legal and Compliance Department and Asset Management Department are primarily responsible for managing credit risk, market risk, operation risk and liquidity risk. The Internal Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management activities' effect independently and objectively.

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present a different credit risk.

(i) Credit Risk Management

Loans

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets, reviewing periodically and updating risk classification of credit assets, and carrying out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularising various risk management tools.

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimises losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) write off according to relevant regulations.

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For the six months ended 30 June 2020
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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) *Credit Risk Management (continued)*

Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and based on issuer's credit rating and establishing post lending management standards.

Other financial assets carrying at amortized cost

Other financial assets carrying at amortized cost, include wealth management products, trust plans and asset management plans issued and managed by other banks and other financial institutions. The Group establishes a risk evaluation system on the trust companies, security companies and fund management companies, sets up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters of guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

(ii) *Risk limit control and mitigation policies*

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent reviews where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Item	Main loan-to-value ratio
Residential properties	70%
Office buildings, shops, factories, houses, carports, warehouses	50%
Land use rights	50%
Constructions in process	45%
Automobiles	50%
Forest ownerships	40%

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

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage I (not credit-impaired on initial recognition): 12-month expected credit losses (ECL);

Stage II (significant increase in credit risk since initial recognition): lifetime expected credit losses;

Stage III (credit-impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of macroeconomic indicators and risk parameters.

Stage division

The assessment of significant increase in credit risk consider a number of factors such as five-category classification, overdue days, and credit rating changes. The stages are transferable.

Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Quantitative criteria

At the reporting date, the Group assesses the significant increase in credit risk through the relative change of the probability of default. The thresholds was set based on different product type, such as corporate loans, personal loans, securities investments, etc. For the financial instrument without overdue, the Group assesses changes of probability of default over the lifetime to identify increment of the default risk.

If the borrower fails to pay more than 30 days after the contractual payment date, the credit risk of the financial instrument is considered to be increased significantly.

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Qualitative criteria

For corporate loans and bond investment portfolio, the credit risk is considered to be increased significantly, if borrowers were on the watch list or met one or more criteria as follows:

- Significant negative impact appears in business, financing or economic position for borrower;
- Actual or expected extension or restructuring;
- Actual or expected significant adverse change on borrower's operations;
- Collateral's valuation changes which expected to led the increase of default probability (only for collateralized and pledged loans);
- Indicator for cash flow or liquidity problems, e.g. extension for account payable or loan repayment

For corporate loans, the Group uses a credit risk early warning monitoring system to assess whether there has been a significant increase in its credit risk. For bond investment, the Group strengthens the management of bond investment and assesses it periodically. For individual loans, the Group assesses at the portfolio level on a quarterly basis whether there has been a significant increase in credit risk. The criteria used to identify significant increases in credit risk are monitored and reviewed by risk management departments on timely basis.

As at 30 June 2020, the Group did not consider any financial instruments as having low credit risk, so that its credit risk did not need to be evaluated on the reporting date, comparing with its initial recognition date.

Definition of default and credit impairment

When a financial instrument meets one or more of the following conditions, the Group defines the financial asset as default which is consistent with the definition of credit impairment:

Quantitative criteria

The borrower is more than 90 days overdue.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Definition of default and credit impairment (continued)

Qualitative criteria

The borrower meets the “difficulty to repay” criteria, indicating significant financial difficulties experienced by the borrower. Examples include:

- Significant financial difficulty of the issuer or the debtor;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor’s financial difficulty, granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- Debtors are in breach of contract;
- The disappearance of an active market for some financial assets due to the borrower’s financial difficulties;
- A purchased or originated credit-impaired financial asset.

These criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the calculation of expected credit losses of the Group.

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For the six months ended 30 June 2020

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Explanation of inputs, assumptions and estimation techniques in the ECL models

The Expected Credit Losses (ECL) are measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

Forward-looking information should be considered in determining the 12-month and lifetime PD, EAD and LGD. This varies by product types.

The Group quarterly monitors and reviews the ECL calculation related assumptions, including the changes of PD and LGD for different terms.

