



泸州银行股份有限公司
LUZHOU BANK CO., LTD.

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Luzhou Bank Co., Ltd.*

(前稱泸州市商业银行股份有限公司 Luzhou City Commercial Bank Co., Ltd.)

(Formerly known as Luzhou City Commercial Bank Co., Ltd.)

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號：1983 Stock Code: 1983

2019 中期報告
Interim Report



- * 泸州银行股份有限公司並非香港法例第155章《銀行業條例》所指認可機構，不受香港金融管理局的監督，亦不獲授權在香港經營銀行／接受存款業務。
- * Luzhou 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/deposit-taking business in Hong Kong.

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Corporate Overview

I. CORPORATE PROFILE

- (i) Legal Names
 1. Legal Chinese name: 泸州银行股份有限公司
(Abbreviation: “泸州银行”)
 2. Legal English name: Luzhou Bank Co., Ltd.
(Abbreviation: “LUZHOU BANK”)
- (ii) Registered Capital: RMB2,264,793,385
- (iii) Legal Representative: Mr. YOU Jiang
- (iv) Authorized Representatives: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (v) Joint Company Secretaries: Mr. LIU Shirong, Ms. SO Shuk Yi Betty
- (vi) Listing Stock Exchange of H shares: The Stock Exchange of Hong Kong Limited
- (vii) Abbreviated Stock Name and Stock Code: LUZHOU BANK (1983.HK)
- (viii) Registered Address: Building 1, No. 18, Section 3 Jiucheng Avenue, Jiangyang District, Luzhou City, Sichuan Province, PRC
- (ix) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen’s Road East, Wanchai, Hong Kong
- (x) Contact Address:
Building 1, No. 18, Section 3 Jiucheng Avenue, Jiangyang District, Luzhou City, Sichuan Province, PRC
Post Code: 646000
Website: www.lzccb.cn
- (xi) Auditor: PricewaterhouseCoopers
- (xii) PRC Legal Advisor: JunHe LLP
- (xiii) Hong Kong Legal Advisor: King & Wood Mallesons
- (xiv) Compliance Advisor: TC Capital International Limited
- (xv) H Share Registrar and Transfer Office: Computershare Hong Kong Investor Services Limited

- (xvi) Other Relevant Information of the Company
Registration Date: 15 September 1997
Registration Authority: Market Supervision and Administration Bureau of Luzhou
Unified Social Credit Code: 91510500708926271U
Financial License Institution Number: B0210H251050001
Customer Service and Complaints Hotline: 0830-96830
Tel: 0830-2362606
Fax: 0830-3100625
E-mail: ir@lzccb.cn

II. CORPORATE INFORMATION

Headquartered in Luzhou, the PRC, Luzhou Bank Co., Ltd. was established on 15 September 1997 as approved by the PBoC. The Bank has one branch in Chengdu, the PRC as well as seven primary sub-branches in Luzhou, the PRC and 27 secondary sub-branches in total. As at the end of the Reporting Period, our total assets amounted to RMB90,730 million, our total loans and advances to customers amounted to RMB40,089 million, and our total deposits amounted to RMB60,824 million.

Financial Summary

Unit: RMB'000

For the six months ended 30 June			
Item	2019	2018	Year-on year change
Operating results			change (%)
Net interest income	1,354,602	754,163	79.62
Net fee and commission income	782	771	1.43
Operating income	1,403,630	839,308	67.24
Operating expenses	(459,073)	(215,727)	112.80
Expected credit losses	(329,276)	(132,497)	148.52
Profit before tax	617,416	493,392	25.14
Net profit	490,353	376,816	30.13
Net profit attributable to our shareholders	490,353	376,816	30.13
Per share (RMB)			Change
Net assets per share attributable to our shareholders ⁽¹⁾	2.97	2.79	0.18
Basic earnings per share ⁽²⁾	0.22	0.23	(0.01)
Diluted earnings per share	0.22	0.23	(0.01)
Item	30 June 2019	31 December 2018	Year-on year change
Scale indicators (RMB'000)			change (%)
Total assets	90,729,732	82,549,815	9.91
Of which: loans and advances to customers, net ⁽³⁾	39,035,850	30,486,354	28.04
Total liabilities	83,992,742	76,183,029	10.25
Of which: deposits from customers	60,823,500	52,385,604	16.11
Share capital	2,264,793	2,182,933	3.75
Equity attributable to our shareholders	6,736,990	6,366,786	5.81
Total equity	6,736,990	6,366,786	5.81
Asset quality indicators (%)			change
NPL ratio	0.68	0.80	(0.12)
Allowance coverage ratio	389.10	319.36	69.74
Allowance to gross loan ratio	2.63	2.54	0.09
Capital adequacy indicators (%)			change
Core tier-one capital adequacy ratio ⁽⁴⁾	9.50	10.69	(1.19)
Tier-one capital adequacy ratio ⁽⁴⁾	9.50	10.69	(1.19)
Capital adequacy ratio ⁽⁴⁾	12.02	13.29	(1.27)
Other indicators (%)			change
Liquidity ratio	62.84	73.40	(10.56)

Financial Summary

Item	For the six months ended 30 June		
	2019	2018	Year-on year change
Profitability indicators (%)			change
Return on average total assets ⁽⁵⁾	1.13	1.04	0.09
Return on average equity ⁽⁶⁾	14.54	16.94	(2.40)
Net interest spread ⁽⁷⁾	2.94	2.22	0.72
Net interest margin ⁽⁸⁾	3.14	2.30	0.84
Net fee and commission income to operating income ⁽⁹⁾	0.06	0.09	(0.03)
Cost-to-income ratio ⁽¹⁰⁾	31.66	24.72	6.94

Notes:

- (1) Net assets per share attributable to our shareholders = (equity attributable to our shareholders – other equity instruments)/the number of ordinary shares at the end of the period.
- (2) Basic earnings per share are calculated by dividing the net profit for the year/period attributable to shareholders of the Bank by the weighted average number of ordinary shares during the period.
- (3) Net loans and advances to customers = total loan and advances to customers – impairment allowance on loans and advances to customers.
- (4) The capital adequacy ratio related indicators in the above table were calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 and other relevant regulatory requirements.
- (5) Return on average total assets = net profit/the average balance of total assets at the beginning and the end of the period.
- (6) Return on average equity = net profit attributable to our shareholders of ordinary shares/the weighted average balance of equity attributable to our shareholders of ordinary shares at the beginning and the end of the period.
- (7) Net interest spread = the average yield on interest-earning assets – the average cost of interest-bearing liabilities.
- (8) Net interest margin = net interest income/the average balance of interest-earning assets.
- (9) Net fee and commission income to operating income = net fee and commission income/operating income.
- (10) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

Management Discussion and Analysis

(The financial data of the Bank expressed in RMB unless otherwise stated)

1. ENVIRONMENT AND PROSPECT

Over the forty years of reformation and opening up, China has been one of the world's fastest growing economies and has become the world's second largest economy since 2010. According to the national economic operation data for the first six months provided by National Bureau of Statistics, during the first six months, the service industry in China continued to grow and the emerging service sectors further developed; high-tech manufacturing grew rapidly; market sales growth accelerated, the share of online retail continued to rise; high-tech industry demonstrated strong momentum of growth. Whether in terms of economic growth and employment, or prices and international balance of payment, the economic operation performance of China is generally stable. In the future, the economic operation will remain stable with progress as a whole. The fundamentals of the economic development of China will remain sound in the long term, and this long-term positive trend will continue.

Currently, Sichuan province continues to be the sixth largest province in China and the largest one in western China in terms of economy. In 2018, the Third Plenary Session of the 11th Central Committee of Sichuan Province determined the major strategies of “one trunk with multiple branches and synergic development of five districts (一千多支、五區協同)” and “four-pronged expansion and all-front opening up (四項拓展、全域開放)”. The economic aggregate of Chengdu Plain economic zone accounts for about 60% of the whole province, in which the economic aggregate of Chengdu city accounts for more than one third of the whole province, reflecting that the leading role of the trunk was continuously improved with the competitive development of the multiple branches. The economic growth rates of economic zones surrounding Chengdu, South Sichuan and Northeast Sichuan economic zone are ahead, the economy of Panxi economic zone and Northwest Sichuan ecological demonstration zone realize a stable growth, and seven regional central cities of the whole province have accelerated their development. In the first half of 2019, the GDP of the whole province reached RMB2,051.72 billion, based on comparable prices, representing an increase of 7.9% as compared to the previous year, with the growth rate 1.6 percentage points higher than the national average level. The economy is operating within a reasonable range, showing stable trend with progress as a whole, and realizing a better start.

The Third Plenary Session of the 11th Central Committee of Sichuan Province specified Luzhou as a regional key city in the junction of Sichuan, Chongqing, Yunnan and Guizhou (川渝滇黔) and a key city in the south of Chengdu-Chongqing Economic Zone (成渝經濟區), and listed it as one of the seven candidates for economic sub-center of Sichuan province, bringing great opportunities for economic development of Luzhou. Stretching across the Yangtze River and Tuojiang River, and passing through the Yangtze River Golden Waterway, Luzhou has the largest port in Sichuan province. Luzhou Yunlong Airport was completed and put into operation in September 2018, moreover, the construction of Inter-city Railway of Southern Sichuan, Chongqing-Kunming High Speed Rail and Luzhou-Zunyi Railway has been accelerated. Riding on the abovementioned developments, Luzhou is making efforts to build an important gateway between the south and east of Sichuan and a leader of inland open-economy. In the previous year, Luzhou formulated the “three development strategies for hundred billions-industries”. In the first half of 2019, the GDP of Luzhou amounted to RMB89.12 billion, ranking the sixth among all cities in Guizhou province in terms of the total volume, based on comparable prices, representing an increase of 7% as compared to the previous year. Among which, total retail sales of consumer goods of Luzhou amounted to RMB38.94 billion, representing an increase of 11.5% as compared to the previous year, ranking the second among all cities in Sichuan province in terms of growth rate.

Management Discussion and Analysis

2. DEVELOPMENT STRATEGIES

In 2019, as our Bank's basic operation guideline continued with "first-class management, excellent operations, competitive compensation and best brand recognition" of establishing a bank, we will, by focusing on strategic orientation, improve management, explore transformation and innovation, enhance risk control and compliance and actively grasp new opportunities with a new look in the new era to promote our new development and continuously make new breakthroughs.

3. ANALYSIS OF STATEMENTS OF PROFITS

3.1 Financial Results Highlights

Unit: RMB'000

Item	For the six months ended 30 June	
	2019	2018
Net interest income	1,354,602	754,163
Net fee and commission income	782	771
Net gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	48,246	84,374
Operating expenses	(459,073)	(215,727)
Expected credit losses/Impairment losses	(329,276)	(132,497)
Share of profits of associates	2,135	2,308
Profit before tax	617,416	493,392
Income tax expenses	(127,063)	(116,576)
Net profit	490,353	376,816
Of which: net profit attributable to our shareholders	490,353	376,816

For the six months ended 30 June 2019, the Bank's profit before tax amounted to RMB617 million, representing an increase of RMB124 million or 25.14% as compared to the same period of the previous year and the net profit of RMB490 million, representing an increase of RMB114 million or 30.13% compared to the same period of the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before tax.

Unit: RMB'000

Item	Amount
Profit before tax for the six months ended 30 June 2018	493,392
Changes in 2019	
Changes in net interest income	600,439
Changes in net fee and commission income	11
Changes in net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	(36,128)
Changes in operating expenses	(243,346)
Changes in expected credit losses/impairment losses	(196,779)
Changes in share of profits of associates	(173)
Profit before tax for the six months ended 30 June 2019	617,416

Management Discussion and Analysis

3.2 Operating Income

In the first half of 2019, the Bank's operating income amounted to RMB1,404 million, representing an increase of RMB564 million or 67.24% as compared to the same period of the previous year. Among which, net interest income accounted for 96.51%, representing an increase of 6.65 percentage points as compared to the same period of the previous year. Net non-interest income amounted to RMB49 million, accounting for 3.49%. The following table sets forth the components of the Bank's operating income and its comparison with the same period of the previous year.

Unit: %

Item	For the six months ended 30 June	
	2019	2018
Net interest income	96.51	89.86
Net fee and commission income	0.05	0.09
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	3.44	10.05
Total	100.00	100.00

3.3 Net Interest Income

For the six months ended 30 June 2019, the Bank's net interest income amounted to RMB1,355 million, representing an increase of RMB600 million or 79.62% as compared to the same period of the previous year, mainly due to the increase of the scale. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

Item	For the six months ended 30 June					
	Average balance	2019 Interest income/expense	Average yield/cost rate(%)	Average balance	2018 Interest income/expense	Average yield/cost rate(%)
Interest-earning assets						
Loans and advances to customers	37,464,987	1,389,326	7.42	21,324,495	701,404	6.58
Investment ⁽¹⁾	34,627,818	1,140,407	6.59	27,445,349	833,154	6.07
Amounts due from banks and other financial institutions ⁽²⁾	7,394,098	93,961	2.54	9,746,354	216,192	4.44
Deposits with central bank	6,913,176	50,939	1.47	6,972,918	56,721	1.63
Total	86,400,078	2,674,633	6.19	65,489,117	1,807,471	5.52

Management Discussion and Analysis

Item	For the six months ended 30 June					
	Average balance	2019 Interest income/expense	Average yield/cost rate(%)	Average balance	2018 Interest income/expense	Average yield/cost rate(%)
Interest-bearing liabilities						
Deposits from customers	56,912,454	854,413	3.00	43,391,255	566,967	2.61
Amounts due to banks and other financial institutions ⁽³⁾	6,872,511	138,612	4.03	8,343,412	180,801	4.33
Debt securities issued	16,428,818	313,506	3.82	11,782,091	299,424	5.08
Others	881,906	13,500	3.06	340,331	6,116	3.59
Total	81,095,690	1,320,031	3.26	63,857,089	1,053,308	3.30
Net interest income	-	1,354,602	-	-	754,163	-
Net interest spread	-	-	2.94	-	-	2.22
Net interest margin	-	-	3.14	-	-	2.30

Notes:

- (1) Investments indicated in section 3.3 include credit related financial assets, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost.
- (2) Amounts due from banks and other financial institutions indicated in section 3.3 include financial assets held under resale agreements.
- (3) Amounts due to banks and other financial institutions indicated in section 3.3 include financial assets sold under repurchase agreements.

As of 30 June 2019, the average balance of interest-earning assets was RMB86,400 million, representing an increase of RMB20,911 million or 31.93% as compared to the same period of the previous year, mainly due to an increase in the volume of loans and advances to customers and investments. Net interest margin was 3.14%, representing an increase of 0.83 percentage point as compared to the same period of the previous year; and net interest spread was 2.94%, representing an increase of 0.72 percentage point as compared to the same period of the previous year, mainly because the increase of interest income from interest-earning assets outpaced the increase of interest expense on interest-bearing liabilities of the Bank.

Management Discussion and Analysis

The following table sets forth the distribution of changes in the Bank's interest income and interest expense due to volume and interest rate changes for the periods indicated: the volume changes were measured by changes in average balance; interest rate changes were measured by changes in average interest rate, and changes in interest income and expense due to volume and interest rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB'000

Item	30 June 2019 vs. 30 June 2018		
	Due to volume	Due to interest rate	Net increase (decrease)
Assets			
Loans and advances to customers	598,544	89,378	687,922
Investments	236,541	70,712	307,253
Amounts due from banks and other financial institutions	(29,892)	(92,339)	(122,231)
Deposits with central bank	(440)	(5,342)	(5,782)
Changes in interest income	804,753	62,409	867,162
Liabilities			
Deposits from customers	202,991	84,455	287,446
Amounts due to banks and other financial institutions	(29,667)	(12,522)	(42,189)
Debt securities issued	88,672	(74,590)	14,082
Others	8,290	(906)	7,384
Changes in interest expense	270,286	(3,563)	266,723
Changes in net interest income	534,467	65,972	600,439

3.4 Interest Income

For the six months ended 30 June 2019, the Bank's interest income amounted to RMB2,675 million, representing an increase of RMB867 million or 47.98% as compared to the same period of the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Bank.

Management Discussion and Analysis

3.4.1 Interest income from loans and advances to customers

For the six months ended 30 June 2019, the Bank's interest income from loans and advances to customers amounted to RMB1,389 million, representing an increase of RMB688 million or 98.08% as compared to the same period of the previous year. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Bank for the periods indicated.

Unit: RMB'000

Item	For the six months ended 30 June					
	Average balance	2019 Interest income	Average yield(%)	Average balance	2018 Interest income	Average yield(%)
Corporate loans	31,749,161	1,215,646	7.66	16,163,961	554,365	6.86
Personal loans	5,715,826	173,680	6.08	5,160,534	147,039	5.70
Total loans to customers	37,464,987	1,389,326	7.42	21,324,495	701,404	6.58

3.4.2 Interest income from investments

For the six months ended 30 June 2019, the Bank's interest income from investments amounted to RMB1,140 million, representing an increase of RMB307 million or 36.88% as compared to the same period of the previous year, mainly due to an increase in the average balance of investment assets and an increase in the average yield on investment assets to 6.59% from 6.07% on 30 June 2018. The increase in the average balance was primarily due to the increase in our investments in debt securities and credit related financial assets.

3.4.3 Interest income due from banks and other financial institutions

For the six months ended 30 June 2019, the Bank's interest income due from banks and other financial institutions amounted to RMB94 million, representing a decrease of RMB122 million or 56.54% as compared to the same period of the previous year, mainly due to a decrease in the volume and average yield of amounts due from banks and other financial institutions.

3.4.4 Interest income from balances with central bank

For the six months ended 30 June 2019, the Bank's interest income from balances with central bank amounted to RMB51 million, representing a decrease of RMB6 million or 10.19% as compared to the same period of the previous year, mainly due to a decrease in the average balance of balances with central bank as a result of decreased statutory deposit reserves with the People's Bank of China ("PBoC") as required.

Management Discussion and Analysis

3.5 Interest Expense

For the six months ended 30 June 2019, the Bank's interest expense amounted to RMB1,320 million, representing an increase of RMB267 million or 25.32% as compared to the same period of the previous year, mainly due to an increase in the volume of interest-bearing liabilities. Interest expenses on deposits from customers and debt securities issued constituted the major part of the interest expense of the Bank.

3.5.1 Interest expense on deposits from customers

For the six months ended 30 June 2019, the Bank's interest expense on deposits from customers amounted to RMB854 million, representing an increase of RMB287 million or 50.70% as compared to the same period of the previous year. The following table sets forth the average balance, interest expense and average cost rate of each component of the Bank's deposits from customers for the periods indicated.

Unit: RMB'000

Item	For the six months ended 30 June					
	2019			2018		
	Average balance	Interest expense	Average cost rate(%)	Average balance	Interest expense	Average cost rate(%)
Corporate deposits						
Demand	23,975,907	221,979	1.85	19,534,742	135,088	1.38
Time	7,651,775	93,562	2.45	5,710,528	61,850	2.17
Subtotal	31,627,682	315,541	2.00	25,245,271	196,938	1.56
Personal deposits						
Demand	2,927,036	7,083	0.48	2,607,910	6,482	0.50
Time	22,357,736	531,789	4.76	15,538,074	363,546	4.68
Subtotal	25,284,772	538,872	4.26	18,145,984	370,029	4.08
Total deposits from customers	56,912,454	854,413	3.00	43,391,255	566,967	2.61

3.5.2 Interest expense due to banks and other financial institutions

For the six months ended 30 June 2019, the interest expense due to banks and other financial institutions was RMB139 million, representing a decrease of RMB42 million or 23.33% as compared to the same period of the previous year, mainly due to a decrease in the volume and average cost of amounts due to banks and other financial institutions.

3.5.3 Interest expense on debt securities issued

For the six months ended 30 June 2019, the Bank's interest expense on debt securities issued amounted to RMB314 million, representing an increase of RMB141 million or 4.70% as compared to the same period of the previous year, mainly due to an increase in the volume of debt securities issued, but was partially offset by the decrease of average cost rate of debt securities issued from 5.08% as at 30 June 2018 to 3.82% as at 30 June 2019.

Management Discussion and Analysis

3.6 Net Non-interest Income

In the first half of 2019, the Bank's net non-interest income amounted to RMB49 million, representing a decrease of RMB36 million or 42.42% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated and the same period of the previous year.

Unit: RMB'000

Item	For the six months ended 30 June	
	2019	2018
Fee and commission income	3,293	5,461
Less: fee and commission expense	2,511	4,690
Net fee and commission income	782	771
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	48,246	84,374
Total net non-interest income	49,028	85,145

3.7 Net Fee and Commission Income

In the first half of 2019, the Bank's net fee and commission income amounted to RMB0.782 million, representing an increase of RMB0.011 million as compared to the same period of the previous year.

