



盛京銀行
SHENGJING BANK

Shengjing Bank Co., Ltd.*

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

Stock Code: 02066



2019 Interim Report



CONTENTS

1	Company Information	2
2	Financial Highlights	4
3	Chairman's Statement	8
4	Management Discussion and Analysis	11
4.1	Business Review	11
4.2	Financial Review	15
4.3	Business Overview	58
4.4	Risk Management	74
4.5	Future Prospects	85
5	Change in Share Capital and Shareholders	87
6	Directors, Supervisors, Senior Management and Employees	100
7	Significant Events	105
8	Review Report of the Independent Auditors	110
9	Interim Financial Statement	112
10	Notes to the Interim Financial Statement	123
11	Definition	254

* *Shengjing Bank Co., Ltd. is not an authorised 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 authorised to carry on banking and/or deposit-taking business in Hong Kong.*

COMPANY INFORMATION

Legal Name in Chinese	盛京銀行股份有限公司
Abbreviation in Chinese	盛京銀行
Legal Name in English	Shengjing Bank Co., Ltd.
Abbreviation in English	SHENGJING BANK
Legal Representative	QIU Huofa
Authorised Representatives	QIU Huofa and ZHOU Zhi
Secretary to the Board of Directors	ZHOU Zhi
Joint Company Secretaries	ZHOU Zhi and KWONG Yin Ping, Yvonne
Registered and Business Address	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
Contact Number	86-24-22535633
Website	www.shengjingbank.com.cn
Principal Place of Business in Hong Kong	Unit 3209, 32/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Website of the Hong Kong Stock Exchange on which the H Share Interim Report is Published	www.hkexnews.hk
Place of Maintenance of the Interim Report	Office of the Board of Directors of the Bank
Stock Name	Shengjing Bank
Stock Code	02066

COMPANY INFORMATION (CONTINUED)

H Share Registrar and its Business Address	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
Legal Advisor as to PRC Laws and its Business Address	Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, the PRC
Legal Advisor as to Hong Kong Law and its Business Address	Freshfields Bruckhaus Deringer 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong
Auditor and its Business Address	KPMG 8th Floor Prince's Building 10 Chater Road Hong Kong

FINANCIAL HIGHLIGHTS

(Expressed in thousands of Renminbi, unless otherwise stated)	January – June 2019	January – June 2018	Rate of Change (%)
Operating Results			
Net interest income	6,872,185	5,110,522	34.5
Net non-interest income	3,265,397	918,490	255.5
Operating income	10,137,582	6,029,012	68.1
Operating expenses	(2,011,047)	(1,816,109)	10.7
Impairment losses on assets	(4,596,742)	(1,250,657)	267.5
Profit before taxation	3,529,793	2,962,246	19.2
Net profit	3,144,191	2,838,059	10.8
Net profit attributable to equity shareholders of the Bank	<u>3,156,059</u>	<u>2,840,709</u>	<u>11.1</u>
Calculated on a per share basis (RMB)			
Basic and diluted earnings per share	<u>0.54</u>	<u>0.49</u>	<u>Change 0.05</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019	As at 31 December 2018	Rate of Change (%)
Major indicators of assets/liabilities			
Total assets	1,033,461,112	985,432,940	4.9
Of which: total loans and advances to customers ⁽¹¹⁾	430,402,042	376,597,360	14.3
Total liabilities	974,692,764	928,403,456	5.0
Of which: total deposits from customers ⁽¹¹⁾	582,238,957	514,166,997	13.2
Share capital	5,796,680	5,796,680	–
Equity attributable to equity shareholders of the Bank	58,208,600	56,457,868	3.1
Total equity	<u>58,768,348</u>	<u>57,029,484</u>	<u>3.0</u>
Profitability Indicators (%)			
Return on average total assets ⁽¹⁾	0.62	0.57	0.05
Return on average equity ⁽²⁾	10.86	10.68	0.18
Net interest spread ⁽³⁾	1.63	1.20	0.43
Net interest margin ⁽⁴⁾	1.53	1.30	0.23
Cost-to-income ratio ⁽⁵⁾	<u>19.06</u>	<u>29.82</u>	<u>(10.76)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	As at 30 June 2019	As at 31 December 2018	Change
Asset quality indicators (%)			
Non-performing loan ratio ⁽⁶⁾	1.69	1.71	(0.02)
Provision coverage ratio ⁽⁷⁾	170.47	160.81	9.66
Allowance to total loans ⁽⁸⁾	<u>2.88</u>	<u>2.75</u>	<u>0.13</u>