The Group has updated the PD and EAD in the ECL models based on the latest historical information and risk condition.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Forward-looking information in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. The Group obtained the key macroeconomic factors of the past 10 years from the Wind Economic to perform historical analysis on the intertemporal endogenous relationship of the macroeconomic factors. The Group integrates statistical analysis and expert judgements to determine economic forecasts and weighting scheme under various economic scenarios.

Since the outbreak of COVID-19 in January 2020, the economy in China has undergone significant changes and the economic environment is still uncertain. Future impairment charges may be subject to further volatility, depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of central bank, government and other support measures. For the six months ended 30 June 2020, in order to timely reflect the impact of the COVID-19 on the ECL of financial instruments, the Group updated the forward-looking information in the ECL models. The results of the ECL models were consistent with the impact of COVID-19.

The Group has adopted three economic scenarios (Base, Pessimistic and Optimistic) on the basis of the macroeconomic information analysis and expert judgment. Considering the impact of the effectiveness of central bank, government and other support measures on the ECL of financial instruments under the COVID-19, the weightings for the three scenarios remain 55%, 40% and 5% respectively.

Key macroeconomic assumptions are as follows:

Item	Range
GDP Annual Percentage Change ("GDP")	2.47%~2.73%
Growth rate of Producer Price Index ("PPI")	-3.15%~-2.85%
Growth rate of Consumer Price Index ("CPI")	0.86%~0.95%
Purchasing Managers' Index ("PMI")	41.95%~46.37%
Growth rate of Total Retail Sales of Consumer Goods	4.51%~4.99%
Growth rate of Fixed Assets Investment	3.13%~3.45%
Growth rate of Export Earnings	-10.50%~-9.50%
Growth rate of Total sales of commercial residential buildings	-12.92%~-11.69%
Growth rate of M2	10.12%~11.18%
USD to RMB exchange rate	6.67~7.37

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Forward-looking information in the ECL models (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the nonlinearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

The expected credit losses are sensitive to the parameters used in the model, macroeconomic variables for forward-looking prediction, scenarios weightings and other factors considered in the application of expert judgments. The changes in these parameters, assumptions, models and judgments will have an impact on the significant increase in credit risk and the measurement of expected credit losses.

Grouping for ECL allowance

The Group classified the exposures with similar characteristics when collectively assessing the ECL allowance.

The characteristics for grouping are as follows:

Personal loans

- Product types (for instance, personal business loans, personal consumption loans, personal residential mortgages, credit cards overdraft)

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage III

Credit risk team monitors and reviews the grouping appropriateness regularly.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) *Maximum exposure to credit risk*

Financial instruments and commitment and guarantee subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The net carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 30 June 2020	As at 31 December 2019
Cash and deposits with central bank	80,957,954	96,476,489
Deposits with banks and other financial institutions	20,803,002	30,700,318
Interest payable	37,630,449	20,604,232
Financial assets held under resale agreements	41,948,512	28,593,493
Loans and advances to customers		
– at amortized cost	474,304,511	441,545,722
– at fair value through other comprehensive income	59,005,012	21,505,649
Financial assets at amortized cost	75,677,847	82,536,087
Financial assets at fair value through other comprehensive income	86,279,491	69,706,113
Other financial assets	2,163,154	964,411
Total	877,668,081	792,632,514
Credit commitments	167,623,052	174,712,001

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For the six months ended 30 June 2020
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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers

By industry	30 June 2020		31 December 2019	
	Amount	(%)	Amount	(%)
Corporate loans				
Lease and commercial service	70,740,001	12.82%	62,561,983	13.03%
Real estate	63,987,753	11.59%	68,340,972	14.24%
Wholesale and retail	63,232,926	11.46%	53,521,085	11.15%
Manufacturing	37,517,886	6.80%	35,879,586	7.48%
Construction	32,585,981	5.90%	27,254,800	5.68%
Hotel and catering	19,797,006	3.59%	16,542,693	3.45%
Transportation, warehouse and postal services	10,900,720	1.97%	11,617,652	2.42%
Education	10,158,600	1.84%	8,593,224	1.79%
Agriculture, forestry, farming and fishery	9,998,810	1.81%	9,318,749	1.94%
Resident services, repairing and other services	9,002,764	1.63%	6,619,704	1.38%
Water, environment and public facilities management	8,002,468	1.45%	7,066,313	1.47%
Information transmission, software and IT services	4,627,854	0.84%	4,394,985	0.92%
Financial services	3,726,129	0.68%	3,567,007	0.74%
Energy and utilities	2,743,933	0.50%	2,780,646	0.58%
Healthcare and social welfare	2,423,285	0.44%	2,557,545	0.53%
Culture, sports and entertainment	2,344,229	0.42%	2,000,706	0.42%
Others	3,942,659	0.71%	3,517,758	0.73%
Subtotal	355,733,004	64.45%	326,135,408	67.95%
Discounted bills	60,819,764	11.02%	29,113,838	6.07%
Personal loans	135,426,801	24.53%	124,718,880	25.98%
Total	551,979,569	100.00%	479,968,126	100.00%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