Unit: RMB'000

Item	For the six months ended 30 June	
	2019	2018
Fee and commission income		
Fee income from settlement business	946	1,541
Fee income from bank card business	1,068	1,126
Fee income from agency business	722	771
Fee income from guarantee business	455	1,326
Fee income from wealth management business	-	688
Fee income from other businesses	102	9
Total	3,293	5,461
Fee and commission expense	(2,511)	(4,690)
Net fee and commission income	782	771

Management Discussion and Analysis

In the first half of 2019, the Bank's fee income from settlement business amounted to RMB0.946 million, representing a decrease of RMB0.595 million or 38.61% as compared to the same period of the previous year, mainly due to the reduction or exemption of some quality customers and some settlement business fees. Fee income from bank card business amounted to RMB1.068 million, representing a decrease of RMB0.058 million or 5.15% as compared to the same period of the previous year, mainly due to a decrease in the service fees on cross-bank withdrawals. Fee income from agency business amounted to RMB0.722 million, representing a decrease of RMB0.049 million or 6.36% as compared to the same period of the previous year, mainly due to a decrease in the volume of commission business. Fee income from guarantee business amounted to RMB0.455 million, representing a decrease of RMB0.871 million or 65.69% as compared to the same period of the previous year, mainly due to a decrease in the volume of acceptances and guarantee business. Fee income from other businesses amounted to RMB0.102 million, representing an increase of RMB0.093 million or 1,033.33% as compared to the same period of the previous year. Fee and commission expense amounted to RMB2.511 million, representing a decrease of RMB2.179 million or 46.46% as compared to the same period of the previous year, mainly due to the decrease in fee expense from bank card business.

3.8 Net Gains on Trading Activities, Net Gains/(Losses) Arising from Financial Investments and Other Operating Income

In the first half of 2019, the Bank's net gains on trading activities, net gains/(losses) arising from financial investments and other operating income amounted to a total gain of RMB48 million, representing a decrease of RMB36 million or 42.82% as compared to the same period of the previous year. Among them, net gains on trading activities decreased by RMB58 million as compared to the same period of the previous year, mainly due to the redemption of money market funds for the current period, which offset the net gains on trading activities. Net gains/(losses) arising from financial investments increased by RMB27 million as compared to the same period of the previous year, mainly due to the transfer of the net gains on trading activities being offset to the net gains/losses arising from financial investments on the one hand, and the gains from the buy-sale price differential in the trading of debt securities on the other hand. The following table sets forth the major components of the Bank's net gains on trading activities, net gains/(losses) arising from financial investments and other operating income for the periods indicated.

Unit: RMB'000

Item	For the six months ended 30 June	
	2019	2018
Net gains on trading activities	30,647	88,401
Net gains/(losses) arising from financial investments	16,425	(10,281)
Other operating income	1,174	6,254
Total	48,246	84,374

Management Discussion and Analysis

3.9 Operating Expenses

In the first half of 2019, the Bank's operating expenses amounted to RMB459 million, representing an increase of RMB243 million or 112.80% as compared to the same period of the previous year. Among them, staff costs (including directors' and supervisors' emoluments) increased by RMB179 million or 160.28% as compared to the same period of the previous year, mainly due to an increase in provision for performance-based remuneration resulting from an increase in personnel. General and administrative expenses increased by RMB12 million or 17.82% as compared to the same period of the previous year; business tax and surcharges increased by RMB6 million or 78.29% as compared to the same period of the previous year, mainly due to an increase in loan interest income. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB' 000

Item	For the six months ended 30 June	
	2019	2018
Staff costs (including directors' and supervisors' emoluments)	290,755	111,710
General and administrative expenses	79,795	67,726
Depreciation and amortization	55,558	19,198
Professional service expenses	12,066	3,648
Business tax and surcharges	14,698	8,244
Other non-operating expenses	1,290	–
Other business expenses	4,911	5,201
Total	459,073	215,727

Management Discussion and Analysis

3.10 Expected Credit Losses

In the first half of 2019, the Bank's expected credit losses amounted to RMB329 million, representing an increase of RMB197 million or 148.52% as compared to the same period of the previous year. The following table sets forth the major components of the Bank's expected credit losses for the periods indicated.

Unit: RMB'000

Item	For the six months ended 30 June	
	2019	2018
Expected credit losses on loans at amortized cost	245,073	153,787
Expected credit losses on loans at fair value through other comprehensive income	246	(37,166)
Impairment losses/Expected credit losses on credit related financial assets	30,187	(29,379)
Impairment losses/Expected credit losses on other financial investments	2,855	40,338
Expected credit losses on guarantee commitment	(8,674)	156
Impairment losses on other assets	59,589	4,761
Total	329,276	132,497

Expected credit losses on loans constituted the largest part of impairment losses on assets. In the first half of 2019, the expected credit losses on loans (including discounted bills) amounted to RMB245 million, representing an increase of RMB129 million or 110.36% as compared to the same period of the previous year.

Management Discussion and Analysis

4. ANALYSIS OF MAJOR ITEMS OF THE STATEMENT OF FINANCIAL POSITION

4.1 Assets

As of the end of June 2019, the Bank's total assets amounted to RMB90,730 million, representing an increase of RMB8,180 million or 9.91% as compared to the end of the previous year, mainly due to the increase of the Bank's loans and advances to customers. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Total loans to customers	40,088,955	44.18	31,279,187	37.89
Credit impairment loss allowance on loans at amortized cost	(1,053,105)	(1.16)	(792,833)	(0.96)
Loans to customers, net	39,035,850	43.02	30,486,354	36.93
Cash and balances with central bank	8,673,046	9.56	8,373,038	10.14
Financial assets held under resale agreements, due from banks and other financial institutions	6,611,859	7.29	7,633,381	9.25
Financial investments – credit related financial assets	8,565,777	9.44	5,821,602	7.05
Financial investments – fair value through profit or loss	349,954	0.39	1,841,322	2.23
Financial investments – fair value through other comprehensive income	5,600,608	6.17	5,867,342	7.11
Financial investments – amortized cost	20,429,287	22.52	21,395,762	25.92
Investment in associates	38,786	0.04	36,651	0.04
Property, plant and equipment	648,991	0.71	675,358	0.82
Deferred income tax assets	298,507	0.33	186,871	0.23
Other assets	477,067	0.53	232,134	0.28
Total assets	90,729,732	100.00	82,549,815	100.00

Management Discussion and Analysis

Loans and advances to customers

As of the end of June 2019, the Bank's total loans and advances to customers amounted to RMB40,089 million, representing an increase of RMB8,810 million or 28.16% as compared to the end of the previous year; net loans and advances to customers amounted to RMB39,036 million, representing an increase of RMB8,549 million or 28.04% as compared to the end of the previous year. The following table sets forth the loans and advances to customers of the Bank by product type as of the dates indicated.

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Corporate loans	33,669,082	83.99	24,784,475	79.24
Discounted bills	478,439	1.19	644,908	2.06
Personal loans	5,824,832	14.53	5,736,144	18.34
Interest receivable	116,602	0.29	113,660	0.36
Total loans to customers	40,088,955	100.00	31,279,187	100.00
Less: credit impairment loss allowance on loans at amortized cost	(1,053,105)	/	(792,833)	/
Loans to customers, net	39,035,850	/	30,486,354	/

Corporate loans

As of the end of June 2019, the Bank's total corporate loans amounted to RMB33,669 million, representing an increase of RMB8,885 million or 35.85% as compared to the end of the previous year, accounting for 83.99% of the total loans and advances to customers, representing an increase of 4.75 percentage points as compared to the end of the previous year. In 2019, the Bank continuously optimized the regional allocation of credit resources, served the real economy and increased credit support for small and micro enterprises, agriculture-related economy, people's livelihood projects and urban infrastructure construction by serving the economy of Luzhou and actively expanding its cross regional business, achieving a fast growth in its corporate loans.

Discounted bills

As of the end of June 2019, the Bank's total discounted bills amounted to RMB478 million, representing a decrease of RMB166 million or 25.81% as compared to the end of the previous year, accounting for 1.19% of the total loans and advances to customers, representing a decrease of 0.87 percentage point as compared to the end of the previous year. The decrease in the balance of the Bank's discounted bills was primarily due to the successive maturity of the Bank's existing discounted bills, and the Bank's reduced holding of discounted bills to rebalance its credit asset structure, taking into account market competition and its loan balance.

Personal loans

As of the end of June 2019, the Bank's personal loans amounted to RMB5,825 million, representing an increase of RMB89 million or 1.55% as compared to the end of the previous year, accounting for 14.53% of the total loans and advances to customers, representing a decrease of 3.81 percentage points as compared to the end of the previous year. The continual increase in the Bank's personal loans was primarily due to the Bank's successful development and marketing of its personal loan business, in particular, personal business loans and personal consumption loans. However, due to a greater percentage of the corporate loan business, the percentage of personal loans experienced a decrease.

Management Discussion and Analysis

Investments

As of the end of June 2019, the carrying value of the Bank's investments amounted to RMB34,946 million, representing an increase of RMB20 million or 0.06% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Financial investments - credit related financial assets	8,565,777	24.51	5,821,602	16.67
Financial investments - fair value through profit or loss	349,954	1.00	1,841,322	5.27
Financial investments - fair value through other comprehensive income	5,600,608	16.03	5,867,342	16.80
Financial investments - amortized cost	20,429,287	58.46	21,395,762	61.26
Total	34,945,626	100.00	34,926,028	100.00

The Bank has adopted International Financial Reporting Standards 9 - Financial Instruments (IFRS 9) since 1 January 2018. Prior to 1 January 2018, the Bank adopted International Accounting Standards 39 - Financial Instruments: Recognition and Measurement (IAS 39). The implementation of IFRS 9 has resulted in changes in the recognition, classification and measurement of the Bank's financial assets and financial liabilities, as well as related accounting policies for impairment of financial assets.

According to IFRS 9, the Bank's financial investments - available-for-sale were re-classified to financial investments - fair value through profit or loss, financial investments - fair value through other comprehensive income and financial investments - amortized cost. Meanwhile, financial investments - investments classified as receivables were re-classified to financial investments - amortized cost.

In addition, the Bank's accounting treatment of financial investments - credit related financial assets was the same as financial investments - investments classified as receivables under IAS 39 adopted prior to 1 January 2018 and financial investments - amortized cost under IFRS 9 adopted after 1 January 2018.

Management Discussion and Analysis

Financial investments - credit related financial assets

The Bank's credit related financial assets are corporate loans extended through consolidated structured entities (trust plans and asset management plans). The following table sets forth the components of the Bank's credit related financial assets as of the dates indicated.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Financial investments – credit related financial assets		
– Trust plans	6,359,100	3,620,100
– Asset management plans	2,287,400	2,275,900
ECL allowance	(118,597)	(88,410)
Interest receivable	37,874	14,012
Total	8,565,777	5,821,602

Financial investments - fair value through profit or loss

The following table sets forth the components of the Bank's financial assets at fair value through profit or loss as of the dates indicated.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Financial investments - financial assets at fair value through profit or loss		
– Equity securities	47,351	45,352
– Funds	302,603	1,693,111
– Debt securities	–	102,859
Total	349,954	1,841,322

Management Discussion and Analysis

Financial investments – fair value through other comprehensive income

The following table sets forth the components of the Bank's financial assets at fair value through other comprehensive income as of the dates indicated.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Financial investments – fair value through other comprehensive income		
– Debt securities	5,512,207	5,747,169
Interest receivable	88,401	120,173
Total	5,600,608	5,867,342

Financial investments – amortized cost

The following table sets forth the components of the Bank's financial assets measured at amortized cost as of the dates indicated.

Unit: RMB'000

Item	30 June 2019	31 December 2018
Financial investments – amortized cost		
– Industry funds (senior tranche)	5,192,000	5,222,000
– Unlisted corporate bonds	6,214,720	5,925,080
– Trust plans	1,390,000	2,086,000
– Debt securities	7,442,273	7,970,752
Subtotal	20,238,993	21,203,832
ECL allowance	(213,423)	(213,163)
Interest receivable	403,717	405,093
Total	20,429,287	21,395,762

Management Discussion and Analysis

4.2 Liabilities

As of the end of June 2019, the Bank's total liabilities amounted to RMB83,993 million, representing an increase of RMB7,810 million or 10.25% as compared to the end of the previous year, mainly due to the stable increase in deposits from customers. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Customer deposits	60,823,500	72.42	52,385,604	68.76
Financial assets sold under repurchase agreements, due to banks and other financial institutions	3,756,598	4.47	8,675,639	11.39
Borrowings from central bank	875,760	1.04	865,000	1.14
Tax payable	176,028	0.21	135,457	0.18
Debt securities issued	17,669,866	21.04	13,800,494	18.11
Other liabilities	690,990	0.82	320,835	0.42
Total liabilities	83,992,742	100.00	76,183,029	100.00

Deposits from customers

As of the end of June 2019, the Bank's total deposits from customers amounted to RMB60,824 million, representing an increase of RMB8,438 million or 16.11% as compared to the end of the previous year, accounting for 72.42% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	25,774,307	42.38	20,024,338	38.22
Time deposits	6,872,884	11.30	9,654,967	18.43
Personal deposits				
Demand deposits	2,923,231	4.81	2,789,615	5.33
Time deposits	24,604,109	40.45	19,439,874	37.11
Interest payable	648,969	1.06	476,810	0.91
Total deposits from customers	60,823,500	100.00	52,385,604	100.00

As of the end of June 2019, the Bank's corporate demand deposits accounted for 42.38% of total deposits from customers, representing an increase of 4.15 percentage points as compared to the end of the previous year. Among those deposits, corporate demand deposits accounted for 78.95% of corporate deposits, representing an increase of 11.48 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 10.62% of personal deposits, representing a decrease of 1.93 percentage points as compared to the end of the previous year.

Management Discussion and Analysis

Financial assets sold under repurchase agreements and deposits from banks and other financial institutions

As of the end of June 2019, the Bank's financial assets sold under repurchase agreements, due to banks and other financial institutions amounted to RMB3,757 million, representing a decrease of RMB4,919 million or 56.70% as compared to the end of the previous year, mainly due to the Bank's adjustment of the business direction of interbank liabilities, the reduction in scale of repurchase business and increase in the volume of marketized interbank certificates of deposit issued.

Debt securities issued

As of the end of June 2019, the Bank's bonds payable amounted to RMB17,670 million, representing an increase of RMB3,870 million or 28.04% as compared to the end of the previous year.

Proposed issuance of bonds

Upon the resolution of the Board and approval from Shareholders at the 2018 annual general meeting held on 28 May 2019, and subject to obtaining the necessary approval from CBIRC and other relevant authorities, the Bank will issue tier-two capital bonds with an aggregate principal amount not exceeding RMB2 billion (inclusive) to members of the national inter-bank bond market, the maturity of which is not more than 10 years (inclusive). The bond interest rate will be determined by reference to the market interest rate. The proceeds from the bond issuance will be used to replenish the Bank's tier-two capital.

4.3 Equity Attributable to Shareholders

As of the end of June 2019, the Bank's equity attributable to shareholders amounted to RMB6,737 million, representing an increase of RMB370 million or 5.81% as compared to the end of the previous year.

Item	Unit: RMB'000	
	30 June 2019	31 December 2018
Share capital	2,264,793	2,182,933
Capital reserve	2,239,314	2,094,444
Other reserves	1,369,291	1,246,558
Retained earnings	863,592	842,851
Total equity attributable to shareholders	6,736,990	6,366,786

5. OTHER FINANCIAL INFORMATION

5.1 Analysis of Off-balance Sheet Items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most important parts and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB1,651 million.

5.2 Overdue and Outstanding Debts

As of the end of the Reporting Period, the Bank had no overdue or outstanding debts.

5.3 Assets Pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions. For details, Please refer to note 33 to the financial statements.

Management Discussion and Analysis

6. ANALYSIS OF LOAN QUALITY

During the Reporting Period, the Bank strengthened its dynamic monitoring on changes in and mitigation of risks in relation to credit asset quality, implemented credit policies and enhanced risk management in key industries. As a result, the credit assets scale maintained growth. Due to our collection of non-performing loans (“NPLs”) through multiple ways and channels, the NPL ratio has decreased, and the allowance coverage ratio has met the regulatory requirements. As at the end of the Reporting Period, the Bank’s total loans amounted to RMB39,972,353 thousand, representing an increase of 28.26% as compared to the end of the previous year, total NPLs amounted to RMB270,651 thousand, representing an increase of RMB22,391 thousand as compared to the end of the previous year, and the NPL ratio was 0.68%, representing a decrease of 0.12 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB'000

Item	30 June 2019		31 December 2018	
	Amount	% of total	Amount	% of total
Normal loans	38,308,637	95.84	30,391,970	97.52
Special mention loans	1,393,065	3.48	525,297	1.68
Substandard loans	268,116	0.67	245,630	0.79
Doubtful loans	585	–	2,630	0.01
Loss loans	1,950	0.01	–	–
Total customer loans	39,972,353	100.00	31,165,527	100.00
Total NPLs	270,651	0.68	248,260	0.80

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank adopted the five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. During the Reporting Period, the Bank strictly controlled the quality of loans and accelerated disposal of existing NPLs. The percentage of substandard loans decreased by 0.12 percentage point to 0.67% as compared to the previous year, the percentage of doubtful loans decreased by 0.01 percentage point to 0 as compared to the previous year, and the percentage of loss loans increased by 0.01 percentage point to 0.01%.

Management Discussion and Analysis

Distribution of Loans and NPLs by Industry

Unit: RMB'000

Item	30 June 2019				31 December 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	33,669,082	84.23	195,639	0.58	24,784,475	79.53	174,690	0.70
Leasing and business services	13,062,330	32.68	-	-	6,962,009	22.34	-	-
Construction	4,987,072	12.48	4,500	0.09	4,435,333	14.23	4,500	0.10
Wholesale and retail	2,934,047	7.34	55,270	1.88	3,380,618	10.85	65,270	1.93
Manufacturing	3,379,335	8.45	20,800	0.62	3,338,540	10.71	14,950	0.45
Real estate	4,735,940	11.85	-	-	2,836,858	9.10	-	-
Accommodation and catering	1,452,248	3.63	53,200	3.66	1,030,228	3.31	27,300	2.65
Education	1,035,600	2.59	700	0.07	887,400	2.85	-	-
Water, environment and public utilities	849,970	2.12	-	-	878,110	2.82	-	-
Transportation, warehousing and express services	398,389	1.00	47,169	1.18	351,819	1.13	50,170	14.26
Others	834,150	2.09	14,000	1.68	683,560	2.19	12,500	1.83
Discounted bills	478,439	1.20	-	-	644,908	2.06	-	-
Retail loans	5,824,832	14.57	75,012	1.29	5,736,144	18.41	73,570	1.28
Total customer loans	39,972,353	100	270,651	0.68	31,165,527	100	248,260	0.80

In 2019, the Bank actively optimized the allocation of risk-bearing assets and served the real economy, increased credit extension to further support small and micro enterprises, agriculture-related economy, livelihood projects and urban infrastructure construction. The Bank also actively adjusted its credit structure and strictly controlled credit granted to industries with overcapacity and uncertain prospects, improving the risk resistance for new credit assets. The amount of our non-performing corporate loans has increased while the non-performing corporate loan ratio has decreased as a result of the deteriorated financial condition and weakened repayment abilities of certain corporate borrowers in accommodation and catering and manufacturing industries. By industry, the Bank's non-performing corporate loans mainly involved wholesale and retail, accommodation and catering, transportation, warehousing and express services, which accounted for 79.55% of our total non-performing corporate loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Product Type

Unit: RMB'000

Item	30 June 2019				31 December 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	33,669,082	84.23	195,639	0.58	24,784,475	79.53	174,690	0.70
Working capital loans	14,937,362	37.37	112,439	0.75	10,118,053	32.47	127,390	1.26
Fixed asset loans	18,731,720	46.86	83,200	0.44	14,666,422	47.06	47,300	0.32
Others	-	-	-	-	-	-	-	-
Discounted bills	478,439	1.20	-	-	644,908	2.06	-	-
Retail loans	5,824,832	14.57	75,012	1.29	5,736,144	18.41	73,570	1.28
Individual housing loans	2,019,816	5.05	19,295	0.96	2,100,874	6.74	20,140	0.96
Personal business loans	3,084,360	7.72	51,239	1.66	2,876,067	9.23	47,520	1.65
Personal consumption loans	720,656	1.80	4,478	0.62	759,203	2.44	5,910	0.78
Others	-	-	-	-	-	-	-	-
Total customer loans	39,972,353	100.00	270,651	0.68	31,165,527	100.00	248,260	0.80

Against the backdrop of replacement of old drivers with new ones and constant advance of the supply-side reform, the Bank actively responded to the changes of demand for effective credits and maintained a relatively rapid growth in the scale of corporate loans while adhering to the principle of prudent credit extension. As at the end of the Reporting Period, the proportion of the Bank's corporate loans increased by 4.7 percentage points to 84.23% as compared to the end of the previous year. The NPL ratio of corporate loans decreased by 0.12 percentage point to 0.58% as compared to that at the end of the previous year as a result of our constant enhanced credit risk prevention and efforts in disposal of NPLs.

The Bank steadily developed its retail loans and actively innovated retail business products. The balance of retail loans increased by RMB8.87 million as compared to that at the beginning of the year, while the proportion of retail loans decreased by 3.84 percentage points to 14.57% due to the relatively large proportion of the growth in corporate business. The amount of our NPLs increased and the NPL ratio increased by 0.01 percentage point to 1.29% as compared to the end of the previous year as a result of the deteriorated financial condition and weakened repayment abilities of certain borrowers of personal business loans under the retail loans.