	As at 30 June 2019	As at 31 December 2018	Change
Capital adequacy ratio indicators (%)			
Core Tier-one capital adequacy ratio ⁽⁹⁾	8.60	8.52	0.08
Tier-one capital adequacy ratio ⁽⁹⁾	8.60	8.52	0.08
Capital adequacy ratio ⁽⁹⁾	11.73	11.86	(0.13)
Total equity to total assets ratio	<u>5.69</u>	<u>5.79</u>	<u>(0.10)</u>
Other indicators (%)			
Loan-to-deposit ratio ⁽¹⁰⁾	<u>73.92</u>	<u>73.24</u>	<u>0.68</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

Notes:

- (1) Representing the net profit for the period as a percentage of average balance of total assets at the beginning and at the end of the period.
- (2) Representing the net profit during the period as a percentage of the average balance of total equity at the beginning and the end of the period.
- (3) Calculated by deducting the average interest rate of interest-bearing liabilities from the average return rate of interest-earning assets.
- (4) Calculated by dividing net interest income by the average interest-earning assets.
- (5) Calculated by dividing operating expenses (less tax and surcharges) by operating income.
- (6) Calculated by dividing the balance of non-performing loans by total loans and advances to customers.
- (7) Calculated by dividing the balance of provision for impairment on loans by the non-performing loans.
- (8) Calculated by dividing the balance of the provision for impairment on loans by the total loans and advances to customers.
- (9) Core Tier-one Capital adequacy ratio, core capital adequacy ratio and capital adequacy ratio were calculated in accordance with the latest guidance promulgated by the CBIRC (effective from 1 January 2013).
- (10) The loan-to-deposit ratio is calculated by dividing the total loans and advances to customers by total deposits from customers.
- (11) Total loans and advances to customers do not include interest receivable, and total deposits from customers do not include interest payable.

CHAIRMAN'S STATEMENT

Looking back on the first half of 2019, Shengjing Bank actively responded to external challenges, fully promoted strategic transformation, consolidated operation and management basis and developed core competitiveness through deep implementation of the operational direction of “returning to its roots and focusing on principal businesses”, achieving satisfactory results in reform and development. As at 30 June 2019, Shengjing Bank achieved steady and healthy development with assets of the Bank amounting to RMB1,033.461 billion, including the total loans and advances to customers of RMB430.402 billion and deposits from customers of RMB582.239 billion, an operating income of RMB10.138 billion and a net profit of RMB3.144 billion, with a decrease in the non-performing loan ratio and a stable capital adequacy level. Under the strategic leadership of the Board, Shengjing Bank devoted itself to the synergic development of quality, scale and efficiency, deeply promoted strategic transformation, continued to optimise business mode, and comprehensively strengthened risk control, resulting in the constant enhancement of its endogenous momentum.

We deepen the reform of systems and mechanisms and continuously enhanced its capability in strategic leadership. In the first half of 2019, Shengjing bank fully capitalised on its market advantages and government resources integration capabilities to determine a management mechanism with high market orientation and form a diversified shareholding structure, which signified the favourable timing for Shengjing Bank to blossom amidst reform and development. On top of this basis, through top-level design improvement, Shengjing Bank further optimised the corporate governance structure of “general meeting of shareholders, the Board, the supervisory committee and senior management”, established a scientific and efficient mechanism on decision, implementation and supervision, and achieved independent operation, effective balance, cooperation and coordination among different governance entities. Meanwhile, by adhering to on the principles of adapting to local conditions and acting at the right timing by judging the actual condition, Shengjing Bank, guided by regulatory authorities and based on the actual operation and development of the Bank, amended the three-year development strategic planning, and determined strategic goals and directions for the future three years. The guiding function of the strategy plan was further strengthened.