	As at 30 June 2020	As at 31 December 2019
By geography		
Guangzhou	448,714,649	393,525,908
Guangdong Province (except Pearl River Delta)	39,736,620	30,167,347
Pearl River Delta (except Guangzhou)	36,607,079	31,454,180
Central China	17,087,887	15,313,188
Yangtze River Delta	2,417,243	2,238,008
Western China	2,297,333	2,179,896
Bohai Rim	1,413,249	1,415,803
North-east China	447,594	464,647
Others	3,257,915	3,209,149
Total	551,979,569	479,968,126

	As at 30 June 2020	As at 31 December 2019
By collateral type		
Unsecured loans	90,578,776	56,170,334
Guaranteed loans	124,839,388	109,401,885
Collateralised loans	293,373,748	276,622,251
Pledged loans	43,187,657	37,773,656
Total	551,979,569	479,968,126

Overdue loans and advances to customers

	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
30 June 2020					
Unsecured loans	504,107	378,696	768,813	28,741	1,680,357
Guaranteed loans	1,359,267	1,255,182	272,660	290,097	3,177,206
Collateralised loans	9,029,306	2,112,235	1,292,162	319,241	12,752,944
Pledged loans	1,250,903	784	19,846	521	1,272,054
Total	12,143,583	3,746,897	2,353,481	638,600	18,882,561

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) *Loans and advances to customers (continued)*

	Overdue loans and advances to customers				Total
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	
31 December 2019					
Unsecured loans	256,016	800,670	463,649	16,857	1,537,192
Guaranteed loans	3,971,709	854,282	681,443	324,201	5,831,635
Collateralised loans	3,921,096	1,641,795	1,079,497	107,306	6,749,694
Pledged loans	62,176	33,115	9,010	548	104,849
Total	8,210,997	3,329,862	2,233,599	448,912	14,223,370

(vi) *Restructuring loans and advances to customers*

As at 30 June 2020 and 31 December 2019, the original value of the Group's restructuring loans and advances were RMB9,032,903 thousands and RMB10,808,494 thousands respectively.

As at 30 June 2020 and 31 December 2019, the original value of the Group's restructuring loans and advances in stage I were RMB571,453 thousands and RMB564,161 thousands respectively.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

The Group's expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

30 June 2020	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	-	26,669,402	-	-	-	-	-	58,995,656	85,665,058
Deposits with banks and other financial institutions (1)	308,595	10,192,096	52,538,057	9,329,712	28,013,503	-	-	-	100,381,963
Loans and advances to customers	9,418,616	-	24,949,761	28,504,084	175,311,213	193,642,086	101,483,763	-	533,309,523
Financial assets at fair value through profit or loss	616,742	17,757,328	2,820,464	8,234,854	19,055,545	23,471,027	3,463,564	191,380	75,610,904
Financial assets at amortized cost	1,514,130	-	4,285,150	10,576,026	22,657,766	23,317,539	13,327,236	-	75,677,847
Financial assets at fair value through other comprehensive income	711,425	-	784,010	3,108,775	6,949,090	40,335,899	34,390,292	-	86,279,491
Other financial assets	628,832	-	1,381,746	61,140	88,598	2,195	643	-	2,163,154
Total financial assets	13,198,340	54,618,826	86,759,188	59,814,591	252,075,715	280,768,746	152,665,498	59,187,036	959,087,940
Financial liabilities:									
Due to the central bank	-	-	-	1,987,000	10,915,395	-	-	185,838	13,088,233
Deposits from banks and other financial institutions (2)	-	5,134,257	18,649,257	20,400,000	8,500,000	-	-	-	52,683,514
Customer deposits (3)	-	268,973,574	10,013,931	15,897,300	149,137,596	268,265,462	5,573,283	9,162,816	727,023,962
Lease liabilities	-	-	19,617	45,582	179,014	554,419	131,777	-	930,409
Debt securities issued	-	-	2,248,251	31,103,533	38,699,457	998,924	9,998,803	-	83,048,968
Other financial liabilities	745	331,045	1,033,546	2,831,458	6,374,826	476,123	4,175	359,872	11,411,790
Total financial liabilities	745	274,438,876	31,964,602	72,264,873	213,806,288	270,294,928	15,708,038	9,708,526	888,186,876
Net liquidity gap	13,197,595	(219,820,050)	54,794,586	(12,450,282)	38,269,427	10,473,818	136,957,460	49,478,510	70,901,064