Management Discussion and Analysis

Distribution of Loans and NPLs by Geographical Region

Unit: RMB'000

Geographical Region	30 June 2019				31 December 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	33,451,887	83.69	270,651	0.68	28,684,378	92.04	248,260	0.80
Outside Luzhou	6,520,466	16.31	-	-	2,481,149	7.96	-	-
Total customer loans	39,972,353	100.00	270,651	0.68	31,165,527	100.00	248,260	0.80

The Bank continuously optimized the regional allocation of credit resources and enhanced risk management and control in key industries by serving the economy of Luzhou and actively expanding its cross-regional business. Under the situation of domestic economic restructuring with mounting pressure of non-performing during the year, the Bank strengthened the assessment and incentive measures for its branches and implemented review and approval mechanism with hierarchical authorisation on credit extension to corporate customers. Affected by the slowdown in the growth of local economy, the decline of market demand and other factors, the increase of NPLs was attributable to Luzhou.

Distribution of Loans and NPLs by Collateral

Unit: RMB'000

Item	30 June 2019				31 December 2018			
	Amount of loans	% of total	Amount of NPLs	NPL ratio %	Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loans	2,869,611	7.18	2,894	0.10	2,631,531	8.44	2,590	0.1
Guaranteed loans	15,778,109	39.47	82,760	0.52	10,493,307	33.67	53,980	0.51
Collateralized loans	15,746,986	39.40	183,877	1.17	12,869,755	41.30	190,570	1.48
Pledged loans	5,577,647	13.95	1,120	0.02	5,170,934	16.59	1,120	0.02
Total customer loans	39,972,353	100.00	270,651	0.68	31,165,527	100.00	248,260	0.80

The Bank continuously optimized the regional allocation of credit resources and enhanced risk management and control in key industries by serving the economy of Luzhou and actively expanding its cross-regional business. Under the situation of domestic economic restructuring with mounting pressure of non-performing during the year, the Bank strengthened the assessment and incentive measures for its branches and implemented review and approval mechanism with hierarchical authorisation on credit extension to corporate customers. The NPL ratio of the collateralized loans with high non-performing ratio dropped by 0.31 percentage point to 1.17%.

Management Discussion and Analysis

Loans to Our Ten Largest Single Borrowers

Unit: RMB'000

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Construction	600,000	7.12	1.50
B	Real estate	600,000	7.12	1.50
C	Real estate	600,000	7.12	1.50
D	Manufacturing	566,010	6.72	1.42
E	Leasing and business services	555,000	6.59	1.39
F	Real estate	530,000	6.29	1.33
G	Leasing and business services	522,000	6.19	1.31
H	Leasing and business services	500,000	5.93	1.25
I	Manufacturing	500,000	5.93	1.25
J	Real estate	500,000	5.93	1.25
Total		5,473,010	64.94	13.70

As at the end of the Reporting Period, the total loans of our ten largest single borrowers amounted to RMB5,473 million, accounting for 64.94% of the Bank's net capital base and 13.70% of the Bank's total loans. The loan balance of the largest single borrower was RMB600 million, accounting for 7.12% of the Bank's net capital base.

Distribution of Loans by Period Overdue

Unit: RMB'000

Period overdue	30 June 2019		31 December 2018	
	Amount	% of total loans	Amount	% of total loans
Overdue for up to 3 months (inclusive)	274,707	0.69	80,280	0.26
Overdue for over 3 months up to 1 year (inclusive)	94,916	0.24	115,840	0.37
Overdue for over 1 year up to 3 years (inclusive)	112,639	0.28	57,480	0.18
Overdue for over 3 years	23,453	0.06	23,780	0.08
Total overdue loans	505,715	1.27	277,380	0.89
Total customer loans	39,972,353	100.00	31,165,527	100.00

Management Discussion and Analysis

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB505,715 thousand, representing an increase of RMB228,335 thousand as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 1.27%, representing an increase of 0.38 percentage point as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB274,707 thousand, accounting for 54.32% of overdue loans. The Bank adopted a relatively strict classification criteria, under which the loans whose principal or interest has been overdue for over 1 day (inclusive) shall be deemed as overdue loans.

Foreclosed Assets and Provision for Its Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB160.871 million with a provision for impairment allowance of RMB72.026 million, and the net foreclosed assets amounted to RMB88.845 million.

Changes in Loans/Expected Credit Losses

The following table sets forth the changes in the Bank's allowance for expected credit losses of loans: (Unit: RMB' 000)

Item	30 June 2019	31 December 2018
Balance at the beginning of the year	792,833	467,081
Provision/reversal for the year	245,073	331,721
Reversal of discounted	3,697	5,314
Written-off and transfers for the year	-	(13,144)
Reversal from recoveries of written-off loans and advances and others	11,502	1,861
Balance at the end of the Period	1,053,105	792,833

As at the end of the Reporting Period, the Bank's balance of allowance for expected credit losses of loans amounted to RMB1,053 million, representing an increase of RMB260 million or 32.83% as compared to the end of the previous year.

Management Discussion and Analysis

Corresponding Measures Taken against Non-performing Assets

During the Reporting Period, the Bank mainly adopted the following measures for management of non-performing assets to enhance management and control on the asset quality and ensure its stability:

- (1) Strengthen NPL disposal. The Bank enhanced non-litigation collection efforts to collect loans which can be settled through non-litigation process in advance, enhanced the coordination with judicial departments at various levels to accelerate the progress of litigation collection, strengthened the communication and collaboration with industry associations and interbank and made full use of the coordination mechanism of the Banking Creditors' Committee to positively take part in the integration and settlement and disposal of non-performing assets and credit risks, so as to adequately protect and safeguard the Bank's legal rights. The Bank also explored possibilities of resolving and disposing of non-performing assets through multiple channels based on the traditional collection means and wrote off loans which could be written-off, if appropriate, to optimize the credit asset structure.
- (2) Reinforce resolving of additional risky loans. The Bank conducted real-time monitoring on overdue loans and risky loans to prevent and mitigate risks in a timely manner.

Credit Extension to Group Customers and Risk Management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount and conducting real-time monitoring" in extending credit to group customers. Firstly, to prevent large-sum credit risk, the Bank implemented unified management of credit extension to group customers and consolidated the total credit amount extended to group members to determine the authority of credit review and approval. Secondly, the Bank strengthened the identification of group customers and invisible relationship among enterprises and identified the invisible relationship among corporate customers by such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened and timely monitored unified management of credit extension to group customers. The Bank controlled the credit limit through establishing credit account of group customers, combed and updated the list of group customers in a timely manner and prudently approved credit limit to prevent concentration risk and improve its group customer management level on an ongoing basis.

Discount Loans Representing over 20% (Inclusive) of the Total Loans as at the End of the Reporting Period

As at the end of the Reporting Period, the Bank did not have discount loans representing over 20% (inclusive) of the total loans.

7. ANALYSIS OF CAPITAL ADEQUACY RATIOS

The capital management of the Bank is targeted to meet regulatory requirements, constantly enhance the ability to resist risk of capital and boost return on capital, and reasonably set the capital adequacy ratio target and guide business development with a comprehensive application of means such as performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business development and capital management strategy.

Management Discussion and Analysis

We conduct regular internal capital evaluation and evaluate our capital adequacy and risk resistance ability by reference to stress testing. According to our internal capital evaluation and risk profile, we timely adjust our capital plans and high-capital asset businesses, and guide branches and management departments to carry out more capital-saving businesses and businesses with high return to ensure the realization of the set capital adequacy ratio target.

We calculate our capital adequacy ratio in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) 《商業銀行資本管理辦法(試行)》 (CBRC Order 2012 No. 1) and other relevant regulatory provisions. The on-balance-sheet credit risk weighted assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee; the same method is also applied to the calculation of off-balance-sheet credit risk exposure. Market risk-weighted assets are calculated with the standard method, and the operational risk-weighted assets are calculated with the basic indicator method. During the Reporting Period, we complied with the capital requirements prescribed by regulatory authorities.

The following table sets forth the information of our capital adequacy ratio as at the dates indicated.

	<i>Unit: RMB'000</i>	
	30 June 2019	31 December 2018
Total capital before deductions	8,519,444	7,904,483
Of which: Core tier-one capital	6,736,990	6,366,786
Tier-two capital	1,782,454	1,537,697
 Total net capital	 8,480,565	 7,867,832
 Net core tier-one capital	 6,698,112	 6,330,135
Net tier-one capital	6,698,112	6,330,135
 Total risk-weighted assets	 70,534,988	 59,214,150
 Core tier-one capital adequacy ratio	 9.50%	 10.69%
Tier-one capital adequacy ratio	9.50%	10.69%
Capital adequacy ratio	12.02%	13.29%

At the end of the Reporting Period, the Bank had a capital adequacy ratio of 12.02%, representing a decrease of 1.27 percentage points as compared to the end of the previous year, which was 1.52 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 9.50%, representing a decrease of 1.19 percentage points as compared to the end of the previous year, which was 1 percentage point higher than the regulatory requirement. The change in our capital adequacy ratio during the Reporting Period was primarily due to an increase in our overall risk-weighted assets driven by our business development, but the overall risk remained controllable within a reasonable range. Thus, our capital adequacy ratio at each tier was higher than regulatory standards.

Management Discussion and Analysis

Liquidity Ratios

	As of 31 December 2018
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RMB current assets to RMB current liabilities	73.40%
Foreign currency current assets to foreign currency current liabilities	N/A

	As of 30 June 2019
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RMB current assets to RMB current liabilities	62.84%
Foreign currency current assets to foreign currency current liabilities	N/A

8. RISK MANAGEMENT

• Credit Risk

Credit risk refers to the risk arising from the failure of an obligor or a party concerned to fulfill relevant obligations in accordance with agreed terms. We are exposed to credit risks primarily arising from our loan business, acceptance business, letters of guarantee business and financial market business.

Pursuant to regulatory requirements, we managed our on-and-off balance sheet credit assets by implementing five-category classification based on the obligor's repayment abilities and intention, taking into account various factors including the guarantor, pledges and collaterals and overdue period. The classification is successively subject to preliminary opinions of the responsible management institution, initial review of the Credit Business Department at our head office, re-examination of the Risk Management Department at our head office and consideration and confirmation by the Centralized Risk Management Committee.

Management Discussion and Analysis

The Credit Business Department at our head office takes a leading role in our credit risk management and regularly reports our risk management to the Credit Risk Management Committee, the Centralized Risk Management Committee and the Board. During the Reporting Period, we adhered to the risk control principle of “active compliance, strict risk control and internal control strengthening” and kept intensifying efforts for credit risk management through credit disbursement structure optimization and credit system improvement, credit staff cultivation and internal examination enhancement, non-performing loan reduction, etc. During the Reporting Period, we intensified credit risk management mainly in the following aspects:

1. Optimizing credit structure and strengthening policy guidance. Adhering to the credit industry distribution policy of “in line with national macroeconomic policies and industrial policies and our credit risk appetite, and realizing risk control in a scientific and rational manner”, we formulated the Guidelines for Credit Disbursement of Luzhou Bank in 2019 《泸州银行2019年信贷投向指引》 in a bid to scientifically and rationally allocate our credit resources, effectively guide industry credit disbursement, promote optimization and adjustment of our credit structure, and rapidly improve our ability to prevent credit risks.
2. Strengthening risk screening and enhancing risk control in key areas. We intensified efforts for risk monitoring and screening against customers with large amount of credit and potential risk, strengthened credit risk signal management, formulated management measures on the customers that had risk signals, strictly controlled the deterioration of asset quality, conducted specialized investigation on market mess and key risk areas, and further found out the risk coefficient through self-inspection and correction, to strengthen our risk management and control and ensure the stability of our asset quality.
3. Sparing no effort in the control of non-performing and overdue loans and disposing of non-performing loans in a timely manner. We established overdue loan tracking and monitoring accounts, strengthened early warning management, and responsively formulated risk disposal plans and took necessary protective measures against alert credit customers; for businesses involved non-performing loans, we worked out risk dissolution plans based on “one customer one scheme”, and dissolved and disposed of risks by stepping up collection, transferring foreclosed assets and other measures so as to control our asset quality within a reasonable range; and took advantage of the communication and cooperation mechanism established with peer institutions and government departments to achieve information sharing and jointly deal with problems arising from corporate operations by unified actions.
4. Conducting self-examination and self-correction on business compliance and providing cooperation for regulatory inspection and making active rectifications. In accordance with the relevant requirements of regulatory authorities, we actively organized the rectification of market chaos, with a normal focus on rectifying the chaos in the banking market, and studied, deployed and put in place our business operation and management, system restructuring and compliance culture building at the same time to transform chaos rectification into self-conscious internal control management, and conducted compliance operation truly in line with rules by adhering to inspection, rectification, accountability, education, standard and improvement.

Management Discussion and Analysis

5. Strengthening credit review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit business according to our business development needs; enhanced credit risk review and strictly implemented the independent review and approval mechanism based on the principle of “objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks”, with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers and proposed risk prevention measures to strictly control risks.
6. Improving the quality of credit team and promoting healthy and rapid development of the credit business. We enhanced training and guidance to improve business ability and risk awareness. We conducted follow-up training for our branch credit staff, invited internal business backbones to launch intensive themed training for our credit line staff, strengthened the pre-service training for new staff, kept improving the business ability and risk compliance awareness of our credit line staff across the bank and established an enterprise risk training culture that controls substantial risks to put an end to risk cases from the source.

• Operational Risk

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, as well as external events.

We incorporate operational risks into the overall risk management system, with the focus on preventing systematic operational risks and major operational risk losses. As the supreme decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the Bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies determined by our Board, formulating systematic systems, processes and methods, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. Our subordinate Operational Risk Management Committee is responsible for specific operational risk prevention and control. Moreover, we applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved our operational risk management capability, and gradually elevated our risk prevention and control level. During the Reporting Period, we intensified operational risk management mainly in the following aspects:

1. Centering on the bank-wide strategic business, we strengthened internal control and carried out special inspection and risk evaluation from multiple perspectives including systems, processes and employee behaviours, and collected and analyzed key indicators of operational risks and gave early warnings by giving play to the key role of “three lines of defense” including business departments and foreground business personnel, the Risk Management Department and Internal Audit Department so as to cut off operational risks in an all-round manner.

Management Discussion and Analysis

2. We innovated work ideas and continuously promoted the building of operational risk-related system and publicity of compliance culture to ensure the integrity, rationality and effectiveness of our internal control system; and strictly prevented operational risks by strengthening personnel and position management, enhancing compliance awareness among the employees and instructing the employees to operate in compliance with regulations through inspection on abnormal behaviours of the employees holding key positions, continuous training, onsite inspection, off-site supervision and other means.
3. We effectively integrated “manual prevention” and “technical prevention” to enhance the system background’s ability in preventing non-compliant operation by upgrading the system dynamics, strategically promoting the construction of and innovation in information technology, implementing a model with foreground business handled according to centralized authorization from the background, reducing the frequency of manual operation, and raising the level of automation and hard control ability of our system.
4. We greatly improved business continuity management and IT risk management, strengthened the safety guarantee for information technology system, paid attention to the construction relating to disaster backup and emergencies, and intensified the management over the safety of information of outsourcing service providers and personnel.

• Market Risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable level and maximizing risk-adjusted return according to our risk appetite.

We manage our interest rate risks and exchange rate risks according to the Guidelines on Market Risk Management of Commercial Banks 《商業銀行市場風險管理指引》(CBRC Order 2004 No. 10), Guidelines for the Internal Control of Commercial Banks 《商業銀行內部控制指引》 and Guidelines for the Stress Testing of Commercial Banks 《商業銀行壓力測試指引》, and have established a market risk management system through such measures as authorization, credit extension, risk limit-related regulations, monitoring and reporting.

We have established an organizational structure for market risk management, which covers the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, and business departments including our Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, Internal Control and Compliance Department and other departments in charge of risk management relating to their business. With a sound and compliant internal control system for market risk management, we carried out a special internal audit on market risk annually and formed an audit report which was submitted to the Board.

1. Interest rate risk

Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions.

With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We also adjusted the repricing cycle of loans and optimized deposit rate ceilings according to the status quo of the gap.

Management Discussion and Analysis

Regarding the interest rate risk of asset trading positions, we paid close attention to the latest developments of the government's economic policies, measured, monitored and set interest rate sensitivity, exposure and other risk limits by sensitivity analysis, scenario simulation and other means, and regularly and effectively monitored, managed and reported the implementation of risk limits.

Adopting a steady business philosophy, we actively adjusted the asset-liability structure and reasonably assumed interest rate risk according to the measurement and evaluation results under the precondition of risk control.

2. Exchange rate risk

Exchange rate risk refers to the risk arising from the mismatch in the currencies of assets and liabilities. Currently, the percentage of the Bank's foreign currency is low, therefore, the adverse effect of exchange rate risk has been kept under control.

Liquidity risk management and analysis

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds or cannot timely obtain them at reasonable costs to respond to asset growth or pay mature debts although they are solvent.

Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and systems for managing liquidity risk; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation. To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. As we have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We fully identify, accurately measure, continuously monitor and effectively control liquidity risk from two aspects: short-term provision and mid-and-long term structure through the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indexes, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate. We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from deposits accepted, which constituted a stable fund resource due to their rapid growth, wide varieties and diversified terms during the Reporting Period.

With a sound and compliant internal control system for liquidity risk management, we carry out special internal audit on liquidity risk every year and form an audit report which will be submitted to the Board.

While paying close attention to changes in macro finance and economy, we further enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We made greater efforts in the marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.

Management Discussion and Analysis

2. We strengthened the prudent and reasonable judgment on financial and economic situations, continuously and dynamically monitored various index limits of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and controllable liquidity risks.
3. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities and centralized issuance of assets.
4. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks 《商業銀行流動性風險管理辦法》 issued by CBIRC, various macro and micro factors which could affect our liquidity and features, scale, properties, complexity and risk status of our business.

As of 30 June 2019, we witnessed a liquidity ratio of 62.84%, 37.84 percentage points higher than relevant regulatory standards; a high-quality liquidity asset adequacy ratio of 127.12%, 27.12 percentage points higher than relevant regulatory requirements; and a liquidity matching ratio of 126.61%, 26.61 percentage points higher than relevant regulatory requirements, which reflected that our major liquidity indexes met and were much higher than regulatory requirements.

Information technology risk management

We attach great importance to information technology governance, and have improved the special governance of information security for information technology risks and security. We have improved the technical specifications, developed two sets of security requirements and development security standards, and clarified the security management of the software development life cycle. We have also improved the internal management of information technology, added or revised 13 professional management systems, involving information technology operation, information security, business continuity, governance and others. From the aspect of system process management, we have strengthened internal management and improved the operation efficiency of information technology.

In terms of business continuity, as of the reporting date, we have optimized and improved the disaster recovery and backup system structure of the “two cities and three centers (兩地三中心)”. The production machine room is located in Building No. 18 of the Financial Center. The machine room of disaster backup in the same city is located in the Telecom Building at Maliutuo, Naxi (納溪麻柳沱電信機房). The machine room of disaster backup in the different cities is located in the Chengdu Building of GW Bank in west China (長城華西成都機房). After the construction of the new machine room relocation project, the infrastructure facilities and the disaster recovery and backup system structure have been greatly optimized, and the physical security, system stability and redundant security guarantee have also been greatly improved. By adopting advanced disaster recovery and backup management software, we can realize full tracking and management of disaster recovery and backup switching and daily maintenance. We conducted data disaster recovery exercises for 11 important information systems, verifying the effectiveness of data grading backup mechanisms and hot and cold data archiving.

Management Discussion and Analysis

In terms of information security, we increased the investment budget for information technology security, and newly developed several security projects including network security situational awareness, intrusion capture system, network access control system, key certificate management platform and unified log management platform. In order to effectively identify the security threats and vulnerabilities we face, and strengthen network security risk prevention, we have engaged external organizations to carry out safety evaluation for the operation of new data center, and engaged a third-party safety evaluation company to implement professional safety assessment on mobile banking, direct banking, portal, online banking system, WeChat service platform and other internet applications. A series of measures such as mobile terminal security detection, operation environment monitoring and mobile terminal security reinforcement have been taken to effectively reduce the threat posed by the mobile internet and ensure the safe and stable operation of the system, thus ensuring the security of customer data.

9. SEGMENT REPORTING

The following segment operating results are presented by business segment. The Bank's main businesses include corporate banking business, retail banking business, financial market business, unallocated items and others. The following table sets forth a summary of the operating results of each business segment of the Bank for the periods indicated.

Unit: RMB'000

Item	For the six months ended 30 June 2019		2018	
	Segment profit before tax	Ratio %	Segment profit before tax	Ratio %
Corporate banking business	295,648	47.89	152,890	30.99
Retail banking business	125,358	20.30	154,184	31.25
Financial market business	193,370	31.32	178,213	36.12
Others	3,040	0.49	8,105	1.64
Total	617,416	100.00	493,392	100.00

Unit: RMB'000

Item	For the six months ended 30 June 2019		2018	
	Segment operating income	Ratio %	Segment operating income	Ratio %
Corporate banking business	777,873	55.42	273,806	32.62
Retail banking business	154,381	11.00	236,880	28.22
Financial market business	470,099	33.49	322,377	38.41
Others	1,277	0.09	6,245	0.75
Total	1,403,630	100.00	839,308	100.00

Management Discussion and Analysis

10. BUSINESS REVIEW

• Corporate Banking Business

We provide our corporate customers with diversified financial products and services to support their business needs, including corporate loans, bill discounting and corporate deposits, etc.

Corporate loans

The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio. As of 30 June 2019, the balance of our corporate loans amounted to RMB33,669.0816 million, accounting for 83.99% of our total loans and advances to customers as of the same date, and representing an increase of 35.85% as compared to the beginning of the Reporting Period. In particular, our loans to medium to large enterprises amounted to RMB14,313.5875 million, accounting for 42.51% of our total corporate loans as of the same date; our loans to micro and small enterprises amounted to RMB19,324.4942 million, accounting for 57.40% of our total corporate loans as of the same date. Our other corporate loans amounted to RMB31 million, accounting for 0.09% of our total corporate loans as of the same date.