CHAIRMAN'S STATEMENT (CONTINUED)

We optimised each business structure and continuously improved its capacity in serving the economy. Adhering to the strategic decision of the Board, first, Shengjing Bank brought a more reasonable structure of asset. In the first half of 2019, the construction of efficient retail banking system of Shengjing Bank was comprehensively commenced with solid customer base of over 10 million customers. Personal consumption loans increased by 258.1%, the amount of newly issued credit cards exceeded the sum of that for the previous 14 years, and retail asset became the new power for asset expansion. The platform structure of “two-level management and three-level marketing” of the corporate banking business was gradually established. Shengjing Bank accelerated the pace of implementing wealth and asset management product system and deepened the cooperation with industrial and regional leading enterprises, quality private enterprises and upstream and downstream small-micro enterprises of core customers, providing quality and efficient financial services for the real economy. Second, liability structure of Shengjing Bank has become more balanced. Shengjing Bank strengthened the operating principle of “taking deposits as the key foundation of the Bank” (存款立行), achieved the rapid growth of core liabilities, demonstrated favourable trend of growth in both public deposits and savings deposits, continuously decreased interbank market liabilities ratio and consistently increased debt management capabilities. Third, Shengjing Bank optimised its allocation of asset and liability, reserved adequate high-quality liquid assets, continuously increased the stability of the source of liabilities, consistently strengthened its term matching and pricing management capabilities, achieved remarkable results in liquidity risk management, and thus laid a solid foundation for its healthy development.

We improved its risk management system and capital increase and subscription were substantively carried out. In the first half of 2019, since Shengjing Bank improved risk directors dispatch system of each branch and each asset line and further improved its comprehensive risk control system which was integrated with the transformation and upgrading of business mode, the independence and professionalism, timeliness and effectiveness of risk management continued to be strengthened. Shengjing Bank has adhered to the business philosophy of solving historical problems through development. The Bank actively adopted various methods, such as asset transfer, litigation collection, asset restructuring, and asset write-off, to promote the collection and disposal of non-performing assets. Through these efforts, Shengjing Bank has achieved significant results in stock risk resolution and continuous improvement of the quality of its assets. The concept of “compliance creates value” was established in the whole bank, with effective exertion of guidance and protection of internal control system and smoother full chain operation of compliance, audit and supervision. Meanwhile, in order to enhance the capital adequacy level and advance the risk prevention ability, Shengjing Bank comprehensively commenced capital increase and subscription through the targeted issuance of 3 billion additional shares, thereby bolstering the sustainable development of its future businesses.

CHAIRMAN'S STATEMENT (CONTINUED)

We strengthened the development of talent teams and rapidly brought out the vitality in them.

With the concept of “talents bloom the bank”, Shengjing Bank further improved the internal talents selection mechanism, promoted a younger cadre team, improved the team’s level of specialization, and further enhanced the introduction of market-oriented talents. Shengjing Bank has introduced a number of middle-level and senior-level management talents from leading institutions in the industry and recruited a large number of management trainees from famous schools at home and abroad, and thus formed a talented team that is well-educated, well-qualified and with good operational and management skills. On top of this basis, Shengjing Bank made full use of the market-oriented incentive and constraint mechanism, continuously perfected the performance salary system which was related to operating results, and matched with risk responsibilities by focusing on enhancing the profitability of the Bank. Hence, the Bank has enhanced the continuous promotion of transmitting strategic goals, optimising resource allocation and unleashing the potentials of personnel, strengthening the role of guiding.

With determination and sustained efforts, one will always find himself a success. In the second half of 2019, Shengjing Bank will continue to adhere to the three-year development strategic planning, keep confidence, overcome challenges, take responsibilities, and work hard. The Bank will continue to solve problems with progress, and develop with innovation. Keeping in mind our original mission to serve the real economy, we will develop Shengjing Bank to a first-class urban commercial bank, shoulder the responsibility to build a sound bank, and achieve stable and continuous growth for the long run with our passion, hard work and power.

MANAGEMENT DISCUSSION AND ANALYSIS

4.1 ANALYSIS OF OVERALL OPERATIONS DURING THE REPORTING PERIOD

4.1.1 Social economy, financial situation and regulatory environment

Since the beginning of 2019, global economic growth slowed down in general due to sluggish demand from major economies and intensified international trade friction. The uncertainty in economic growth that China faces is increasing, due to factors including international financial market and the change of driving force in the domestic economic growth. In the first half of 2019, domestic economic growth was 6.3%, representing a decrease of 0.5 percentage point as compared with the same period of last year. However, domestic economy still operated within a reasonable range, while industrial structure was optimised continuously and endogenous growth drivers were improved to some extent.