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

31 December 2019	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	-	33,834,083	-	-	-	-	-	65,728,258	99,562,341
Deposits with banks and other financial institutions (1)	30,075	19,027,915	32,587,589	8,524,860	19,432,104	295,500	-	-	79,898,043
Loans and advances to customers	7,588,840	-	21,209,989	26,626,618	128,371,765	184,700,055	94,554,104	-	463,051,371
Financial assets at fair value through profit or loss	12,550	19,237,866	3,419,328	8,285,484	10,715,573	38,067,492	5,530,543	163,342	85,432,178
Financial assets at amortized cost	294,278	-	885,001	4,720,185	31,532,870	30,110,678	14,993,075	-	82,536,087
Financial assets at fair value through other comprehensive income	893,673	-	2,581,127	2,140,298	8,244,264	35,776,127	20,070,624	-	69,706,113
Other financial assets	252,371	-	115,797	23,496	288,078	273,917	10,752	-	964,411
Total financial assets	9,071,787	72,099,864	60,798,831	50,320,941	198,584,654	289,223,769	135,159,098	65,891,600	881,150,544
Financial liabilities:									
Due to the central bank	-	-	-	38,200	8,735,000	-	-	94,384	8,867,584
Deposits from banks and other financial institutions (2)	-	5,388,195	13,817,355	21,858,915	10,690,000	-	-	-	51,754,465
Customer deposits (3)	-	264,405,368	8,345,332	14,296,539	129,062,353	232,433,185	1,593,118	8,107,191	658,243,086
Lease liabilities	-	-	20,434	40,867	190,369	531,400	142,461	-	925,531
Debt securities issued	-	-	-	28,663,552	39,578,428	999,335	9,998,740	-	79,240,055
Other financial liabilities	12,940	795,574	2,238,005	1,988,732	6,708,773	539,001	2,238	302,206	12,587,469
Total financial liabilities	12,940	270,589,137	24,421,126	66,886,805	194,964,923	234,502,921	11,736,557	8,503,781	811,618,190
Net liquidity gap	9,058,847	(198,489,273)	36,377,705	(16,565,864)	3,619,731	54,720,848	123,422,541	57,387,819	69,532,354

(1) Includes placements with banks and other financial institutions, financial assets held under resale agreements.

(2) Includes financial assets sold under repurchase agreements.

(3) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) *Maturity analysis of contractual undiscounted cash flows*

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(c) Market risk

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

Market risk arises from both the Group's trading and non-trading businesses. The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group.

The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

(i) *Currency risk*

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

(d) Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet asset regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group's regulatory capital consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss allowances and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

	As at 30 June 2020	As at 31 December 2019
Net common equity tier 1 capital	60,455,346	59,580,724
Net tier 1 capital	70,581,057	69,660,925
Net capital	86,358,766	85,093,035
Risk-weighted assets	642,423,188	597,980,137
Common equity tier 1 capital adequacy ratio	9.41%	9.96%
Tier 1 capital adequacy ratio	10.99%	11.65%
Capital adequacy ratio	13.44%	14.23%

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (Unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