In contrast to medium to large enterprises, micro and small enterprises and individual business owners have urgent and frequent financing needs. As a result, we have streamlined the loan origination and evaluation process to offer tailored financing solutions to both micro and small enterprises and individual business owners. To better serve the needs of these micro and small enterprises, we have also set up specialized teams as well as customer service centers for micro and small enterprises, and established a proprietary database, rating model, and system covering various procedures for granting loans to micro and small enterprises, such as customer application, risk review and approval, and post-disbursement management. Meanwhile, we fully leveraged the PBoC's policies such as relending to support development of micro and small enterprises and targeted cuts to required reserve ratios to enhance support for financing of micro and small enterprises. As of 30 June 2019, we accumulatively issued 298 loans of relending to support development of micro and small enterprises, with a balance of RMB883.35 million, and precisely issued RMB2,723.43 million to support targeted cuts to required reserve ratios for micro and small enterprises.

Bill discounting

Bill discounting refers to the financial service where customers apply to the bank for discounting of unexpired bank acceptance bills or commercial acceptance bills, and the bank pays the remaining amount to the customers after deducting the discounted interest from the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

We also operate interbank bill discounting and rediscounting businesses in our financial markets business segment. Based on the said businesses, we can resell discounted bills to the PBoC or other commercial banks at a lower price, which will bring us extra current assets and additional revenue in interest spread.

As of 30 June 2019, our discounted bills amounted to RMB478.4387 million, accounting for 1.19% of our total loans and advances to customers as of the same date. During the Reporting Period, the majority of our discounted bills were bank acceptance bills.

Management Discussion and Analysis

Corporate deposits

We offer our corporate customers RMB time and demand deposits. The RMB time deposits we offer to corporate customers have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and maturities and other terms. Besides, we provide call deposit products, which have higher interest rates than demand deposits and reserve certain flexibility of demand deposits (customers may send a notice in advance to draw the deposits). Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations. As of 30 June 2019, the balance of our corporate customer deposits amounted to RMB32,647.191 million, accounting for 53.68% of the total deposit balance.

Corporate products

For the financing needs of corporate customers, we launched many customized products according to different demands of enterprises in different stages during process of development, in order to meet customers' different financing needs.

“An Xin Rong”: We offer this product to micro and small enterprises, which lack working capital to replenish their business needs, but can provide assets for collateral. We do not analyse and judge the enterprises' solvency based on the financial statements and the first repayment source and focus on analysing their guarantee ability. For instance, we evaluate all types of collateral, pledges or guarantees, but only accept collateral backed by commercial properties in good locations with a good surrounding commercial atmosphere, pledges backed by government bonds, bank acceptance bills or other collateral with good liquidity, or guarantees provided by financing guarantee companies recognised by us. The maximum loan amount of this product does not exceed RMB5 million with a term of up to three years.

“Chuang Ke Dai”: For young entrepreneurs who are in an early stage of their business without sufficient capital, we introduced an unsecured loan product with a low fixed interest rate. In consideration of the uncertainties inherent in their business operations, we only grant loans to young entrepreneurs recognized by the Communist Youth League of Luzhou with guarantees provided by qualified and well-recognized guarantee companies. The term of this loan product ranges from seven months to three years with a maximum loan amount of RMB300,000.

“Tian Tian Dai”: In August 2017, to better serve the daily financing needs of micro and small enterprises, we introduced Tian Tian Dai, a revolving loan product with a term of up to one year and loan amount of up to RMB10 million. Customers can apply for withdrawal and repayment through our short message services (SMS) if the loan amount is RMB300,000 or less. Moreover, customers are entitled to three times of interest-free repayment without any reasons in seven days during the loan term.

“Zhi Rong Dai”: It is a revolving product customized for smart terminal enterprises, featuring onetime credit extension, recycling and immediate repayment after borrowing. The maximum term of this product is one year with a maximum loan amount of RMB30 million.

“Rong e Dai”: It is a pure credit product designed according to the “short-term, frequent and urgent” loan needs of micro and small enterprises which have no mortgage or guarantee to meet their financing needs. The maximum loan amount of this product is RMB1 million, with a maximum term of two years. This product features pure online application, simple procedures and quick examination and approval, which ensures “one-time effort” of micro and small enterprises for loan application.

Management Discussion and Analysis

“Ying Ji Dai”: For micro and small enterprises which badly need funds to repay due bank loans, we launched “Ying Ji Dai” (a loan product which is only granted under the risk sharing mechanism) in May 2017. The applicants should seek the approval of municipal organs and guarantee from the guarantee companies designated by the government. Applicants from different industries may apply for different lines of credit. Generally, the term of this loan does not exceed one month.

Corporate banking customer base

The rapid growth of our corporate banking business is underpinned by our strong customer base. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers, based on which, we are able to offer comprehensive financial services with customized features to corporate banking customers. In particular, by being a local city commercial bank, our comparatively shorter decision-making process enables us to offer a “one customer one scheme” service model for corporate customers. For certain large enterprise customers, we have also established a special customer information management system, which allows us to closely track our customers’ and their partners’ business transactions with our Bank, thereby enabling us to offer more comprehensive and effective financial consulting and advisory services for them.

As of 30 June 2019, we had a total of 10,475 corporate banking customers (including individual customers with personal business loans), representing an increase of 1,407 or 15.51% as compared to the beginning of the year.

- **Retail Banking Business**

We provide our retail customers with a wide range of financial products and services, including deposits, loans, card services as well as wealth management and other intermediary businesses. We have a broad retail customer base.

As of 30 June 2019, we had 723,500 retail banking customers with total deposits of RMB27,527 million and total loans of RMB5,825 million.

We classify our retail customers into basic customers (with deposits balance of less than RMB500,000), value customers (with deposits balance of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with deposits balance of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with deposits balance exceeding RMB3,000,000). As of 30 June 2019, we had 2,654 high-end customers and 380 high-net-worth customers.

Retail deposits

The balance of retail deposits was RMB27,527 million, representing an increase of RMB5,298 million or 23.83% as compared to the end of the previous year. Particularly, the balance of demand deposits amounted to RMB2,923 million, representing an increase of RMB134 million or 4.79% as compared to the end of the previous year and accounting for 10.62% of the retail deposits.

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of 30 June 2019, the total retail loans were RMB5,825 million.

Management Discussion and Analysis

Bank cards

As of 30 June 2019, the number of historical accumulated cards issued to retail banking customers was 909,400 and the stock of cards was 750,000, representing an increase of 56,600 or 8.07% as compared to the end of the previous year.

Wealth management

We provide our retail banking customers with Jin Gui Hua S type wealth management products based on their risk and return appetites. The funds raised from such wealth management products were mainly invested in products such as debt securities and money market instruments.

In the first half of 2019, the total amount of the wealth management products sold by us to our retail customers was RMB815 million. As of 30 June 2019, we had 5,881 customers for our wealth management products with a balance of RMB1,448 million and yields on wealth management products ranging from 4.2% to 5.38%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of 30 June 2019, our agency sales of precious metal amounted to RMB990,700.

• Financial Market Business

During the Reporting Period, in the face of the macro-economic regulation policy of “strong regulation, deleveraging and risk prevention (強監管、去槓桿、防風險)”, we made adjustments in compliance with the policy positively, fully analyzed the macroeconomic and financial regulatory situation when carrying out financial market business, fully implemented a series of regulatory requirements and effectively prevented and controlled credit risk to prevent and control financial risks and develop steadily.

Our financial market business mainly consists of money market transactions business, investment business and asset management business.

Money market transactions business

Our money market transactions include: interbank deposits, interbank lending, bond repurchase, bill rediscount, and issuance of interbank certificates of deposit. During the Reporting Period, we focused on the management and maintenance of interbank clients, maintained credit sustainability with them, and strived to increase loyalty of interbank clients while maintaining the diversification and dispersion of our counterparties.

1. *Interbank deposits*

During the Reporting Period, the balance of deposits from banks and other financial institutions was RMB1,873 million, representing a decrease of RMB3,301 million or 63.80% as compared to the end of the previous year, of which the balance of time deposits from banks was RMB1,810 million, representing a decrease of 63.87% as compared to the end of the previous year, and the balances of demand deposits from banks and settlement accounts were RMB63 million, representing a decrease of 61.59% as compared to the end of the previous year. The balance of deposits with other banks was RMB1,489 million, representing a decrease of RMB647 million or 30.30% as compared to the end of the previous year, of which the balance of time deposits with other banks was RMB1,365 million, representing a decrease of 32.43% as compared to the end of the previous year. The balances of demand deposits with other banks and settlement accounts were RMB124 million, representing an increase of 6.9% as compared to the end of the previous year.

Management Discussion and Analysis

2. *Interbank lending*

During the Reporting Period, the balance of our interbank placement was RMB1,100 million, representing a decrease of RMB620 million or 36.05% as compared to the end of the previous year; the balance of interbank lending was RMB13 million, representing a decrease of RMB1,700 million as compared to the end of the previous year. The main reasons were: first, the interbank lending transaction base was large at the end of 2018; second, in the consideration of the overall environment of the credit market and our own liquidity management, in June 2019, we decreased credit lending business transactions, resulting in a significant decrease in the balance of interbank lending transactions at the end of the first half of 2019.

3. *Bond repurchase*

During the Reporting Period, the balance of our positive buy-back was RMB753 million, representing a decrease of RMB927 million or 55.18% as compared to the end of the previous year; the balance of counter buy-back was RMB5,120 million, representing an increase of RMB1,357 million or 36.05% as compared to the end of the previous year, mainly because we made dynamic adjustment to our business structure based on the net assets during the Reporting Period.

4. *Bill rediscount*

During the Reporting Period, we held no rediscounted bills, representing a decrease of RMB206 million or 100% as compared to the end of the previous year, mainly due to transfer of normal interbank business and settlement of certain matured bills. Therefore, there is no rediscounted bill during the Reporting Period.

5. *Issuance of interbank certificates of deposit*

During the Reporting Period, the balance of our interbank certificates of deposit was RMB16,649 million, representing an increase of RMB3,897 million or 30.56% as compared to the end of the previous year, mainly because we reduced the amount of positive buy-back transactions, and used interbank certificate of deposit as one of the main tools for adjusting daily liquidity.

Investment business

1. *Bond investment*

The growth rate of the U.S. economy has slowed down significantly since 2019, while the economy of Europe and Japan remained weak. However, in the first quarter, as the trade tensions between China and U.S. has been mitigated and the effect of stimulation of fiscal and monetary policies has gradually appeared since the second half of 2018, the downward pressure on domestic economy has been eased. With the rise of crude oil price and strong rally of domestic pork price as well as the expected intensification of inflation, it was expected that we may have pressure on bonds adjustment, therefore we began to sell certain of our bonds gradually. Subsequently, the bond yields generally rose sharply under the influence of the strong stock market, inflation fears, lower expectations of cuts to required reserve ratios and the initial signs of economic recovery. We timely cut our holdings and thus avoided losses. In the second quarter, the domestic economy faced downward pressure again under the influence of such factors as weakening infrastructure supports, escalating trade disputes and declining demand both internally and externally. Under the background of economic slowdown, interest rate cuts around the world enabled the PBoC to implement monetary policies with more liberty. The bond yield was still expected to decline under the circumstances where the yield in peripheral bond market declined, the domestic monetary policies maintained loose, and it was difficult for China and the U.S. to reach a trade agreement in a short time, therefore we increased our holdings of certain bonds.

Management Discussion and Analysis

As of the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. At the end of the Reporting Period, our bond investment amounted to RMB13,227 million, representing a decrease of RMB873 million or 6.19% as compared to the end of the previous year, among which, the balance of treasury bonds was RMB2,068 million, representing an increase of RMB558 million or 36.95% as compared to the end of the previous year; the balance of policy financial bonds was RMB4,981 million, representing a decrease of RMB1,786 million or 26.39% as compared to the end of the previous year; and the balance of debt securities issued by local governments was RMB1,075 million, representing an increase of RMB20 million or 1.9% as compared to the end of the previous year; the balance of credit bonds was RMB5,103 million, representing an increase of RMB581 million or 12.85% as compared to the end of the previous year. There was no balance of bonds issued by commercial banks, representing a decrease of RMB246 million as compared to the end of the previous year.

2. *SPV investment*

During the Reporting Period, we actively promoted business diversification, deepened cooperation with interbank organizations, revitalized existing assets, and made a good use of incremental investment. At the end of Reporting Period, our SPV investment was RMB21,775 million, including RMB302 million for public offering bond funds, RMB14,096 million for trust plans, RMB6,897 million for asset management plans, RMB450 million for bond financing plan investment, and RMB30 million for other investments. Our SPV investment increased by RMB923 million or 4.43% as compared to the beginning of the year, showing a slight increase amid stability, mainly due to our new investment in public offering bond funds with stable returns and controllable risks as well as investments in bond financing plans, moderately increased investments in trust plans and asset management plans in addition to existing investments, and reduced investments in public offering monetary funds during the Reporting Period.

Asset management business

During the Reporting Period, we issued open-end wealth management products to meet customers' financial needs for liquidity and security, contributing to the steady growth in the scale of wealth management business. At the end of the Reporting Period, the balance of our wealth management products was RMB1,448 million, representing a year-on-year increase of RMB881 million or 155.38%. During the Reporting Period, the amount of wealth management products issued was RMB815 million, representing a year-on-year increase of RMB323 million or 65.65%. All wealth management products were non-principal protected with floating interests and achieved expected returns. At the end of the Reporting Period, we had 5,881 customers of wealth management products, all of whom were retail banking customers.

- **Financial Consumer Rights Protection**

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we gave full play to the legal entity's institutional advantages, and optimized organizational structure, reinforced our awareness of responsibility, and strengthened supervision and inspection responsibilities by focusing on product and service design, with promotional and educational campaigns on financial knowledge as innovative spots, so the overall level of our work on consumer rights protection continued to improve.

Management Discussion and Analysis

1. Establishing full-time organization and strengthening organizational leadership

We set up a consumer rights protection committee under the Board of Directors to make unified plans and overall arrangements for the bank-wide work on consumer rights protection; and set up a consumer rights protection division under the Internal Control and Compliance Department to take up the specific work concerning consumer rights protection throughout the Bank. We continuously improved our organizational structure and effectively enhanced our consumer rights protection work.

2. Optimizing institutional system and consolidating management foundation

By combing the consumer rights protection system, we established and improved a consumer protection system matching with our organizational structure and business development.

3. Highlighting brand reputation and popularizing public education

Adhering to the concept of “customer-orientated” and “service-creating value”, we provided “standard, rigorous, honest and reliable” financial services to protect consumers’ rights and interests. During the Reporting Period, we carried out consistently “3.15 Consumer Rights Protection Day”, “Prevention of Illegal Fund Raising”, “Publicity on Prevention of Telecommunication Network Fraud”, “Financial Literacy to Thousands of Families”, “Financial Knowledge Popularization Month”, anti-money laundering, anti-counterfeiting, personal credit and other public education and publicity campaigns.

4. Enhancing the concept of consumer protection and improving the level of consumer protection

We strictly abided by national laws and regulations, actively adapted to adjustments in regulatory policies, and strictly implemented relevant industry standards and operating guidelines. During the Reporting Period, we continuously intensified the relevant staff’s sense of responsibility, strengthened the concept of consumer protection, and made complaint handling flexible in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, after-sales management, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

Changes in Share Capital and Information on Shareholders

I. CHANGES IN SHARE CAPITAL

During the Reporting Period, the Bank completed the over-allotment and issuance of 81,860,000 H shares. As of the end of the Reporting Period, the total issued shares capital of the Bank was 2,264,793,385 shares, consisting of 627,600,000 H Shares and 1,637,193,385 Domestic Shares.

II. STATEMENT OF SHAREHOLDING STRUCTURE

Unit: Share, %

	1 January 2019		Increase (decrease) during the Reporting Period	30 June 2019	
	Quantity	Percentage		Quantity	Percentage
Total share capital	2,182,933,385	100.00	81,860,000	2,264,793,385	100.00
Domestic Shares held by legal person	1,593,116,644	72.98	0	1,593,116,644	70.34
Domestic Shares held by natural person	44,076,741	2.02	0	44,076,741	1.95
H Shares	545,740,000	25.00	81,860,000	627,600,000	27.71

III. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

On 9 January 2019, the Sole Representative (as defined in the Prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, which involved 81,860,000 H Shares in total, representing in aggregate 15% of the Offer Shares initially offered under the Global Offering before any exercise of the Over-allotment Option, to cover over-allocations in the International Offering. The over-allotment shares were issued and allotted at HK\$3.18 per H Share (exclusive of brokerage of 1%, Hong Kong SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) and was listed and traded on the Main Board of Hong Kong Stock Exchange on 14 January 2019. The additional net proceeds from the issuance of over-allotment shares of the Bank (after deducting underwriting commissions, brokerage, transaction levy and transaction fee) of approximately HK\$255.5 million have been fully utilized for the intended use as disclosed in the Prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business. Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

IV. DETAILS OF SHAREHOLDERS

As of the end of the Reporting Period, the total number of shares of the Bank was 2,264,793,385 shares, consisting of 1,637,193,385 Domestic Shares and 627,600,000 H Shares.

Changes in Share Capital and Information on Shareholders

(I) Shareholding of Top 10 Holders of Domestic Shares of the Bank

Shareholding of top 10 holders of Domestic Shares of the Bank is as follows:

Name of Shareholder	Number of Shares held	Shareholding percentage
Luzhou Laojiao Group Co., Ltd.	325,440,000	14.37%
Sichuan Jiale Enterprise Group Co., Ltd.	271,200,000	11.97%
Luzhou Xinfu Mining Industry Group Co., Ltd.	271,200,000	11.97%
Luzhou Municipal Finance Bureau	161,544,800	7.13%
Luzhou State-owned Assets Operation Co., Ltd.	144,640,000	6.39%
Luzhou Xinglu Jutai Real Estate Co., Ltd.	91,715,862	4.05%
Chengdu Modern Agricultural Development Investment Co., Ltd.	81,043,600	3.58%
Luzhou Industrial Investment Group Co., Ltd.	73,462,268	3.24%
Luzhou Xinglu Investment Group Co., Ltd.	40,549,462	1.79%
Luzhou Laojiao Co., Ltd.	36,160,000	1.60%

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

To the knowledge of the Directors or chief executive of the Bank, as at 30 June 2019, interests and short positions the following persons (other than the Directors, Supervisors and chief executives of the Bank) had or were deemed to have in the Shares and underlying Shares of the Bank which would be required to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept pursuant to Section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares
Luzhou Laojiao Group Co., Ltd. ⁽¹⁾	Beneficial owner	Domestic Shares	Long position	325,440,000	-	14.37%	19.88%
	Interest in controlled corporation	Domestic Shares	Long position	36,160,000	-	1.60%	2.21%
Sichuan Jiale Enterprise Group Co., Ltd. ⁽²⁾	Beneficial owner	Domestic Shares	Long position	271,200,000	-	11.97%	16.56%
	Interest in controlled corporation	Domestic Shares	Long position	7,232,000	-	0.32%	0.44%
JIANG Xiaoying (姜曉英) ⁽²⁾	Interest of spouse	Domestic Shares	Long position	278,432,000	-	12.29%	17.01%
Luzhou Xinfu Mining Industry Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	271,200,000	-	11.97%	16.56%
Sichuan Xinfu Industrial Group Co., Ltd. (四川鑫福產業集團有限公司) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	11.97%	16.56%
LAI Dafu (賴大福) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	11.97%	16.56%
GE Xiuqiong (葛修瓊) ⁽³⁾	Interest in controlled corporation	Domestic Shares	Long position	271,200,000	-	11.97%	16.56%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares
Luzhou Industrial Investment Group Co., Ltd. ⁽⁴⁾	Beneficial owner	Domestic Shares	Long position	73,462,268	-	3.24%	4.49%
	Interest in controlled corporation	Domestic Shares	Long position	144,640,000	-	6.39%	8.83%
Luzhou Xinglu Investment Group Co., Ltd. (瀘州市興瀘投資集團有限公司) ⁽⁵⁾	Beneficial owner	Domestic Shares	Long position	40,549,462	-	1.79%	2.48%
	Interest in controlled corporation	Domestic Shares	Long position	154,128,384	-	6.81%	9.41%
Luzhou Municipal Finance Bureau	Beneficial owner	Domestic Shares	Long position	161,544,800	-	7.13%	9.87%
Luzhou State-owned Assets Operation Co., Ltd.	Beneficial owner	Domestic Shares	Long position	144,640,000	-	6.39%	8.83%
Luzhou Xinglu Jutai Real Estate Co., Ltd.	Beneficial owner	Domestic Shares	Long position	91,715,862	-	4.05%	5.60%
Luzhou Chengnan Construction Investment Co., Ltd. (瀘州市城南建設投資有限公司) ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.05%	5.60%
Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. (瀘州市基礎建設投資有限公司) ⁽⁶⁾	Beneficial owner	Domestic Shares	Long position	15,006,400	-	0.66%	0.92%
	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.05%	5.60%
China Development Fund Co., Ltd. (國開發基金有限公司) ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	Long position	91,715,862	-	4.05%	5.60%
Shanghai Yude Communication Technology Co., Ltd. ⁽⁷⁾	Beneficial owner	H Shares	Long position	100,000,000	-	4.42%	15.93%
XU Tie (徐鐵) ⁽⁷⁾	Interest in controlled corporation	H Shares	Long position	100,000,000	-	4.42%	15.93%
Wudaokou Capital Limited (五道口資本有限公司) ⁽⁸⁾	Beneficial owner	H Shares	Long position	100,000,000	-	4.42%	15.93%
ZHOU Min (周敏) ⁽⁸⁾	Interest in controlled corporation	H Shares	Long position	100,000,000	-	4.42%	15.93%
Activation Fund	Beneficial owner	H Shares	Long position	70,955,000	-	3.13%	11.31%
JNR SPC	Beneficial owner	H Shares	Long position	111,291,000	-	4.91%	17.73%
JNR Capital ⁽⁹⁾	Beneficial owner	H Shares	Long position	111,291,000	-	4.91%	17.73%
ZHENG Zhicheng (鄭志誠) ⁽⁹⁾	Interest in controlled corporation	H Shares	Long position	111,291,000	-	4.91%	17.73%