Pursuant to the arrangements of the CPC Central Committee and the State Council, the Central Bank continued to fulfill the basic requirement of financial sector serving the real economy, continuously deepened supply-side structural reform in the financial sector, introduced prudent monetary policy, implemented countercyclical regulation at the proper time and to an appropriate degree, optimised transmission of monetary policy, and created appropriate monetary and financial environment. In the first half of 2019, the Central Bank actively applied and innovated instruments of structural monetary policy, and optimised transmission mechanism of monetary policy, therefore, monetary credit and Aggregate Financing to the Real Economy maintained reasonable growth. By the end of June 2019, balance of broad money (M2) amounted to RMB192.14 trillion, representing a year-on-year increase of 8.5%; balance of loans in RMB and foreign currency amounted to RMB151.6 trillion, representing a year-on-year increase of 12.5%; amount of deposit in RMB and foreign currency amounted to RMB192.79 trillion, representing a year-on-year increase of 8.1%; Aggregate Financing to the Real Economy stock amounted to RMB213.26 trillion, representing a year-on-year increase of 10.9%. Financial institutions put forth effort to relieve the financing difficulties encountered by private, small-and micro-sized enterprises, and increased support to financing of private, small-and micro-sized enterprises, therefore, inclusive, small and micro loans experienced rapid growth and the quality and efficiency of serving the real economy were improved steadily.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Targeting at three major tasks, namely, serving the real economy, preventing financial risks, and deepening financial reform, the state focused on high-quality development, further optimised capital replenishment channels of medium-and small-sized banks, and improved capital strength and risk tolerance of medium-and small-sized banks. The state led financial institutions to focus on principal businesses, return to their roots, keep optimising the construction of institutional system, marketing system and product system and provide quality and efficient financial services to the real economy and people's life. The state kept deepening market regulation, and resolutely curbed violations of laws and regulations, in order to encourage the development of financial institutions in compliance with laws and regulations. The CBIRC expanded financial openness on a steady basis and made continuous progress in high-level two-way financial openness.

4.1.2 Overview of operating results of the Bank

In the first half of 2019, the entire Bank implemented the operating strategy of "strengthening internal operation and management and building a positive market image externally", and strived to "increase deposit and customers, maintain quality and consolidate the foundation". Preliminary results were achieved in structural adjustment, asset size experienced steady improvement, profitability was increased remarkably and core competitiveness was gradually improved.

(I) *Business scale continued to expand, and structural adjustment achieved preliminary results.*

The asset scale of the Bank experienced steady improvement, credit supply was advanced in an orderly manner, interbank liabilities were continuously reduced, and business structure was further optimised. As of 30 June 2019, total assets of the Bank amounted to RMB1,033,461 million, representing an increase of 4.9%, reaching a new high; total loans and advances amounted to RMB430,402 million, representing an increase of 14.3% as compared with that at the beginning of the year; total liabilities amounted to RMB974,693 million, representing an increase of 5.0% as compared with that at the beginning of the year; total deposits from customers amounted to RMB582,239 million, representing an increase of 13.2% as compared with that at the beginning of the year; interbank liabilities amounted to RMB261,708 million, representing a decrease of 9.8% as compared with that at the beginning of the year; ratio of interbank liabilities was to 26.85%, representing a decrease of 4.39 percentage points, as compared with that at the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(II) Pricing power kept improving and interest rate spread kept rising.

The Bank deepened cooperation with strategic and quality customers, focused on principal business operations, continued to increase supply of general loans and high yield assets such as investment banking. Meanwhile, loan pricing power kept improving, which drove the continuous growth in net interest income. On liability side, the Bank adhered to the “developing and boosting the Bank through deposits”, continued to extend overall duration of liabilities, locked long-duration, low-cost financial sources, and further optimised liability duration and interest rate structure. In the first half of 2019, net interest spread and net interest margin of the Bank were 1.63% and 1.53%, respectively, representing a year-on-year increase of 43 base points and 23 base points, respectively.

(III) Operation performance experienced significant improvement, and income structure kept optimising.