30 June 2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	31,205,735	–	31,205,735
– Funds and other investments	17,761,665	–	26,643,504	44,405,169
Financial assets at fair value through other comprehensive income				
– Debt securities	–	71,912,138	–	71,912,138
– Other investments	–	–	14,367,353	14,367,353
Total	17,761,665	103,117,873	41,010,857	161,890,395

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	33,368,423	29,777	33,398,200
– Funds and other investments	19,243,107	–	32,790,871	52,033,978
Financial assets at fair value through other comprehensive income				
– Debt securities	–	54,269,091	–	54,269,091
– Other investments	–	–	15,437,022	15,437,022
Total	19,243,107	87,637,514	48,257,670	155,138,291

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

The following tables present the changes in Level 3 assets for the period ended 30 June 2020 and the year ended 31 December 2019:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2020	29,777	32,790,871	15,437,022	48,257,670
Purchase	–	2,061,500	804,184	2,865,684
Total gains and losses	–	–	–	–
– Realized gains and losses	4,964	(921,725)	205,460	(711,301)
– Other comprehensive income	–	–	(297,651)	(297,651)
Settlement	(34,741)	(7,287,142)	(1,781,662)	(9,103,545)
At 30 June 2020	–	26,643,504	14,367,353	41,010,857

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2019	236,251	47,142,730	10,836,697	58,215,678
Purchase	–	16,428,508	9,324,162	25,752,670
Transfer to Level 3	–	–	–	–
Total gains and losses	–	–	–	–
– Realized gains and losses	(206,474)	(1,098,826)	353,016	(952,284)
– Other comprehensive income	–	–	(978,838)	(978,838)
Settlement	–	(29,681,541)	(4,098,015)	(33,779,556)
At 31 December 2019	29,777	32,790,871	15,437,022	48,257,670

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 fair value measurement is as below:

	Fair value		Valuation techniques	Unobservable input
	As at 30 June 2020	As at 31 December 2019		
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	29,777	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	26,643,504	32,790,871	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial assets at fair value through other comprehensive income				
– Funds and other investments	14,367,353	15,437,022	Discounted cash flow	Risk-adjusted discount rate, cash flow
Total	41,010,857	48,257,670		

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

As at 30 June 2020 and 31 December 2019, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

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

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the period of 2020 and the year of 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in thousands of RMB unless otherwise stated)

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments for which fair values are disclosed

As at 30 June 2020, financial assets and liabilities not presented at fair value on the condensed consolidated interim statement of financial position mainly represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued" (31 December 2019: represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued").

Except for the following items, there are no significant differences between carrying amount and fair value.

	As at 30 June 2020	As at 31 December 2019
Carrying amount:		
Financial assets at amortized cost	75,677,847	82,536,087
Debt securities issued	83,048,968	79,240,055
Fair Value:		
Financial assets at amortized cost	77,795,245	84,096,337
Debt securities issued	83,429,235	79,315,729

47 EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, the Group has no significant event after the reporting period.

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

1 LIQUIDITY RATIO, LIQUIDITY COVERAGE RATIO AND NET STABLE FUNDING RATIO (EXPRESSED IN PERCENTAGE)

(1) Liquidity ratio

	As at 30 June 2020	As at 31 December 2019
Liquidity ratio (RMB and foreign currency)	83.65%	88.51%

(2) Liquidity coverage ratio

	As at 30 June 2020	As at 31 December 2019
High-quality liquid assets	138,704.30	144,829.21
Net cash outflows in future 30 days	79,751.73	75,652.00
Liquidity coverage ratio	173.92%	191.44%

(3) Net stable funding ratio

	As at 30 June 2020	As at 31 March 2020	As at 31 December 2019
Available and stable funds	576,188.14	552,535.85	539,448.10
Required stable funds	533,612.23	502,597.07	493,138.90
Net stable funding ratio	107.98%	109.94%	109.39%

Pursuant to the Administrative Measures on the Liquidity Risk of Commercial Banks (商業銀行流動性風險管理辦法) issued by the CBIRC, since 1 July 2018 (effective date of the Measures), the above liquidity ratio, liquidity coverage ratio and net stable funding ratio were calculated based on the financial statements prepared in accordance with the Accounting Standards for Business Enterprises issued by the MOF.