Changes in Share Capital and Information on Shareholders

Name of Shareholder	Nature of interest	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (share)	Number of Shares owned with derivative interest (share)	Approximate % of interest in the Bank	Approximate % of the relevant class of Shares
Power Ace Investments Limited ⁽¹⁰⁾	Beneficial owner	H Shares	Long position	68,671,000	-	3.03%	10.94%
HU Yina (胡伊娜) ⁽¹⁰⁾	Interest in controlled corporation	H Shares	Long position	68,671,000	-	3.03%	10.94%
HU Yebi (胡野碧) ⁽¹⁰⁾	Interest in controlled corporation	H Shares	Long position	68,671,000	-	3.03%	10.94%
Luzhou Liquor Golden Triangle Wine Industry Development Co., Ltd. (瀘州白酒金三角酒業發展有限公司)	Beneficial owner	H Shares	Long position	70,000,000	-	3.09%	11.15%
OTX ADVISORY HOLDINGS, INC. ⁽¹¹⁾	Beneficial owner	H Shares	Long position	68,646,000	-	3.03%	10.94%
LUO Zhipeng (羅志鵬) ⁽¹¹⁾	Interest in controlled corporation	H Shares	Long position	68,646,000	-	3.03%	10.94%

Notes:

- (1) Luzhou Laojiao Group Co., Ltd. is wholly-owned by Luzhou State-owned Assets Supervision and Administration Commission (瀘州市國有資產監督管理委員會). Luzhou Laojiao Group Co., Ltd. directly held 325,440,000 Domestic Shares and indirectly held 36,160,000 Domestic Shares through its controlled company Luzhou Laojiao Co., Ltd. (瀘州老窖股份有限公司). By virtue of the SFO, Luzhou Laojiao Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Laojiao Co., Ltd.
- (2) Mr. XIONG Guoming (熊國銘) and Ms. JIANG Xiaoying held 80% and 20% equity interest in Sichuan Jiale Enterprise Group Co., Ltd., respectively. Sichuan Jiale Enterprise Group Co., Ltd. directly held 271,200,000 Domestic Shares and indirectly held 7,232,000 Domestic Shares through its indirectly owned subsidiary, Jiale Real Estate Co., Ltd. (四川省瀘州市佳樂房地產有限責任公司). Luzhou Yijia Real Estate Development Co., Ltd. (瀘州益佳房地產開發有限公司) had approximately 92.68% equity interest in Jiale Real Estate Co., Ltd., and Sichuan Jiale Enterprise Group Co., Ltd. had approximately 70.44% equity interest in Luzhou Yijia Real Estate Development Co., Ltd. By virtue of the SFO, Sichuan Jiale Enterprise Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Jiale Real Estate Co., Ltd. Mr. XIONG Guoming is deemed to be interested in the Domestic Shares held by Sichuan Jiale Enterprise Group Co., Ltd. and Jiale Real Estate Co., Ltd. for the purpose of the SFO. Ms. JIANG Xiaoying is the spouse of Mr. XIONG Guoming and is deemed to be interested in the Domestic Shares held by Mr. XIONG Guoming under the SFO.
- (3) Mr. LAI Dafu and Ms. GE Xiuqiong held 60% and 40% equity interest in Sichuan Xinfu Industrial Group Co., Ltd., respectively. Sichuan Xinfu Industrial Group Co., Ltd. held 92% equity interest in Luzhou Xinfu Mining Industry Group Co., Ltd. By virtue of the SFO, each of Mr. LAI Dafu, Ms. GE Xiuqiong and Sichuan Xinfu Industrial Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinfu Mining Industry Group Co., Ltd.
- (4) Luzhou Industrial Investment Group Co., Ltd. directly held 73,462,268 Domestic Shares and indirectly held 144,640,000 Domestic Shares through its wholly-owned subsidiary, Luzhou State-owned Assets Operation Co., Ltd. By virtue of the SFO, Luzhou Industrial Investment Group Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou State-owned Assets Operation Co., Ltd.

Changes in Share Capital and Information on Shareholders

- (5) Luzhou Xinglu Investment Group Co., Ltd. directly held 40,549,462 Domestic Shares and (i) indirectly held 91,715,862 Domestic Shares through its controlled corporation Luzhou Xinglu Jutai Real Estate Co., Ltd., in which Luzhou Chengnan Construction Investment Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. had 47% and 53% equity interest, respectively. Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. had approximately 50.82% equity interest in Luzhou Chengnan Construction Investment Co., Ltd., and Luzhou Xinglu Investment Group Co., Ltd. had approximately 55.11% equity interest in Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.; (ii) indirectly held 36,160,000 Domestic Shares through its controlled corporation Luzhou Laojiao Co., Ltd., in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 24.99% equity interest. Luzhou Laojiao Group Co., Ltd. and Luzhou Xinglu Investment Group Co., Ltd. entered into an agreement on action in concert valid from 31 December 2015 to 1 June 2021 in respect of their respective equity in Luzhou Laojiao Co., Ltd.; (iii) indirectly held 11,246,122 Domestic Shares through its controlled corporation Luzhou Xinglu Financing Guarantee Group Co., Ltd. (瀘州市興瀘融資擔保集團有限公司), in which Luzhou Xinglu Investment Group Co., Ltd. had approximately 37.26% equity interest; and (iv) indirectly held 15,006,400 Domestic Shares through its controlled corporation Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. By virtue of the SFO, Luzhou Xinglu Investment Group Co., Ltd. is deemed to be interested in Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd., Luzhou Laojiao Co., Ltd., Luzhou Xinglu Financing Guarantee Group Co., Ltd. and Luzhou Fundamental Infrastructure Construction Investment Co., Ltd.
- (6) Luzhou Xinglu Jutai Real Estate Co., Ltd. is held as to 53% by Luzhou Xinglu Investment Group Co., Ltd. and as to 47% by Luzhou Chengnan Construction Investment Co., Ltd., in which Luzhou Fundamental Infrastructure Construction Investment Co., Ltd. and China Development Fund Co., Ltd. held 50.82% and 41.18% equity interest, respectively. By virtue of the SFO, each of Luzhou Xinglu Investment Group Co., Ltd., Luzhou Fundamental Infrastructure Construction Investment Co., Ltd., China Development Fund Co., Ltd. and Luzhou Chengnan Construction Investment Co., Ltd. is deemed to be interested in the Domestic Shares held by Luzhou Xinglu Jutai Real Estate Co., Ltd.
- (7) Shanghai Yude Communication Technology Co., Ltd. is wholly-owned by XU Tie. By virtue of the SFO, XU Tie is deemed to be interested in the H Shares held by Shanghai Yude Communication Technology Co., Ltd.
- (8) Wudaokou Capital Limited is wholly-owned by ZHOU Min. By virtue of the SFO, ZHOU Min is deemed to be interested in the H Shares held by Wudaokou Capital Limited.
- (9) JNR SPC is wholly-owned by JNR Capital, which is owned as to approximately 66.67% by ZHENG Zhicheng. By virtue of the SFO, both JNR Capital and ZHENG Zhicheng are deemed to be interested in the H Shares held by JNR SPC.
- (10) Power Ace Investments Limited is owned by HU Yina and HU Yebi on a 50%-50% basis. By virtue of the SFO, both HU Yina and HU Yebi are deemed to be interested in the H Shares held by Power Ace Investments Limited.
- (11) OTX ADVISORY HOLDINGS, INC. is wholly-owned by LUO Zhipeng. By virtue of the SFO, LUO Zhipeng is deemed to be interested in the H Shares held by OTX ADVISORY HOLDINGS, INC.

Save as disclosed above, to the knowledge of the Directors, the Bank is not aware of any other person (other than a Director, Supervisor and chief executive of the Bank) having any interests or short positions in the Shares or underlying Shares of the Bank as at 30 June 2019 which are required to be recorded in the register pursuant to section 336 of the SFO.

Changes in Share Capital and Information on Shareholders

(III) Holders of 5% or More Shares

Please refer to IV. Details of Shareholders above for information on Shareholders holding 5% or more shares of the Bank.

V. DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE BANK

As of 30 June 2019, based on the information available to the Bank and as far as our Directors are aware, the interests and short positions of our Directors, Supervisors and chief executives in the Shares, underlying Shares or debentures of our Bank or any 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register of interests kept by the Bank pursuant to section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were set out as follows:

Interests in the Bank held by our Directors, Supervisors and chief executives							
Name	Position	Nature of interests	Class of Shares	Long position/ short position	Number of Shares directly or indirectly held (shares)	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares of our Bank
XIONG Guoming (熊國銘)	Non-executive Director	Interest in controlled corporations	Domestic Shares	Long position	278,432,000	12.29%	17.01%
LIU Shirong (劉仕榮)	Executive Director	Beneficial owner	Domestic Shares	Long position	10,848	0.0005%	0.0007%
CHEN Yong (陳勇) ⁽¹⁾	Supervisor	Interest of spouse	Domestic Shares	Long position	16,272	0.0007%	0.001%

Note:

- (1) The Domestic Shares are held by Ms. LAN Ying (蘭英), the spouse of Mr. CHEN Yong. Mr. CHEN Yong is deemed to be interested in the Domestic Shares held by Ms. LAN Ying under the SFO.

Save as disclosed above, as at 30 June 2019, none of our Directors, Supervisors and chief executive had any interests or short positions in the Shares, underlying Shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register kept by the Bank pursuant to section 352 of the SFO or which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors, Supervisors, Senior Management and Employees

I. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(I) Directors

The Bank has completed the re-election of the seventh session of the Board at the 2018 AGM held on 28 May 2019. As of the Latest Practicable Date, the Board of the Bank consists of ten Directors, including three executive Directors, namely, Mr. YOU Jiang, Mr. XU Xianzhong and Mr. LIU Shirong; three non-executive Directors, namely, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei; and four independent non-executive Directors, namely, Mr. GU Mingan, Mr. HUANG Yongqing, Mr. YE Changqing and Mr. TANG Baoqi respectively.

The Board established six special committees, the specific names and members are as follows:

Development and strategy committee: Ms. PAN Lina (chairperson), Mr. YOU Jiang, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei

Risk management committee: Mr. XIONG Guoming (chairperson), Mr. YOU Jiang, Mr. LIU Shirong, Mr. JIANG Bo and Mr. YE Changqing

Audit committee: Mr. YE Changqing (chairperson), Ms. PAN Lina, Ms. LIU Anyuan, Mr. GU Mingan and Mr. TANG Baoqi

Nomination and remuneration committee: Mr. TANG Baoqi (chairperson), Mr. YOU Jiang, Mr. XIONG Guoming, Mr. GU Mingan and Mr. ZHOU Kai

Related party (connected) transactions control committee: Mr. GU Mingan (chairperson), Mr. LIU Shirong, Mr. HUANG Yongqing, Mr. YE Changqing and Mr. ZHOU Kai

Consumer rights protection committee: Mr. HUANG Yongqing (chairperson), Mr. XU Xianzhong, Mr. LIU Qi and Ms. LIU Anyuan

Among which, the qualifications of Directors of Ms. PAN Lina, Ms. LIU Anyuan, Mr. JIANG Bo and Mr. ZHOU Kai are to be approved by the CBIRC Sichuan Office.

(II) Supervisors

The Bank has completed the re-election of the seventh session of the Board of Supervisors at the employee representatives meeting and the 2018 AGM held on 28 May 2019. During the Reporting Period and up to the Latest Practicable Date, the Board of Supervisors of the Bank consists of five Supervisors, including one Shareholders' representative Supervisor, namely Ms. YUAN Shihong; two external Supervisors, namely Mr. DUAN Xuebin and Mr. GUO Bing; and two employees' representative Supervisors, namely Ms. LIU Yongli and Mr. CHEN Yong.

(III) Senior Management

There are nine senior managements in the Bank, namely, president Mr. XU Xianzhong; vice president and secretary of the Board Mr. LIU Shirong; vice president and chief information officer Mr. CHENG Anhua; vice president Ms. XIA Yilun, Ms. XUE Xiaoqin, Mr. YANG Bing and Mr. TONG Qiang; and Assistant to president Mr. AI Yong and Mr. HU Jia.

Directors, Supervisors, Senior Management and Employees

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

The Bank has completed the re-election of the seventh session of the Board at the 2018 AGM held on 28 May 2019, selecting Ms. PAN Lina, Ms. LIU Anyuan, Mr. JIANG Bo and Mr. ZHOU Kai as the Directors of the seventh session of the Board. Their qualifications of Directors are to be approved by the CBIRC Sichuan Office, and the term of office of Directors will commence upon the approval by CBIRC Sichuan Office for their qualifications until expiration of the term of office of the seventh session of the Board. Meanwhile, Ms. XU Yan and Mr. LIU Xiaoyu retired as the Director of the Bank since 28 May 2019. Please refer to the announcement of the Bank issued on 28 May 2019 for details of the above changes.

2. Changes in Supervisors

The Bank has completed the re-election of the seventh session of the Board of Supervisors at the employee representatives meeting and the 2018 AGM held on 28 May 2019, selecting Mr. GUO Bing as the external Supervisor of the Bank, his term of office will commence upon 28 May 2019 until expiration of the term of office of the seventh session of the Board of Supervisors. Meanwhile, Ms. HUANG Ping retired as the Supervisor of the Bank since 28 May 2019. Please refer to the announcement of the Bank issued on 28 May 2019 for details of the above changes.

3. Changes in Senior Management

On 28 May 2019, Mr. TONG Qiang was appointed as vice president of the Bank, and his term of office will commence upon 28 May 2019 until expiration of the term of office of the seventh session of the Board.

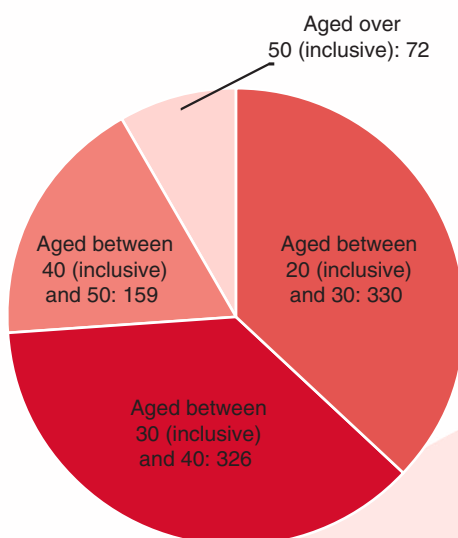
III. SECURITIES TRANSACTION BY DIRECTORS AND SUPERVISORS

Our Bank has adopted the Model Code as its code for regulating securities transactions by Directors and Supervisors of the Bank. Having made specified enquiry with all Directors and Supervisors of the Bank, our Directors and Supervisors confirmed that they have been in compliance with the Model Code throughout the Reporting Period.

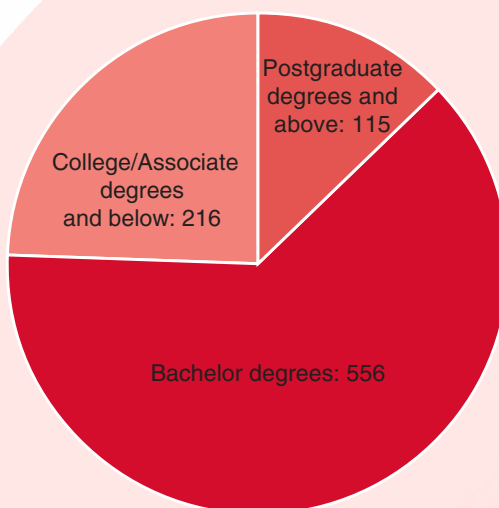
Directors, Supervisors, Senior Management and Employees

IV. DETAILS OF EMPLOYEES

As at the end of the Reporting Period, the Bank had 887 employees (including dispatched workers) in total, with an average age of 34.29. Of them, 330 employees aged between 20 (inclusive) and 30, accounting for 37.2%; 326 employees aged between 30 (inclusive) and 40, accounting for 36.75%; 159 employees aged between 40 (inclusive) and 50, accounting for 17.93%; and 72 employees aged over 50 (inclusive), accounting for 8.12%.



By education background, the Bank had 115 employees with postgraduate degrees and above (including 2 doctoral candidates), accounting for 12.97%; 556 employees with bachelor degrees, accounting for 62.68%; 216 employees with college/associate degrees and below, accounting for 24.35%.



Directors, Supervisors, Senior Management and Employees

V. TRAINING FOR EMPLOYEES

Our Bank attached great importance to the training of employee team, took building a comprehensive talent team as the goal, centering on the actual demands of business and continuously strengthening its efforts in talent cultivation, as well as exploring multi-channel new modes for talent training. In the first half of this year, our Bank organized its employees to participate in international and domestic authoritative tests for financial certificates and conducted special trainings for mid-class management members and business backbones to strengthen their leadership as well as trainings for new employees, the total number of various internal and external training activities of the Bank reached approximately 70 and the number of participants reached over 2,000.

Important Events

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance structure and improved its corporate governance in strict compliance with laws and regulations such as the Company Law of the PRC, the Commercial Banking Law of the PRC as well as the Listing Rules and in line with the actual conditions of the Bank. We have also adopted the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules, and have reached the requirements of the administrative measures and corporate governance for domestic commercial bank, and have established a good corporate governance system.

According to the Code, each of the Directors (including Directors with designated terms) shall retire by rotation at least once every three years. The three-year terms of office of the sixth session of our Board of Directors expired on 23 December 2018. In view that the Bank has just completed its H Shares Listing, to ensure the stability of the work of the Board, the relevant regulatory authority has agreed the Bank to postpone the general election of the sixth session of the Board of Directors. The Bank has already finished re-electing its Directors for the seventh session of the Board of Directors at the 2018 AGM held on 28 May 2019. Save as disclosed above, we have strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period. We are committed to maintaining a high standard of corporate governance.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

The 2018 profit distribution plan of the Bank was reviewed and approved at the 2018 Annual General Meeting held on 28 May 2019, so as to distribute the final dividends for 2018 in an aggregate amount of RMB339.72 million (tax inclusive) to all shareholders. The Bank did not declare and does not propose to declare any interim dividend for the six months ended 30 June 2019.

MATERIAL LITIGATIONS AND ARBITRATIONS

During the Reporting Period, there were no litigations or arbitrations which had a material impact on the operation activities of the Bank.

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 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 other regulatory bodies that posed significant impact on the Bank’s operation.

PERFORMANCE OF UNDERTAKINGS BY THE BANK AND SHAREHOLDERS HOLDING MORE THAN 5% OF SHARES

Please refer to “Changes in Share Capital and Information on Shareholders” in this report for further details about the Shareholders holding 5% or more of the share capital of the Bank.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts or their performance.

REVIEW OF INTERIM RESULTS

The Bank's interim consolidated financial statements for 2019 (unaudited) prepared in accordance with International Financial Reporting Standards have been reviewed by PricewaterhouseCoopers, who has issued an unqualified review report.

The Bank's 2019 interim report and 2019 interim consolidated financial statement (unaudited) have been reviewed by the Audit Committee of the Board and the Board of Directors of the Bank.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, the Bank had no material acquisition and disposal of assets or merger of enterprises.

SUBSEQUENT MATERIAL EVENTS

The Bank has no subsequent material events from the end of the Reporting Period to the issuance date of this report.