Pre-provision operating profit of the Bank increased significantly, net profit experienced double-digit growth, and profitability improved remarkably. In the first half of 2019, the Bank recorded total pre-provision operating profit of RMB8,127 million, representing a year-on-year increase of RMB3,914 million, or 92.9%; net profit of RMB3,144 million, representing a year-on-year increase of RMB306 million, or 10.8%; operating income of RMB10,138 million, representing a year-on-year increase of RMB4,109 million, or 68.1%, including net interest income of RMB6,872 million, representing a year-on-year increase of RMB1,762 million, or 34.5%, and net non-interest income of RMB3,265 million, representing a year-on-year increase of RMB2,347 million, or 255.5%, accounting for 32.2% of operating income, and representing an increase of 17 percentage points as compared with that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(IV) Risk control ability kept improving and asset quality was improved.

In the first half of 2019, the Bank made provision for impairment of assets of RMB4,597 million, representing a year-on-year increase of RMB3,346 million, or 267.5%, therefore, risk management and compensation capabilities further improved. As of 30 June 2019, balance of non-performing loans of the Bank amounted to RMB7,283 million, representing an increase of RMB841 million as compared with that at the beginning of the year; non-performing loan ratio was 1.69%, representing a decrease of 0.02 percentage point, as compared with that at the beginning of the year; loan loss provision coverage ratio was 170.47%, representing an increase of 9.66 percentage point as compared with that at the beginning of the year; and provision-loan ratio was 2.88%, representing an increase of 0.13 percentage point, as compared with that at the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2 ANALYSIS OF FINANCIAL STATEMENTS

4.2.1 Analysis of the Income Statement

In the first half of 2019, the Bank achieved a profit before taxation of RMB3.53 billion, representing a year-on-year increase of RMB0.568 billion or 19.2%, and achieved a net profit of RMB3.144 billion, representing a year-on-year increase of RMB0.306 billion or 10.8%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Interest income	22,290,578	21,078,133	1,212,445	5.8
Interest expense	(15,418,393)	(15,967,611)	549,218	(3.4)
Net interest income	6,872,185	5,110,522	1,761,663	34.5
Net fee and commission income	611,246	373,426	237,820	63.7
Net trading gains	1,302,617	1,064,286	238,331	22.4
Net gains arising from investments	2,933,500	1,181,407	1,752,093	148.3
Net foreign exchange losses	(1,589,387)	(1,719,387)	130,000	(7.6)
Other operating income	7,421	18,758	(11,337)	(60.4)
Operating income	10,137,582	6,029,012	4,108,570	68.1
Operating expenses	(2,011,047)	(1,816,109)	(194,938)	10.7
Impairment losses on assets	(4,596,742)	(1,250,657)	(3,346,085)	267.5
Profit before taxation	3,529,793	2,962,246	567,547	19.2
Income tax expense	(385,602)	(124,187)	(261,415)	210.5
Net profit	3,144,191	2,838,059	306,132	10.8

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.1 Operating income

In the first half of 2019, the Bank achieved an operating income of RMB10.138 billion, representing a year-on-year increase of RMB4.109 billion or 68.1%, of which, net interest income accounted for 67.8% of the operating income, representing a year-on-year decrease of 17 percentage points, and net non-interest income accounted for 32.2% of the operating results, representing a year-on-year increase of 17 percentage points, which showed continuous optimization of income structure.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	Proportion	2018	Proportion
Net interest income	6,872,185	67.8	5,110,522	84.8
Net non-interest income	3,265,397	32.2	918,490	15.2
Operating income	10,137,582	100.0	6,029,012	100.0

4.2.1.2 Net interest income

In the first half of 2019, the Bank achieved a net interest income of RMB6.872 billion, representing a year-on-year increase of RMB1.762 billion, or 34.5%, mainly due to the year-on-year increase in interest income by RMB1.212 billion and year-on-year-decrease in interest expense of the Bank by RMB0.549 billion. The following table sets forth the interest income, interest expense and net interest income of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Interest income	22,290,578	21,078,133	1,212,445	5.8
Interest expense	(15,418,393)	(15,967,611)	549,218	(3.4)
Net interest income	6,872,185	5,110,522	1,761,663	34.5