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

2 CURRENCY CONCENTRATION

	As at 30 June 2020			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	11,440.65	2,105.92	303.99	13,850.56
Spot liabilities	(11,370.25)	(2,105.92)	(303.99)	(13,780.16)
Net long/(short) position	70.40	0.00	0.00	70.40

	As at 31 December 2019			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	16,262.96	2,611.70	284.62	19,159.28
Spot liabilities	(16,193.59)	(2,611.40)	(284.55)	(19,089.54)
Net long/(short) position	69.37	0.30	0.07	69.74

Above information is calculated in accordance with regulations promulgated by the CBRC. The Group had no structural position as at 30 June 2020 and 31 December 2019.

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements and investments in debt securities.

International claims are disclosed by country or geographical region. A country or geographical region 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.

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

For the six months ended 30 June 2020
(All amounts expressed in millions of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS (CONTINUED)

	As at 30 June 2020		
	Banks and other financial institutions	Non-bank private institutions	Total
Asia Pacific	12,795.47	224.85	13,020.32
of which attributed to Hong Kong	3,400.93	–	3,400.93
North and South America	705.68	–	705.68
Europe	24.26	–	24.26
Oceania	4.19	–	4.19
Total	13,529.60	224.85	13,754.45

	As at 31 December 2019		
	Banks and other financial institutions	Non-bank private institutions	Total
Asia Pacific	16,520.33	241.19	16,761.52
of which attributed to Hong Kong	2,832.05	–	2,832.05
North and South America	1,275.98	–	1,275.98
Europe	3.53	–	3.53
Oceania	5.22	–	5.22
Total	17,805.06	241.19	18,046.25

4 GEOGRAPHICAL DISTRIBUTION OF THE PRINCIPAL AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Principal amount of overdue loans and advances to customers by geographical region	As at 30 June 2020	As at 31 December 2019
Guangzhou	16,199.14	11,951.51
Pearl River Delta (Excluding Guangzhou)	528.89	330.88
Guangdong Province (Excluding Pearl River Delta)	844.61	511.65
Yangtze River Delta	72.97	45.68
Northeastern China	49.93	99.48
Bohai Rim	77.55	89.78
Western China	54.66	45.97
Central China	478.03	583.94
Others	115.14	71.49
Total	18,420.92	13,730.38

DEFINITION

"the Company", "the Bank", "our Bank" or "Guangzhou Rural Commercial Bank"	Guangzhou Rural Commercial Bank Co., Ltd.
"Group"	Guangzhou Rural Commercial Bank Co., Ltd. and its subsidiaries
"Articles of Association" or "Articles"	the articles of association of the Bank, which was passed by the shareholders of the Bank at the general meeting held on 6 September 2018 and was approved by the Guangdong Bureau of CBIRC on 30 November 2018 to take effect after the issuance of Offshore Preference Shares (as amended, supplemented or otherwise revised from time to time)
"Sannong"	agriculture, rural areas and farmers
"county bank(s)"	bank institutions that are approved by CBIRC to be incorporated in rural areas to provide services to local farmers or enterprises
"One Belt, One Road"	"Silk Road Economic Belt" and the "21st Century Maritime Silk Road"
"Reporting Period"	from 1 January 2020 to 30 June 2020
"CBIRC"	China Banking and Insurance Regulatory Commission
"Guangdong Bureau of CBIRC"	Guangdong Bureau of China Banking and Insurance Regulatory Commission
"CSRC"	China Securities Regulatory Commission
"AGM"	annual general meeting of the Bank
"Board of Directors"	the board of directors of the Bank
"Board of Supervisors"	the board of supervisors of the Bank
"H Shares"	the foreign shares which are registered in Mainland China and listed in Hong Kong
"Non-overseas Listed Shares"	the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB
"Offshore Preference Shares"	71,500,000 non-cumulative perpetual offshore preference shares with a nominal value of RMB100 per share issued by the Bank and listed on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

DEFINITION

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"RMB"	the lawful currency of the People's Republic of China
"USD"	the lawful currency of the United States of America
"IFRS"	International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board ("IASB")
"Latest Practicable Date"	28 August 2020