Independent Auditor's Report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF LUZHOU 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 114, which comprises the interim condensed statement of financial position of Luzhou Bank Co., Ltd. (the "Bank") as at 30 June 2019 and the related interim condensed statement of comprehensive income, the interim condensed statement of changes in equity and the interim condensed 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 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2019

Interim Condensed Statement of Comprehensive Income

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

	Note	For the six months ended 30 June	
		2019	2018
Interest income		2,674,633	1,807,471
Interest expense		(1,320,031)	(1,053,308)
Net interest income	3	1,354,602	754,163
Fee and commission income		3,293	5,461
Fee and commission expense		(2,511)	(4,690)
Net fee and commission income	4	782	771
Net gains on trading activities	5	30,647	88,401
Net gains/(losses) on financial investments	6	16,425	(10,281)
Other operating income	7	1,174	6,254
Operating income		1,403,630	839,308
Operating expenses	8	(459,073)	(215,727)
Expected credit losses	9	(329,276)	(132,497)
Operating profit		615,281	491,084
Share of profit of an associate	19	2,135	2,308
Profit before income tax		617,416	493,392
Income tax expense	10	(127,063)	(116,576)
Net profit attributable to shareholders of the Bank		490,353	376,816
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value changes on financial assets at fair value through other comprehensive income		(12,388)	59,060
Expected credit losses of financial assets at fair value through other comprehensive income		2,841	–
Less: Related income tax impact		2,387	(14,764)
Other comprehensive (losses)/income for the period	34	(7,160)	44,296
Total comprehensive income attributable to the shareholders of the Bank		483,193	421,112
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share)			
– basic and diluted earnings per share	11	0.22	0.23

Interim Condensed Statement of Financial Position

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

	Note	30 June 2019	31 December 2018
ASSETS			
Cash and balances with central bank	12	8,673,046	8,373,038
Financial assets held under resale agreements, due from other banks and financial institutions	13	6,611,859	7,633,381
Customer loans	14	39,035,850	30,486,354
Financial investments – credit related financial assets	15	8,565,777	5,821,602
Financial investments – fair value through profit or loss	16	349,954	1,841,322
Financial investments – fair value through other comprehensive income	17	5,600,608	5,867,342
Financial investments – amortized cost	18	20,429,287	21,395,762
Investment in an associate	19	38,786	36,651
Property, plant and equipment	20	648,991	675,358
Deferred income tax assets	25	298,507	186,871
Other assets	21	477,067	232,134
Total assets		90,729,732	82,549,815
LIABILITIES			
Borrowings from central bank		875,760	865,000
Financial assets sold under repurchase agreements, due to other banks and financial institutions	22	3,756,598	8,675,639
Customer deposits	23	60,823,500	52,385,604
Debt securities issued	24	17,669,866	13,800,494
Current tax liabilities		176,028	135,457
Other liabilities	27	690,990	320,835
Total liabilities		83,992,742	76,183,029
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital	28	2,264,793	2,182,933
Capital reserve	28	2,239,314	2,094,444
Other reserves	29	1,369,291	1,246,558
Retained earnings		863,592	842,851
Total equity		6,736,990	6,366,786
Total liabilities and equity		90,729,732	82,549,815

The accompanying notes form a part of these financial statements.

Chairman and Executive Director:
You Jiang

Executive Director and President:
Xu Xianzhong

Interim Condensed Statement of Changes in Equity

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

	Equity attributable to shareholders of the Bank							
	Share capital Note 28	Capital reserve Note 28	Other reserves			Subtotal	Retained earnings	Total
			Surplus reserve Note 29	General reserve Note 29	Revaluation reserve Note 29			
Balance at 1 January 2019	2,182,933	2,094,444	336,340	847,549	62,669	1,246,558	842,851	6,366,786
Net profit for the period	-	-	-	-	-	-	490,353	490,353
Other comprehensive losses	-	-	-	-	(7,160)	(7,160)	-	(7,160)
Total comprehensive income	-	-	-	-	(7,160)	(7,160)	490,353	483,193
Transfer to general reserve	-	-	-	129,893	-	129,893	(129,893)	-
Issue of shares (Note 28)	81,860	144,870	-	-	-	-	-	226,730
Share dividends (Note 30)	-	-	-	-	-	-	(339,719)	(339,719)
Balance at 30 June 2019	2,264,793	2,239,314	336,340	977,442	55,509	1,369,291	863,592	6,736,990
Balance at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Effects of accounting policy change	-	-	-	-	185,117	185,117	39,816	224,933
Balance restated at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(38,490)	923,806	825,043	4,560,648
Net profit for the year	-	-	-	-	-	-	376,816	376,816
Other comprehensive income	-	-	-	-	44,296	44,296	-	44,296
Total comprehensive income	-	-	-	-	44,296	44,296	376,816	421,112
Transfer to general reserve	-	-	-	155,762	-	155,762	(155,762)	-
Cash dividends	-	-	-	-	-	-	(418,906)	(418,906)
Balance at 30 June 2018	1,637,193	1,174,606	270,509	847,549	5,806	1,123,864	627,191	4,562,854

The accompanying notes form a part of these financial statements.

Interim Condensed Statements of Cash Flows

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

	For the six months ended 30 June	
	2019	2018
Cash flows from operating activities:		
Profit before income tax	617,416	493,392
Adjustments:		
Depreciation and amortisation	55,558	19,198
Impairment losses/expected credit losses on customer loans	236,645	116,777
Impairment losses/expected credit losses on other assets	92,631	15,720
Net losses on disposal of property, plant and equipment and foreclosed assets	3,889	–
Net (gains)/losses arising from financial investments	(93,915)	10,281
Changes in fair value of financial assets – fair value through profit or loss	46,843	(88,401)
Interest income from financial instruments	(1,188,859)	(1,022,151)
Interest expense on debt securities	313,506	299,424
Net change in operating assets:		
Net decrease/(increase) in balances with central bank	384,048	(51,999)
Net (increase)/decrease in financial assets held under resale agreements, due from banks and other financial institutions	(359,854)	4,018,133
Net increase in customer loans	(8,806,827)	(4,910,482)
Net decrease/(increase) in other operating assets	968,268	(444,219)
Net change in operating liabilities:		
Net increase/(decrease) in due to central bank	10,000	(430,000)
Net decrease in financial assets sold under repurchase agreements, due to banks and other financial institutions	(4,844,622)	(721,721)
Net increase in customer deposits	8,307,613	2,597,147
Net increase in other operating liabilities	441,424	344,791
Income tax paid	(236,003)	(128,513)
Net cash (used in)/generated from operating activities	(4,052,239)	117,377

Interim Condensed Statements of Cash Flows

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

	For the six months ended 30 June	
	2019	2018
Cash flows from investing activities:		
Proceeds from disposal of property and equipment, and other long-term assets	–	7,845
Purchase of property and equipment, and other long-term assets	(40,526)	(35,503)
Interest income arising from financial investment securities	1,386,608	1,029,267
Purchase of investment securities	(12,910,280)	(11,079,331)
Proceeds from sale and redemption of investments	11,467,237	8,384,896
Net cash used in investing activities	(96,961)	(1,692,826)
Cash flows from financing activities:		
Proceeds from issuance of shares	230,998	–
Proceeds from issuance of debt securities	12,860,000	9,520,000
Repayment of debt securities upon maturity	(8,962,902)	(7,851,593)
Interest paid on debt securities	(313,506)	(299,424)
Dividends paid to shareholders	(336,731)	(359)
Others paid for financing activities	(4,268)	–
Net cash generated from financing activities	3,473,591	1,368,624
Impact of exchange rate fluctuation on cash and cash equivalents	6,174	–
Net decrease in cash and cash equivalents	(669,435)	(206,825)
Cash and cash equivalents at the beginning of the period	4,924,745	3,159,660
Cash and cash equivalents at the end of the period (Note 35)	4,255,310	2,952,835

The accompanying notes form a part of these financial statements.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

1 GENERAL INFORMATION

With the approval of the People's Bank of China, the Bank was established on 15 September 1997 as a joint-stock commercial bank under the name of "Luzhou City United Bank (泸州城市合作银行)" in accordance with the Company Law of China. The Bank was jointly initiated by the shareholders of Luzhou Finance Bureau, eight urban credit cooperatives, two rural credit cooperatives and other new corporate shareholders.

On 8 May 1998, the Sichuan Branch of the People's Bank of China approved the renaming of the Bank from "Luzhou City United Bank (泸州城市合作银行)" to "Luzhou City Commercial Bank Co., Ltd. (泸州市商业银行股份有限公司)". On 4 June 2019, in accordance with the approval of the Sichuan Supervisory Bureau of China Banking and Insurance Regulatory Commission ("CBIRC") and the approval of Luzhou City Market Supervision and Administration Bureau, The Bank was formally renamed to "Luzhou Bank Co., Ltd. (泸州银行股份有限公司)".

The main lines of business of the Bank include corporate banking, retail banking and financial markets operations.

The financial statements are approved by the board of directors of the Bank on 27 August 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the condensed financial interim information are set out as below. These policies have been consistently applied to relevant periods presented unless otherwise stated.

2.1 Basis of preparation

The condensed interim financial information of the Bank has been prepared in accordance with the International Accounting Standard 34 'Interim Financial Reporting' and disclosure requirements of 'the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited'. The condensed interim financial information should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

The Bank adopted the going concern basis in preparing its condensed interim financial statements.

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Except as described below, the Bank's accounting policies applied in preparing these unaudited condensed financial statements are consistent with those policies applied in preparing the 2018 annual financial statements.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies

IFRS 16 Leases

IFRS 16 was officially issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standards improve the identification, breakdown and merger of leases and require lessees to recognise leases in balance sheets. For lessees, the new leasing standards will recognise all the leases in balance sheets as the classification of operating leases and financial leases has been removed. According to new standards, the entity is required to recognise the right-of-use assets and leasing liabilities, and exemptions applied only to short-term and low-value leases. Meanwhile, the new standards also improve the accounting treatment of the lessee on subsequent measurement and leasing changes. The new standards have not undergone substantial changes in the accounting of lessors.

The Bank adopted the standards on 1 January 2019 and used the simple transition methods stated in the standards, and did not restate the comparative amount for the previous year impacted by the first adoption. On the first day of implementation, the Bank measured the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing and the right-of-use assets for the leases of inventory using the new standards, and assumed that the right-of-use assets should be equal to the leasing liabilities, and made necessary adjustments based upon pre-paid rental expenses accordingly. For short-term and low-value leases, the Bank is subject to the recognition exemptions.

The major impact of adopting IFRS 16 by the Bank is summarized below:

Statement of financial position:

	Before restated	Restated amount	After restated
1 January 2019			
Other assets	232,134	40,240	272,374
Other liabilities	320,835	40,240	361,075

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The Bank anticipates that the adoption of the amendments will not have a significant impact on the Bank's financial statements.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies (continued)

Amendments to IAS 19

On 7 February 2018, the IASB issued amendments to the guidance in IAS 19 – Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change, and any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling. The entities should separately recognise any changes in the asset ceiling through other comprehensive income.

Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28.

IFRIC 23

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes, the amendments to IAS 23 – Borrowing Costs.

Except the above mentioned impact of IFRS 16, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Bank's operating results, financial position or other comprehensive income.

Notes to the Unaudited Condensed Interim Financial Information

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.2 Standards and amendments that are not yet effective and have not been adopted by the Bank

		Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Bank anticipates that there will be no significant impact on the Bank's statement of financial position of adopting amendments to IFRS 10 and IAS 28.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

3 NET INTEREST INCOME

	For the six months ended 30 June	
	2019	2018
Interest income		
Balances with central bank	50,939	56,721
Financial assets held under resale agreements, due from other banks and financial institutions	93,961	216,192
Customer loans	1,389,326	701,404
Financial investments – credit related financial assets	350,135	291,993
Financial investments	790,272	541,161
Total	2,674,633	1,807,471
Inside: interest income generated from impaired financial assets	4,974	3,225
Interest expense		
Due to central bank	(13,012)	(6,116)
Financial assets sold under repurchase agreements, due to other banks and financial institutions	(138,612)	(180,801)
Customer deposits	(854,413)	(566,967)
Debt securities issued	(313,506)	(299,424)
Others	(488)	–
Total	(1,320,031)	(1,053,308)
Net interest income	1,354,602	754,163

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

4 NET FEE AND COMMISSION INCOME

	For the six months ended 30 June	
	2019	2018
Fee and commission income		
Commission income from settlement and agency services	946	1,541
Commission income from bank card services	1,068	1,126
Commission income from custodian services	722	771
Commission income from credit commitments	455	1,326
Commission income from wealth management agency services	–	688
Other commission income	102	9
Total	3,293	5,461
Fee and commission expense	(2,511)	(4,690)
Net fee and commission income	782	771

5 NET GAINS ON TRADING ACTIVITIES

	For the six months ended 30 June	
	2019	2018
Fund	26,981	27,365
Wealth management products	–	58,011
Collective trust plans	–	3,025
Equity investments	3,354	–
Foreign currency deposits	312	–
Total	30,647	88,401

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

6 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	For the six months ended 30 June	
	2019	2018
Net gains/(losses) arising from de-recognition of FVOCI	16,425	(10,281)
Total	16,425	(10,281)

7 OTHER OPERATING INCOME

	For the six months ended 30 June	
	2019	2018
Net losses on disposal of non-current assets	(3,889)	–
Net gains on disposal of fixed assets	54	–
Government grants	5	2,446
Liquidated damage of loan prepayment	3,071	1,358
Rental income	1,782	2,237
Other income	151	213
Total	1,174	6,254

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

8 OPERATING EXPENSES

	For the six months ended 30 June	
	2019	2018
Staff costs (i)	290,755	111,710
General and administrative expenses	79,795	67,726
Professional fees	12,066	3,648
Depreciation and amortization	55,558	19,198
Tax and surcharges	14,698	8,244
Other non-operating expenses	1,290	–
Other business expenses	4,911	5,201
Total	459,073	215,727

(i) STAFF COSTS

	For the six months ended 30 June	
	2019	2018
Salaries and bonuses	233,559	75,127
Pension cost – defined contribution plan	14,811	10,274
Other social security and benefit costs	5,397	4,063
Housing benefits and subsidies	10,416	7,089
Corporate annuity	10,937	7,407
Staff benefits	9,394	6,188
Staff education expenses	2,708	1,562
Other staff costs	3,533	–
Total	290,755	111,710

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

9 EXPECTED CREDIT LOSSES

	For the six months ended 30 June	
	2019	2018
ECL for customer loans at amortized cost	245,073	153,787
ECL for customer loans – FVOCI	246	(37,166)
ECL for financial investments – credit related financial assets	30,187	(29,379)
ECL for other financial investments	2,855	40,338
ECL for guarantee commitments	(8,674)	156
Others	59,589	4,761
Total	329,276	132,497

10 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
Current income tax	236,312	119,517
Deferred income tax (Note 25)	(109,249)	(2,941)
Total	127,063	116,576

Current income tax is calculated the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective period as stipulated in PRC tax laws.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

10 INCOME TAX EXPENSE (continued)

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (for the six months ended 2018: 25%) to profit before income tax can be reconciled as follows:

	For the six months ended 30 June	
	2019	2018
Profit before income tax	617,416	493,392
Tax calculated at a tax rate of 25%	154,354	123,348
Tax effect arising from non-taxable income ^(a)	(28,554)	(11,830)
Tax effect of expenses that are not deductible for tax purposes ^(b)	759	5,058
Income tax adjustment for prior years	504	–
Income tax expense	127,063	116,576

(a) The Bank's non-taxable income mainly represents interest income arising from treasury bonds and investment return on monetary funds, which are non-taxable in accordance with the PRC tax laws.

(b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to the PRC tax laws.

11 BASIC AND DILUTED 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 in issue during the period.

	For the six months ended 30 June	
	2019	2018
Net profit attributable to shareholders of the Bank (RMB'000)	490,353	376,816
Weighted average number of ordinary shares issued ('000)	2,258,462	1,637,193
Basic earnings per share (in RMB)	0.22	0.23

On 14 January 2019, the Bank has completed its over-allotment of 81,860,000 H share. After this issue, the share capital of the Bank is RMB2,264,793,385, divided into 2,264,793,385 shares of RMB1 each, including 627,600,000 H shares.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

12 CASH AND BALANCES WITH CENTRAL BANK

	30 June 2019	31 December 2018
Cash	89,494	99,912
Mandatory reserve deposits with central bank	5,866,677	6,287,703
Surplus reserve deposits with central bank	2,676,928	1,897,586
Fiscal deposits with central bank	36,979	84,316
Accrued interest	2,968	3,521
Total	8,673,046	8,373,038

The Bank is required to place mandatory reserve deposits with central bank. The deposits are calculated based on the amount of customer deposits.

As at the end of the reporting period, the mandatory reserve deposits rates of the Bank were set out below:

	30 June 2019	31 December 2018
Mandatory reserve rate for deposits denominated in RMB	10.00%	12.50%

Mandatory reserve deposits with central bank are not available for the Bank in its daily business. Deposits with central bank other than mandatory reserve maintained are mainly for settlement purpose.

13 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS, DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
Securities purchased under resale agreements	5,120,169	3,763,430
Placements with other banks and financial institutions	13,442	1,713,442
Deposits with other banks and financial institutions	1,488,890	2,136,296
Less: ECL allowance	(13,797)	(13,555)
Accrued interest	3,155	33,768
Total	6,611,859	7,633,381

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS

(a) Customer loans

	30 June 2019	31 December 2018
Customer loans at amortized cost		
Corporate loans	33,669,082	24,784,475
Personal loans	5,824,832	5,736,144
Accrued interest	116,602	113,660
Gross amount of loans	39,610,516	30,634,279
Less: Allowance for loans at amortized cost	(1,053,105)	(792,833)
Net customer loans at amortized cost	38,557,411	29,841,446
Customer loans – FVOCI		
Discounted bills	478,439	644,908
Net customer loans – FVOCI	478,439	644,908
Net customer loans	39,035,850	30,486,354

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	517,143	122,222	87,824	727,189
Provision for ECL	185,039	57,617	11,971	254,627
Written-off	-	-	-	-
Transfers	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	<i>(12,693)</i>	<i>12,693</i>	-	-
<i>Transfer from Stage 1 to Stage 3</i>	<i>(1,150)</i>	-	<i>1,150</i>	-
<i>Transfer from Stage 2 to Stage 3</i>	-	<i>(10,476)</i>	<i>10,476</i>	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	525	525
Unwinding of discount	-	-	3,209	3,209
As at 30 June 2019	688,339	182,056	115,155	985,550

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	18,082	16,913	30,649	65,644
Provision/(Reversal) for ECL	7,875	6,801	(24,230)	(9,554)
Written-off	-	-	-	-
Transfers	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	<i>(136)</i>	<i>136</i>	-	-
<i>Transfer from Stage 1 to Stage 3</i>	<i>(30)</i>	-	<i>30</i>	-
<i>Transfer from Stage 2 to Stage 3</i>	-	<i>(355)</i>	<i>355</i>	-
<i>Transfer from Stage 3 to Stage 2</i>	-	<i>90</i>	<i>(90)</i>	-
<i>Transfer from Stage 2 to Stage 1</i>	<i>1,111</i>	<i>(1,111)</i>	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Recoveries of loans written-off in previous years	-	-	10,977	10,977
Unwinding of discount	-	-	488	488
As at 30 June 2019	26,902	22,474	18,179	67,555

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	230,905	90,564	86,508	407,977
Provision/(Reversal) for ECL	293,693	41,324	(12,600)	322,417
Written-off	–	–	(8,295)	(8,295)
Transfers	–	–	–	–
<i>Transfer from Stage 1 to Stage 2</i>	(6,745)	6,745	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(710)	–	710	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(16,411)	16,411	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Recoveries of loans written-off in previous years	–	–	1,059	1,059
Unwinding of discount	–	–	4,031	4,031
As at 31 December 2018	517,143	122,222	87,824	727,189

Personal loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2018	13,439	17,108	28,557	59,104
Provision for ECL	4,102	1,706	3,496	9,304
Written-off	–	–	(4,849)	(4,849)
Transfers	–	–	–	–
<i>Transfer from Stage 1 to Stage 2</i>	(88)	88	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(147)	–	147	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(1,360)	1,360	–
<i>Transfer from Stage 3 to Stage 2</i>	–	147	(147)	–
<i>Transfer from Stage 2 to Stage 1</i>	776	(776)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Recoveries of loans written-off in previous years	–	–	802	802
Unwinding of discount	–	–	1,283	1,283
As at 31 December 2018	18,082	16,913	30,649	65,644

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

The following table further illustrates the changes in the total book value of the corporate and personal loans portfolios to explain the impact of these changes on the portfolio's ECL.

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	24,174,699	435,088	174,688	24,784,475
Transfers	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	(626,700)	626,700	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(47,700)	-	47,700	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(57,700)	57,700	-
<i>Transfer from Stage 3 to Stage 2</i>	-	-	-	-
<i>Transfer from Stage 2 to Stage 1</i>	-	-	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(4,812,319)	(66,599)	(37,449)	(4,916,367)
New financial assets occurred or purchased	13,800,974	-	-	13,800,974
Written-off	-	-	-	-
As at 30 June 2019	32,488,954	937,489	242,639	33,669,082
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	5,572,367	90,211	73,566	5,736,144
Transfers	-	-	-	-
<i>Transfer from Stage 1 to Stage 2</i>	(36,493)	36,493	-	-
<i>Transfer from Stage 1 to Stage 3</i>	(16,941)	-	16,941	-
<i>Transfer from Stage 2 to Stage 3</i>	-	(2,163)	2,163	-
<i>Transfer from Stage 3 to Stage 2</i>	-	1,633	(1,633)	-
<i>Transfer from Stage 2 to Stage 1</i>	7,853	(7,853)	-	-
<i>Transfer from Stage 3 to Stage 1</i>	-	-	-	-
Derecognition of financial assets of current year	(1,153,648)	(9,745)	(16,025)	(1,179,418)
New financial assets occurred or purchased	1,268,106	-	-	1,268,106
Written-off	-	-	-	-
As at 30 June 2019	5,641,244	108,576	75,012	5,824,832

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS (continued)

(b) Movements on ECL allowance (continued)

Corporate loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	11,363,056	464,183	123,923	11,951,162
Transfers	–	–	–	–
<i>Transfer from Stage 1 to Stage 2</i>	(321,950)	321,950	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(41,950)	–	41,950	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(77,270)	77,270	–
<i>Transfer from Stage 3 to Stage 2</i>	–	–	–	–
<i>Transfer from Stage 2 to Stage 1</i>	–	–	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Derecognition of financial assets of current year	(5,086,631)	(273,775)	(60,160)	(5,420,566)
New financial assets occurred or purchased	18,262,174	–	–	18,262,174
Written-off	–	–	(8,295)	(8,295)
As at 31 December 2018	24,174,699	435,088	174,688	24,784,475
Personal loans	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	4,810,168	90,082	68,791	4,969,041
Transfers	–	–	–	–
<i>Transfer from Stage 1 to Stage 2</i>	(38,809)	38,809	–	–
<i>Transfer from Stage 1 to Stage 3</i>	(39,633)	–	39,633	–
<i>Transfer from Stage 2 to Stage 3</i>	–	(7,538)	7,538	–
<i>Transfer from Stage 3 to Stage 2</i>	–	2,027	(2,027)	–
<i>Transfer from Stage 2 to Stage 1</i>	9,294	(9,294)	–	–
<i>Transfer from Stage 3 to Stage 1</i>	–	–	–	–
Derecognition of financial assets of current year	(1,769,108)	(23,875)	(35,520)	(1,828,503)
New financial assets occurred or purchased	2,600,455	–	–	2,600,455
Written-off	–	–	(4,849)	(4,849)
As at 31 December 2018	5,572,367	90,211	73,566	5,736,144

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

14 CUSTOMER LOANS (continued)

(c) Customer loans listed by stages

As at 30 June 2019	Stage 1	Stage 2	Stage 3	Total
Total customer loans	38,608,637	1,046,065	317,651	39,972,353
– Corporate loans	32,967,393	937,489	242,639	34,147,521
– Personal loans	5,641,244	108,576	75,012	5,824,832
Less: ECL allowance	(715,241)	(204,530)	(133,334)	(1,053,105)
Accrued interest	101,728	6,108	8,766	116,602
Net customer loans	37,995,124	847,643	193,083	39,035,850
As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Total customer loans	30,391,974	525,299	248,254	31,165,527
– Corporate loans	24,819,607	435,088	174,688	25,429,383
– Personal loans	5,572,367	90,211	73,566	5,736,144
Less: ECL allowance	(535,225)	(139,135)	(118,473)	(792,833)
Accrued interest	101,475	1,214	10,971	113,660
Net customer loans	29,958,224	387,378	140,752	30,486,354

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For the six months ended 30 June 2019

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

15 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS

The Bank's credit related financial assets are corporate loans issued through consolidated structured entities (trust and asset management plans).

	30 June 2019	31 December 2018
Financial investments – credit related financial assets		
– Trust plans ⁽¹⁾	6,359,100	3,620,100
– Asset management plans ⁽²⁾	2,287,400	2,275,900
Less: ECL allowance	(118,597)	(88,410)
Accrued interest	37,874	14,012
Total	8,565,777	5,821,602

(1) Trust plans

	30 June 2019	31 December 2018
Pledged	1,666,500	807,250
Collateralised	1,270,000	200,000
Guaranteed	2,279,100	1,449,850
Unsecured	1,143,500	1,163,000
Total	6,359,100	3,620,100

(2) Asset management plans

	30 June 2019	31 December 2018
Pledged	1,722,400	1,710,900
Collateralised	475,000	475,000
Unsecured	90,000	90,000
Total	2,287,400	2,275,900

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For the six months ended 30 June 2019

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

15 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS (continued)

(2) Asset management plans (continued)

The movement of ECL of financial investments - credit related financial assets is as follows:

	Six months ended 30 June 2019 Financial investments – credit related financial assets 12-month ECL for stage 1
As at 1 January 2019	88,410
Provision for ECL	30,187
Reversal for ECL	–
As at 30 June 2019	118,597

	Year ended 31 December 2018 Financial investments – credit related financial assets 12-month ECL for stage 1
As at 1 January 2018	127,150
Provision for ECL	–
Reversal for ECL	(38,740)
As at 31 December 2018	88,410

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

16 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019	31 December 2018
Financial assets – fair value through profit or loss		
– Equity securities	47,351	45,352
– Funds	302,603	1,693,111
– Debt securities	–	102,859
Total	349,954	1,841,322

	30 June 2019	31 December 2018
Financial investments – fair value through profit or loss		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	–	117,214
– Unlisted	349,954	1,724,108
Total	349,954	1,841,322

17 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019	31 December 2018
Financial investments – FVOCI		
– Debt securities	5,512,207	5,747,169
Accrued interest	88,401	120,173
Total	5,600,608	5,867,342

	30 June 2019	31 December 2018
Financial investments – FVOCI		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	2,909,517	2,383,025
– Unlisted	2,691,091	3,484,317
Total	5,600,608	5,867,342

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

17 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Debt securities are analysed by issuer as follows:

	30 June 2019	31 December 2018
Government	865,593	263,903
Policy banks	1,720,333	3,157,177
Corporate entities	2,926,281	2,326,089
Subtotal	5,512,207	5,747,169
Accrued interest	88,401	120,173
Total	5,600,608	5,867,342

The movement of ECL allowance of financial investments – FVOCI is as follows:

	Six months ended 30 June 2019 Financial investments – FVOCI 12-month ECL for stage 1
As at 1 January 2019	5,935
Provision for ECL	2,595
Reversal for ECL	–
As at 30 June 2019	8,530

	Year ended 31 December 2018 Financial investments – FVOCI 12-month ECL for stage 1
As at 1 January 2018	1,110
Provision for ECL	4,825
Reversal for ECL	–
As at 31 December 2018	5,935

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For the six months ended 30 June 2019

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

18 FINANCIAL INVESTMENTS – AMORTIZED COST

	30 June 2019	31 December 2018
Financial investments – amortized cost		
– Industry funds (Senior tranche)	5,192,000	5,222,000
– Unlisted corporate bonds	6,214,720	5,925,080
– Trust plans	1,390,000	2,086,000
– Debt securities	7,442,273	7,970,752
Subtotal	20,238,993	21,203,832
Less: ECL allowance	(213,423)	(213,163)
Accrued interest	403,717	405,093
Total	20,429,287	21,395,762

Financial assets measured at amortized cost analyzed by issuer are as follows:

	30 June 2019	31 December 2018
Government	2,231,817	2,266,244
Policy banks	3,191,858	3,441,909
Commercial banks	–	246,393
Trust companies	6,582,000	7,308,000
Corporate entities	8,233,318	7,941,286
Subtotal	20,238,993	21,203,832
Less: ECL allowance	(213,423)	(213,163)
Accrued interest	403,717	405,093
Total	20,429,287	21,395,762

	30 June 2019	31 December 2018
Financial investments – amortized cost		
– Listed in Hong Kong	–	–
– Listed outside Hong Kong	1,033,150	995,696
– Unlisted	19,396,137	20,400,066
Total	20,429,287	21,395,762

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18 FINANCIAL INVESTMENTS – AMORTIZED COST (continued)

The movement of ECL allowance of financial investments – amortized cost is as follows:

Six months ended 30 June 2019	
Financial investments – amortized cost	
12-month ECL for stage 1	
As at 1 January 2019	213,163
Provision for ECL	260
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As at 30 June 2019	213,423
<hr/>	
Year ended 31 December 2018	
Financial investments – amortized cost	
12-month ECL for stage 1	
As at 1 January 2018	128,532
Provision for ECL	84,631
<hr/>	
As at 31 December 2018	213,163

19 INVESTMENT IN AN ASSOCIATE

	30 June 2019	31 December 2018
Balance at the beginning of the year	36,651	33,011
Share of profit after tax	2,135	3,640
<hr/>		
Balance at the end of the year	38,786	36,651

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

19 INVESTMENT IN AN ASSOCIATE (continued)

Investment in the associate of the Bank is in unlisted corporation's ordinary shares, assets, liabilities, revenue and profit of associates are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
30 June 2019 Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	867,373	738,084	15,791	7,432	30%
31 December 2018 Luxian Yuantong Rural Bank Co., Ltd. (瀘縣元通村鎮銀行)	PRC	874,169	751,998	29,294	12,232	30%

20 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2019	612,349	6,985	96,151	25,210	48,360	789,055
Additions	-	-	3,801	34	30,726	34,561
Transfer in/(out)	-	-	1,694	234	(1,928)	-
Disposals	-	-	-	-	-	-
Transfer to amortisation of long-term prepaid expenses	-	-	-	-	(33,008)	(33,008)
As at 30 June 2019	612,349	6,985	101,646	25,478	44,150	790,608
Accumulated depreciation						
As at 1 January 2019	(43,951)	(3,916)	(57,630)	(8,200)	-	(113,697)
Charge for the period	(14,537)	(450)	(10,927)	(2,006)	-	(27,920)
Disposals	-	-	-	-	-	-
As at 30 June 2019	(58,488)	(4,366)	(68,557)	(10,206)	-	(141,617)
Net book value						
As at 30 June 2019	553,861	2,619	33,089	15,272	44,150	648,991

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

20 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Motor vehicles	Electronic equipment	Office equipment	Construction in progress(a)	Total
Cost						
As at 1 January 2018	70,706	8,001	85,419	10,650	524,101	698,877
Additions	3,942	–	14,698	10,858	104,055	133,553
Transfer in/(out)	537,764	–	324	4,065	(542,153)	–
Disposals	(63)	(1,016)	(12)	–	–	(1,091)
Transfer to amortisation of long-term prepaid expenses	–	–	(4,278)	(363)	(37,643)	(42,284)
As at 31 December 2018	612,349	6,985	96,151	25,210	48,360	789,055
Accumulated depreciation						
As at 1 January 2019	(33,131)	(4,023)	(40,412)	(6,538)	–	(84,104)
Charge for the year	(10,880)	(858)	(17,230)	(1,662)	–	(30,630)
Disposals	60	965	12	–	–	1,037
As at 31 December 2018	(43,951)	(3,916)	(57,630)	(8,200)	–	(113,697)
Net book value						
As at 31 December 2018	568,398	3,069	38,521	17,010	48,360	675,358

As at 30 June 2019, the net amount of buildings, for which registrations for the property ownership certificates had not been completed, were RMB3,493 thousand (31 December 2018: RMB2,309 thousand). However, directors are of the view that this does not have significant impact on the rights of the Bank to use these assets.

None of the land or property the Bank owned is located in Hong Kong.

(a) Significant construction in progress:

	30 June 2019	31 December 2018
Software engineering	21,064	20,961
Decoration engineering of business building	134	–
Others	22,952	27,399
Total	44,150	48,360

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For the six months ended 30 June 2019

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

21 OTHER ASSETS

	30 June 2019	31 December 2018
Interest receivable from customer loans	2,672	408
Prepaid expenses	41,416	10,268
Other receivables	25,826	21,741
Investment properties ⁽¹⁾	1,472	1,614
Foreclosed assets ⁽²⁾	160,871	152,877
Less: ECL allowance ⁽³⁾	(72,026)	(23,446)
Amortisation of long-term prepaid expenses	79,994	68,518
Settlement fund	195,144	–
Right-of-use assets ⁽⁴⁾	41,698	N/A
Others	–	154
Total	477,067	232,134

(1) Investment properties

	30 June 2019	31 December 2018
Cost		
Balance at the beginning of the period/year	11,453	11,724
Disposals	–	(271)
Balance at the end of the period/year	11,453	11,453
Accumulated depreciation		
Balance at the beginning of the period/year	(9,839)	(9,813)
Depreciation charged for the period/year	(142)	(284)
Disposals	–	258
Balance at the end of the period/year	(9,981)	(9,839)
Net book value		
Balance at the end of the period/year	1,472	1,614

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

21 OTHER ASSETS (continued)

(1) Investment properties (continued)

The analysis of the value of investment properties by remaining leasehold period are as follows:

	30 June 2019	31 December 2018
Located in PRC		
Short-term lease (Within 10 years)	1,271	1,614
Hold for sale	201	–
Total	1,472	1,614

(2) Foreclosed assets

	Buildings	Others	Total
As at 1 January 2019	152,877	–	152,877
Additions	19,624	–	19,624
Disposals	(11,630)	–	(11,630)
As at 30 June 2019	160,871	–	160,871
As at 1 January 2018	111,574	5,179	116,753
Additions	65,263	–	65,263
Disposals	(23,960)	(5,179)	(29,139)
As at 31 December 2018	152,877	–	152,877

(3) Impairment for foreclosed assets

	Buildings	Others	Total
As at 1 January 2019	(23,446)	–	(23,446)
Provision	(48,580)	–	(48,580)
Reversal	–	–	–
As at 30 June 2019	(72,026)	–	(72,026)
As at 1 January 2018	(101)	(1,554)	(1,655)
Provision	(23,345)	–	(23,345)
Reversal	–	1,554	1,554
As at 31 December 2018	(23,446)	–	(23,446)

Notes to the Unaudited Condensed Interim Financial Information

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

21 OTHER ASSETS (continued)

(4) Right-of-use assets

	30 June 2019
Cost	
As at 1 January 2019	40,240
Additions	4,583
As at 30 June 2019	44,823
Accumulated depreciation	
As at 1 January 2019	–
Depreciation in the period	(3,125)
Disposals	–
As at 30 June 2019	(3,125)
Net book value	
As at 30 June 2019	41,698

22 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS, DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2019	31 December 2018
Deposits from other banks	1,872,606	5,173,559
Securities sold under repurchase	753,200	1,680,500
Placements from other banks and financial institutions	1,100,000	1,720,000
Accrued interest	30,792	101,580
Total	3,756,598	8,675,639

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

23 CUSTOMER DEPOSITS

	30 June 2019	31 December 2018
Corporate demand deposits	25,774,307	20,024,338
Including:		
Pledged deposits held as collateral	1,060,921	1,230,790
Corporate time deposits	6,872,884	9,654,967
Individual demand deposits	2,923,231	2,789,615
Individual time deposits	24,604,109	19,439,874
Accrued interest	648,969	476,810
Total	60,823,500	52,385,604

24 DEBT SECURITIES ISSUED

	30 June 2019	31 December 2018
Interbank certificates of deposit	16,649,222	12,752,124
Fixed rate tier-2 capital debt – 2027	1,000,000	1,000,000
Accrued interest	20,644	48,370
Total	17,669,866	13,800,494

The Bank issued RMB1 billion tier-2 capital debt in February 2017. The term of these debt lasts for 10 years, and the fixed interest rate is 5.50%. The Bank, as an issuer, can choose to redeem the debt in part or for all on 14 February 2022 at the face value. If the capital level of the Bank still meets the CBIRC requirement after exercising the right of redemption and subject to the CBIRC approval, the Bank can choose to redeem the debt in part or for all on the interest-accruing last value day of the pre-determined redemption year.

For the six months ended 30 June 2019, the Bank did not have overdue in debt issued or certificates of deposit, or any other default (for the year ended 31 December 2018: nil).

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

25 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the six months ended 30 June 2019 and 31 December 2018 for transactions in the PRC (2018: 25%).

Movements in the deferred income tax account are as follows:

	30 June 2019	31 December 2018
Balance at the end of last year	186,871	244,306
Impact of the criterion conversion	N/A	(75,095)
Balance at the beginning of the period/year	N/A	169,211
Charge to profit or loss (Note 10)	109,249	51,378
Fair value changes of financial investments – FVOCI	2,387	(33,718)
Balance at the end of the period/year	298,507	186,871

Deferred income tax assets and liabilities are attributable to the following items:

	30 June 2019		31 December 2018	
	Temporary differences	Deferred income tax assets/ (liabilities)	Temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax liabilities				
Fair value change of FVPL	(605)	(151)	(43,401)	(10,850)
Fair value change of FVOCI	(57,523)	(14,381)	(69,911)	(17,477)
Fair value change of FVOCI – ECL	(16,488)	(4,122)	(13,647)	(3,411)
Subtotal	(74,616)	(18,654)	(126,959)	(31,738)
Deferred income tax assets				
ECL allowance for customer loans	649,684	162,421	453,161	113,290
ECL allowance for financial investment	332,029	83,007	301,582	75,395
ECL allowance for Interbank assets	13,663	3,416	13,555	3,389
Provisions	11,257	2,814	19,931	4,983
ECL allowance for FVOCI	16,488	4,122	13,647	3,411
Payroll payable	164,925	41,231	48,770	12,192
Others	80,598	20,150	23,793	5,949
Subtotal	1,268,644	317,161	874,439	218,609
Net deferred income tax assets	1,194,028	298,507	747,480	186,871

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For the six months ended 30 June 2019

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26 RETIREMENT BENEFIT OBLIGATIONS

Employees who retire after 8 November 2016 can voluntarily participate in an annuity plan set up by the Bank pursuant to related state corporate annuity regulations. The Bank contributes to the annuity plan based on certain percentage of the employees' gross salary of previous year and the contribution is recognised in profit or loss as incurred.

	30 June 2019	31 December 2018
Expenses incurred for corporate annuity	10,937	14,918

	30 June 2019	31 December 2018
Statements of financial position obligations – corporate annuity	–	–

27 OTHER LIABILITIES

	30 June 2019	31 December 2018
Employee benefits payable	167,687	132,989
Dividends payable	381,677	42,102
Lease liabilities	37,702	N/A
Deposit of financial guarantee	15,375	15,828
Deposit received	234	164
Settlement funds ⁽¹⁾	3,261	13,014
Provisions	11,257	19,931
Deferred income	4,167	–
Others	69,630	96,807
Total	690,990	320,835

(1) The settlement funds are balances in the large payment system and UnionPay settlement funds.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019
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28 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid ordinary shares. The par value per share is RMB1.00. The Bank's number of shares is as follows:

	30 June 2019	31 December 2018
Number of shares	2,264,793	2,182,933

The movement of share capital is as follows:

Share capital	30 June 2019	31 December 2018
Balance at the beginning of the period/year	2,182,933	1,637,193
Issue of shares	81,860	545,740
Share dividends	-	-
Balance at the end of the period/year	2,264,793	2,182,933

Generally, transactions of the following nature are recorded in the capital reserve:

- (a) Capital reserve arising from the issue of shares at prices in excess of their par value;
- (b) Donations received from shareholders; and
- (c) Any other items required by the PRC regulations to be so treated.

Capital reserve can be utilised for the issuance of bonus shares or for increasing paid-in capital as approved by the shareholders.

As at 31 December 2018 and 30 June 2019, the Bank's capital reserve is shown as follow:

	31 December 2018	Additions	30 June 2019
Capital reserve	2,094,444	144,870	2,239,314

On 14 January 2019, the Bank has completed its over-allotment of 81,860,000 H shares, increasing the capital reserve by RMB144,869,994. After this issue, the share capital of the Bank is RMB2,264,793,385, divided into 2,264,793,385 shares of RMB1 each, including 627,600,000 H shares.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

29 OTHER RESERVES

	Surplus reserve(a)	General reserve(b)	Revaluation reserve	Total
Balance at 1 January 2019	336,340	847,549	62,669	1,246,558
Other comprehensive loss	-	-	(7,160)	(7,160)
Addition	-	129,893	-	129,893
Balance at 30 June 2019	336,340	977,442	55,509	1,369,291
Balance at 31 December 2017	270,509	691,787	(223,607)	738,689
Changes arising from first implementation of IFRS 9	-	-	185,117	185,117
Balance at 1 January 2018	270,509	691,787	(38,490)	923,806
Other comprehensive income	-	-	101,159	101,159
Addition	65,831	155,762	-	221,593
Balance at 31 December 2018	336,340	847,549	62,669	1,246,558

(a) Surplus reserve

In accordance with the Company Law of the People's Republic of China and the Bank's Articles of Association, 10% of the net distributable profit of the Bank, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. With approval, statutory surplus reserve can be used for making up losses, or increasing the share capital.

(b) General reserve

The Bank follows "the management methods of financial institutions reserve" (CAI [2012]20) issued by the Ministry of Finance. According to these requirements, the general reserve should not be lower than the 1.5% of the year end risk assets. For financial institutions with difficulty meeting the 1.5% threshold, they can take years to gradually meet this requirement, but principally it should not exceed 5 years.

On 26 March 2019, the Board of Directors of the Bank proposed that 1.5% of the risk asset at the end of 2018 should be accrued for general risk reserve amounted to RMB129,893 thousand. This proposal has been approved by the Annual General Meeting held on 28 May 2019. As at 30 June 2019, the ending balance of general reserve is RMB977,442 thousand (as at 31 December 2018: RMB847,549 thousand).

Notes to the Unaudited Condensed Interim Financial Information

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

30 DIVIDENDS

	30 June 2019	31 December 2018
Dividends declared during the year	339,719	418,906
Dividend per share (in RMB)	0.15	0.12

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

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

On 26 March 2019, the Board of Directors of the Bank proposed the distribution of cash dividends of RMB339,719 thousand (including tax) to its shareholders, which is calculated at RMB0.15 (including tax) dividend per 10 shares based on the total 2,264,793,385 share issued. The 2018 annual dividend distribution plan has been approved by the Annual General Meeting on 28 May 2019.

31 STRUCTURED ENTITIES

(a) Unconsolidated structured entities

(i) Unconsolidated structured entities managed by the Bank

The unconsolidated structure entities managed by the Bank are mainly wealth management products issued and managed by the Bank acting as an agent. Based on the analysis and research on the potential targeted clients, the Bank designs and sells capital investment and management plan to specific targeted clients, and the raised funds are then put into related financial market or invested in related wealth management products according to the product contracts. Gains would be allocated to investors. The Bank receives corresponding wealth management commission fee income as the asset manager. The Bank has recognised net commission income from asset management service of non-guaranteed wealth management products with the amount of RMB0 thousand for the six months ended 30 June 2019 (for the year ended 31 December 2018: RMB120 thousand). The Bank has not provided any liquidity support to the wealth management products during the period.

The Bank issues and manages non-guaranteed wealth management products to individual investors. The funds raised from the individual investors are mainly invested in the open market bonds and money market instruments.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

31 STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

(i) Unconsolidated structured entities managed by the Bank (continued)

The Bank assesses its control on the non-guaranteed wealth management products. The Bank takes a fiduciary role on these wealth management products and has no contractual obligation to repay the principal or interest. The risk exposure of the products is mainly from the fluctuation of the expected return of the bonds market, the performance of trust plans and the performance of targeted asset management plans. The risk of loss is borne by the investors. The Bank earns the net fee and commission income from the products.

On 30 June 2019, the balance of unconsolidated wealth management products issued and managed by the Bank was RMB1,447,732 thousand (31 December 2018: RMB1,009,907 thousand).

(ii) Unconsolidated structured entities invested by the Bank

The structured entities that the Bank did not consolidate as at 30 June 2019 and 31 December 2018 mainly included money market funds, capital trust schemes, asset management plans and wealth management products issued and managed by independent third parties. The Bank classified the unconsolidated structured entities as financial instruments-amortized cost and financial instruments-fair value through profit or loss.

The table below lists the book value and maximum loss risk exposure of the assets due to the holdings of profits from unconsolidated structured entities (including interest receivable).

As at 30 June 2019	Book value	Maximum risk exposure
Financial instruments – fair value through profit or loss	332,603	(332,603)
Total	332,603	(332,603)

As at 31 December 2018	Book value	Maximum risk exposure
Financial instruments – amortized cost	301,049	(301,049)
Financial instruments – fair value through profit or loss	1,723,111	(1,723,111)
Total	2,024,160	(2,024,160)

For the six months ended 30 June 2019, the Bank had not provided any financial or other support to unconsolidated structured entities (for the year end 31 December 2018: nil).

The interest income and fee and commission income from the above unconsolidated structured entities were:

	30 June 2019	31 December 2018
Interest income	–	14,333
Fee and commission income	–	120

Notes to the Unaudited Condensed Interim Financial Information

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

31 STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities

As at 30 June 2019	Book value	Maximum loss exposure
Financial investments – credit related financial assets	8,565,777	(8,565,777)
Financial investments – measured at amortized cost	12,799,636	(12,799,636)
Total	21,365,413	(21,365,413)

As at 31 December 2018	Book value	Maximum loss exposure
Financial investments – credit related financial assets	5,821,602	(5,821,602)
Financial investments – measured at amortized cost	12,728,949	(12,728,949)
Total	18,550,551	(18,550,551)

The Bank's interest income and commission fee income obtained from the above-mentioned incorporated structured entities are as follows:

	30 June 2019	31 December 2018
Interest income	820,215	1,327,528

32 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	30 June 2019	31 December 2018
Bank acceptance Guarantees	772,903	1,585,988
	877,624	1,176,130
Total	1,650,527	2,762,118

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

Notes to the Unaudited Condensed Interim Financial Information

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32 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Capital expenditure commitments

	30 June 2019	31 December 2018
Contracted but not provided for:		
– Capital expenditure commitments for buildings	10,923	3,371
– Acquisition of IT system	159,759	83,725
Total	170,682	87,096

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under irrevocable operating leases in respect of buildings are as follows:

	30 June 2019	31 December 2018
Within 1 year	19	11,824
Between 1 to 5 years	37	24,917
Later than 5 years	–	2,800
Total	56	39,541

Legal proceedings

Legal proceedings are initiated by third parties against the Bank as defendant. The Bank had no significant outstanding legal claims at 30 June 2019 (31 December 2018: nil).

33 COLLATERALS

(a) Assets pledged

As at 30 June 2019 and 31 December 2018, the carrying amounts of assets pledged as collateral under repurchase agreements are as follows:

	30 June 2019	31 December 2018
Debt securities	770,000	1,810,000
Total	770,000	1,810,000

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For the six months ended 30 June 2019

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33 COLLATERALS (continued)

(b) Collateral accepted

The Bank received debt securities and bills as collateral in connection with the purchase of assets under resale agreements and the Bank has not accepted collateral that can be resold or repledged if the pledge owner do not breach the contract. The Bank did not resale or repledge such collateral.

	30 June 2019	31 December 2018
Debt securities	5,352,000	4,097,100
Total	5,352,000	4,097,100

34 OTHER COMPREHENSIVE (LOSSES)/INCOME FOR THE PERIOD

	Before tax amount	Tax (expense) benefit	Net of tax amount
Six months ended 30 June 2019			
<i>Items that may be reclassified subsequently to profit or loss :</i>			
Financial investments – fair value through other comprehensive income	(12,388)	3,097	(9,291)
ECL for Financial investments – fair value through other comprehensive income	2,841	(710)	2,131
Other comprehensive losses for the period	(9,547)	2,387	(7,160)
Six months ended 30 June 2018			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Financial investments – fair value through other comprehensive income	59,060	(14,764)	44,296
Other comprehensive income for the period	59,060	(14,764)	44,296

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For the six months ended 30 June 2019

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35 NOTES TO STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	30 June 2019	31 December 2018
Cash and balances with central bank	2,766,420	1,818,279
Due from other banks and financial institutions	1,488,890	1,134,556
Total	4,255,310	2,952,835

36 RELATED PARTY TRANSACTIONS

36.1 Related party relationships

The related parties of the Bank mainly include: the major shareholders as well as the entities controlled by them, the key management personnel (including the Bank's directors and senior management) and their family members who have close relationships with them as well as the entities which are controlled, joint controlled or can be significantly influenced by the Bank's key management personnel or their family members.

As at 30 June 2019, the major shareholders of the Bank is as follows:

Name of shareholders	Amount (thousand shares)	ratio (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.37%
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	11.97%
Luzhou Xinfu Mining Group Co., Ltd.	271,200	11.97%
Total	867,840	38.31%

As at 31 December 2018, the major shareholders of the Bank is as follows:

Name of shareholders	Amount (thousand shares)	ratio (%)
Luzhou Laojiao Group Co., Ltd.	325,440	14.91%
Sichuan Jiale Enterprise Group Co., Ltd.	271,200	12.42%
Luzhou Xinfu Mining Group Co., Ltd.	271,200	12.42%
Total	867,840	39.75%

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019
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36 RELATED PARTY TRANSACTIONS (continued)

36.2 Related party transactions

Transactions between the Bank and related parties are conducted in accordance with general commercial terms and normal business procedures. The pricing principle is consistent with that of an independent third party transaction. The related party transactions of the Bank are as follows:

(1) Related party customer loans

	30 June 2019	31 December 2018
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	-	-
Sichuan Jiale Enterprise Group Co., Ltd.	-	-
Luzhou Xinfu Mining Group Co., Ltd.	-	-
Other legal person related parties	2,122,030	1,708,764
The key management personnel or their family members	63,448	23,623
Total	2,185,478	1,732,387

(2) Related party loan interest income

	For the six months ended 30 June	
	2019	2018
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	-	-
Sichuan Jiale Enterprise Group Co., Ltd.	-	-
Luzhou Xinfu Mining Group Co., Ltd.	-	-
Other legal person related parties	72,977	12,196
The key management personnel or their family members	1,490	1,413
Total	74,467	13,609

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For the six months ended 30 June 2019

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

36 RELATED PARTY TRANSACTIONS (continued)

36.2 Related party transactions (continued)

(3) Related party deposits

	30 June 2019	31 December 2018
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	311,976	–
Sichuan Jiale Enterprise Group Co., Ltd.	8	–
Luzhou Xinfu Mining Group Co., Ltd.	–	–
Other legal person related parties	1,569,776	1,069,847
The key management personnel or their family members	120,771	116,568
Total	2,002,531	1,186,415

(4) Related party deposit interest expense

	For the six months ended 30 June	
	2019	2018
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	61	37
Sichuan Jiale Enterprise Group Co., Ltd.	–	3
Luzhou Xinfu Mining Group Co., Ltd.	–	–
Other legal person related parties	12,852	316
The key management personnel or their family members	98	398
Total	13,011	754

(5) Related party financial investments – credit related financial assets

	30 June 2019	31 December 2018
Major shareholders		
Other legal person related parties	–	–
Total	–	–

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

36 RELATED PARTY TRANSACTIONS (continued)

36.2 Related party transactions (continued)

(6) Related party fee and commission income

	For the six months ended 30 June	
	2019	2018
Major shareholders		
Luzhou Laojiao Group Co., Ltd.	1	–
Sichuan Jiale Enterprise Group Co., Ltd.	–	–
Luzhou Xinfu Mining Group Co., Ltd.	–	–
Other legal person related parties	24	1
The key management personnel or their family members	1	–
Total	26	1

	30 June 2019	31 December 2018
Customer loans	3.25%-9.00%	3.43%-8.5%
Customer deposits	0.385%-5.50%	0.385%-5.50%

(7) Key management compensation

Key management personnel refer to those who are entitled to plan, direct and control the activities of the Bank. The Bank conducts normal banking transactions with key management personnel in its daily operations.

The remuneration of directors and other key management personnel during the periods are as follows:

	For the six months ended 30 June	
	2019	2018
Remuneration, salary, allowances and benefits	2,931	2,313
Discretionary bonuses	1,638	2,342
Contribution to pension schemes	116	120
Total	4,685	4,775

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

36 RELATED PARTY TRANSACTIONS (continued)

36.2 Related party transactions (continued)

(8) Property leasing

Luzhou Laojiao Real Estate Development Co., Ltd., a subsidiary of Luzhou Laojiao Group Co., Ltd., a related party of the Bank, leases two properties located in Chengdu, Sichuan Province to the Bank. The lease term starts from 1 June 2019 until 31 December 2019. The total rent is RMB1,999,080.

Yijia Real Estate Development Co., Ltd., a related party of the Bank, leases a property located in Luzhou City, Sichuan Province to the Bank. The lease term starts from 1 August 2016 until 31 July 2019, for a period of three years. The annual rent in the first two years is calculated at RMB34 per square meter per month, which is RMB69,768. The rent increased by 5% to RMB73,256 for the third year.

These related party transactions are conducted in accordance with general commercial terms and normal business procedures, and their pricing principles are consistent with those of independent third party transactions.

(9) Government related entities

The transactions between the Bank and the government authorities proceed under normal commercial terms and conditions. These transactions mainly include provision of deposits and agency service. The Bank considers that transactions with these entities are activities conducted in the ordinary course of business. The Bank has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities.

37 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retail banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retail banking mainly provides individual customers with financial products and services including deposits and loans.

Financial Markets mainly performs inter-bank lending and borrowing, bonds investment and re-purchasing activities.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

Notes to the Unaudited Condensed Interim Financial Information

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

37 SEGMENT ANALYSIS (continued)

	For the six months ended 30 June 2019				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income from external customers	900,103	(365,191)	819,690	-	1,354,602
Inter-segment net interest income/(expense)	(123,046)	519,709	(396,663)	-	-
Net interest income	777,057	154,518	423,027	-	1,354,602
Net fee and commission income/(expense)	816	(137)	-	103	782
Net gains on trading activities	-	-	30,647	-	30,647
Net gains arising from investment securities	-	-	16,425	-	16,425
Other operating income	-	-	-	1,174	1,174
Operating income	777,873	154,381	470,099	1,277	1,403,630
Operating expense	(203,846)	(31,731)	(223,124)	(372)	(459,073)
– Depreciation and amortisation	(23,558)	(6,018)	(25,800)	(182)	(55,558)
– Others	(180,288)	(25,713)	(197,324)	(190)	(403,515)
Expected credit losses	(278,379)	2,708	(53,605)	-	(329,276)
Share of profit of an associate	-	-	-	2,135	2,135
Profit before income tax	295,648	125,358	193,370	3,040	617,416
Capital expenditure	72,340	18,492	79,287	563	170,682
Segment assets	38,453,542	9,830,088	42,147,070	299,032	90,729,732
Segment liabilities	(33,392,245)	(27,903,979)	(22,695,937)	(581)	(83,992,742)

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

37 SEGMENT ANALYSIS (continued)

	For the six months ended 30 June 2018				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income from external customers	307,428	(172,990)	619,725	–	754,163
Inter-segment net interest income/(expense)	(35,024)	410,492	(375,468)	–	–
Net interest income	272,404	237,502	244,257	–	754,163
Net fee and commission income/(expense)	1,402	(622)	–	(9)	771
Net gains on trading activities	–	–	88,401	–	88,401
Net gains arising from financial investments	–	–	(10,281)	–	(10,281)
Other operating income	–	–	–	6,254	6,254
Operating income	273,806	236,880	322,377	6,245	839,308
Operating expense	(28,669)	(66,166)	(120,444)	(448)	(215,727)
– Depreciation and amortisation	(6,263)	(2,194)	(10,741)	–	(19,198)
– Others	(22,406)	(63,972)	(109,703)	(448)	(196,529)
Impairment losses	(92,247)	(16,530)	(23,720)	–	(132,497)
Share of profit of an associate	–	–	–	2,308	2,308
Profit before income tax	152,890	154,184	178,213	8,105	493,392
Capital expenditure	885	310	1,523	–	2,718
Segment assets	24,273,449	8,499,368	41,612,159	170,095	74,555,071
Segment liabilities	(25,983,530)	(19,932,559)	(24,066,470)	(9,658)	(69,992,217)

There is no high reliance of the Bank to any of the major external customers.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

38 FIDUCIARY ACTIVITIES

The Bank provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

	30 June 2019	31 December 2018
Entrusted loans	4,947,899	5,047,273

39 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments not measured at fair value

Financial assets and liabilities that are not measured at fair value in the statement of financial position mainly include: balances with central bank, due from other banks and financial institutions, financial assets held under resale agreements, customer loans, credit related financial assets, financial assets-amortized cost, due to other banks and financial institutions, financial assets sold under repurchase agreements, customer deposits, debt securities issued. Except for the following financial assets and financial liabilities, the carrying amounts of financial assets and liabilities that are not measured at fair value are quite small from the fair value.

The table below summarises the financial assets and liabilities that have difference between carrying amounts (include accrued interest) and fair value as at 30 June 2019 and 31 December 2018.

	Carrying amount	As at 30 June 2019			
		Level 1	Fair value		Total
			Level 2	Level 3	
Financial assets					
Financial investments – amortized cost	20,429,287	–	7,569,369	12,680,914	20,250,283
Financial investments – credit related financial assets	8,565,777	–	–	8,532,275	8,532,275
Financial liabilities					
Debt securities issued	17,669,866	–	17,634,079	–	17,634,079

	Carrying amount	As at 31 December 2018			
		Level 1	Fair value		Total
			Level 2	Level 3	
Financial assets					
Financial investments – amortized cost	21,395,762	–	8,081,864	13,335,412	21,417,276
Financial investments – credit related financial assets	5,821,602	–	–	5,900,218	5,900,218
Financial liabilities					
Debt securities issued	13,800,494	–	13,793,731	–	13,793,731

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

39 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(a) Financial instruments not measured at fair value (continued)

Financial investments – credit related financial assets

The fair value for financial investments – credit related financial assets is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

Financial investments – amortized cost

The fair value for financial investments – amortized cost (excluding bonds) is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and liquidity.

The fair value for bonds measured at amortized cost are based on market prices or broker/dealer price quotations. Where the information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.

Debt securities issued

The fair value of fixed interest bearing debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

Other than above, the carrying values of those financial assets and liabilities not presented at their fair value in the statement of financial position are a reasonable approximation of their fair values. Those financial assets and liabilities include balances with central bank, due from other banks and financial institutions, customer loans, due to other banks and financial institutions, customer deposits, etc. Fair value is measured using a discounted future cash flow model.

(b) Fair value hierarchy

IFRS 7 specifies the levels of valuation techniques that based on the inputs of valuation techniques that are observable or not. The observable inputs reflect the market data obtained from independent sources. These two inputs lead to the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments in house (e.g. Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly. This level includes the debt instruments dealing in the interbank market. For example, the input parameters of bond yield curves and counterparty credit risk stem from China bond information website and Bloomberg.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs). This level includes equity instruments and structural financial instruments.

The Bank determines the fair value of the financial instrument by valuation techniques when it is difficult to obtain quotations from the open market. The main parameters of valuation techniques used in financial instruments includes the price of the bond, interest rate, exchange rate, stock and equity price, volatility level, correlation, prepayment rates, and the credits spreads of counterparty. All of these parameters can be observed and obtained from the open market.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

39 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Fair value hierarchy (continued)

The measurement of the fair value of those asset-backed securities and unlisted equity (private equity) held by the Bank adopts unobservable parameters that may have significant impact on the valuations. Thus, the Bank would better classify these financial instruments to the third level. Management has assessed the influence of macroeconomic factors, the valuation by external appraiser, loss coverage, and many other parameters, so as to examine the correlation between the fair value of third level financial instruments and the above parameters. The Bank has established an internal control system to supervise the exposure of the financial instrument above.

Fair values of assets and liabilities are as below

As at 30 June 2019	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	478,439	–	478,439
Financial investments – fair value through profit or loss	318,958	–	30,996	349,954
Financial investments – FVOCI	–	5,600,608	–	5,600,608
Total	318,958	6,079,147	30,996	6,429,001

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Customer loans – discounted bills	–	644,908	–	644,908
Financial investments – fair value through profit or loss	1,810,326	–	30,996	1,841,322
Financial investments – FVOCI	–	5,867,342	–	5,867,342
Total	1,810,326	6,512,250	30,996	8,353,572

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For the six months ended 30 June 2019

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

39 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Fair value hierarchy (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Movement of Level – 3 valuation methodology

	Financial investments – fair value through profit or loss
Balance at 1 January 2019	30,996
Total gains or losses	–
– Other comprehensive income	–
Purchase of level 3	–
Maturity of level 3	–
Balance at 30 June 2019	30,996
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 30 June 2019	–
	Financial investments – fair value through profit or loss
Balance at 1 January 2018	2,311,837
Total gains or losses	–
– Other comprehensive income	(10,841)
Purchase of level 3	6,030,000
Maturity of level 3	(8,300,000)
Balance at 31 December 2018	30,996
Total gains for the year included in statement of comprehensive income for assets/liabilities held at 31 December 2018	–

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

39 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(continued)

(b) Fair value hierarchy (continued)

The information of Level – 3 Valuation by adopting important, non-observable input as following:

The Bank		Non-observable input			
As at 30 June 2019	Fair values	Valuation methodology	Item	Range/ Weighted average	Relationship with fair value
Financial investments – fair value through profit or loss					
– Equity investments	996	Market approach	Note 1	Note 1	Note 1
– Joint investment plan	30,000	Net value approach	N/A	N/A	N/A

The Bank		Non-observable input			
As at 31 December 2018	Fair values	Valuation methodology	Item	Range/ Weighted average	Relationship with fair value
Financial investments – fair value through profit or loss					
– Equity investments	996	Market approach	Note 1	Note 1	Note 1
– Joint investment plan	30,000	Net value approach	N/A	N/A	N/A

Note 1: Available-for-sale equity instruments refer to equity investment in Southern Sichuan Expressway Co., Ltd., Sichuan Tianhua Co., Ltd., and Clearing Center for City Commercial Banks.

Notes to the Unaudited Condensed Interim Financial Information

For the six months ended 30 June 2019

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

40 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, primarily including credit risk, market risk (including currency risk, interest risk and other price risk), and liquidity risk. Those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing risks are core to the financial business, and operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is the highest authority for the Bank's overall risk management. It provides strategy and risk preference for overall risk management and decides the risk tolerance and monitor risk management and internal control system. It assesses overall risk based on monitoring information and risk management reported by the senior management. Senior management is responsible for overseeing the Bank's overall risk management, including the formulation and implementation of risk management policies and procedures, covering credit risk, interest rate risk, liquidity risk and foreign exchange risk. The risk management committee is in charge of the Bank's overall risk management structure, policies and tools, and monitors the risk management. The assets and liabilities management department is primarily in charge of managing the Bank's liquidity risk and banking account interest rate risk.

41 SUBSEQUENT EVENTS

Up to the date of this report, the Bank has no material event for disclosure after the reporting date.

Definitions

“Articles of Association” or “Articles”	the articles of association of the Bank, as amended from time to time
“Bank” or “our Bank”	Luzhou Bank Co., Ltd. (泸州银行股份有限公司)
“Board of Supervisors”	the board of Supervisors of the Bank
“Board” or “Board of Directors”	the board of Directors of our Bank
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“China” or “PRC”	the People’s Republic of China, but for the purpose of this report, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares in our share capital with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Global Offering”	the Hong Kong Public Offering and the International Offering, details are set out in the Prospectus
“HK\$” or “HKD” or “Hong Kong Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“H Shares”	the overseas listed foreign shares in the ordinary share capital of the Bank with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong Dollars and listed and traded on the Hong Kong Stock Exchange
“IAS”	International Accounting Standards and its interpretations
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Latest Practicable Date”	27 August 2019, being the latest practicable date for the purpose of containing certain information in this report before the interim report is printed
“Listing”	the listing of the H Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

Definitions

“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Prospectus”	the prospectus of the Global Offering of the Bank
“Reporting Period”	the six months ended 30 June 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	the domestic shares and H shares of the Bank
“Supervisor(s)”	the supervisor(s) of the Bank