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yields on interest-earning assets or the related average costs of interest-bearing liabilities for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities for the six months ended 30 June 2019 and 2018 are the average balances derived from the Bank's management accounts which have not been audited:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2019			For the six months ended 30 June 2018		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Interest-earning assets						
Loans and advances to customers	416,931,765	12,843,661	6.16	298,408,600	9,092,986	6.09
Financial investments	365,561,944	8,299,921	4.54	355,893,527	10,268,433	5.77
Deposits with Central Bank	76,076,002	553,480	1.46	75,207,206	554,149	1.47
Deposits and Placements with banks and other financial institutions	29,210,075	506,477	3.47	54,834,205	1,096,160	4.00
Financial assets held under resale agreements	<u>7,997,171</u>	<u>87,039</u>	<u>2.18</u>	<u>4,746,189</u>	<u>66,405</u>	<u>2.80</u>
Total interest-earning assets	<u>895,776,957</u>	<u>22,290,578</u>	<u>4.98</u>	<u>789,089,727</u>	<u>21,078,133</u>	<u>5.34</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2019			For the six months ended 30 June 2018		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
Interest-bearing liabilities						
Borrowings from Central Bank	16,053,646	257,465	3.21	20,396,519	286,249	2.81
Deposits from customers	558,961,013	8,554,175	3.06	395,305,788	6,498,360	3.29
Deposits and Placements from banks and other financial institutions	146,969,802	2,797,185	3.81	141,532,928	3,975,772	5.62
Financial assets sold under repurchase agreements	34,648,616	433,805	2.50	70,442,091	1,228,429	3.49
Debt securities issued	164,430,998	3,375,763	4.11	143,256,419	3,978,801	5.55
Total interest-bearing liabilities	921,064,075	15,418,393	3.35	770,933,745	15,967,611	4.14
Net interest income		6,872,185			5,110,522	
Net interest spread ⁽¹⁾			1.63			1.20
Net interest margin ⁽²⁾			1.53			1.30

Notes:

- (1) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.
- (2) Calculated by dividing net interest income by average balance of total interest-earning assets on annualised basis.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rates for the periods indicated. Volume and rate variances have been measured based on movements in average balances over these periods, and changes in interest rates have been measured based on daily average interest-earning assets and interest-bearing liabilities. Variances caused by changes in both volume and interest rate have been allocated to changes in interest rate.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2019 compared with 2018		
	Increase/ (decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-earning assets			
Loans and advances to customers	3,611,590	139,085	3,750,675
Financial investments	278,958	(2,247,470)	(1,968,512)
Deposits with Central Bank	6,402	(7,071)	(669)
Deposits and Placements with banks and other financial institutions	(512,238)	(77,445)	(589,683)
Financial assets held under resale agreements	45,485	(24,851)	20,634
Changes in interest income	<u>3,430,197</u>	<u>(2,217,752)</u>	<u>1,212,445</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2019 compared with 2018		
	Increase/ (decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
Interest-bearing liabilities			
Borrowings from Central Bank	(60,949)	32,165	(28,784)
Deposits from customers	2,690,298	(634,483)	2,055,815
Deposits and Placements from banks and other financial institutions	152,726	(1,331,313)	(1,178,587)
Financial assets sold under repurchase agreements	(624,197)	(170,427)	(794,624)
Debt securities issued	588,102	(1,191,140)	(603,038)
Changes in interest income expense	2,745,980	(3,295,198)	(549,218)
Changes in net interest income	684,216	1,077,447	1,761,663

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.
- (2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.
- (3) Represents interest income or expense for the period minus interest income or expense for the previous period.

4.2.1.3 Net interest spread and net interest margin

The net interest spread refers to the difference between the average yield of the average balance of the total interest-earning assets and the average cost of the total interest-bearing liabilities of the Bank. The net interest margin refers to the ratio of the net interest income to the average balance of the total interest-earning assets.

In the first half of 2019, the Bank continued to push forward in-depth adjustment to the asset-liability structure and strengthened the refined pricing management, resulting in the continuous optimization of indicators such as net interest spread and net interest margin. In the first half of 2019, the Bank has a net interest spread of 1.63%, representing a year-on-year increase of 0.43 percentage point, and a net interest margin of 1.53%, representing a year-on-year increase of 0.23 percentage point.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.4 Interest income

In the first half of 2019, the Bank achieved an interest income of RMB22.291 billion, representing a year-on-year increase of RMB1.212 billion or 5.8%, mainly due to the growth in the scale of interest-bearing assets.

The following table sets forth the breakdown of the interest income of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019		2018	
	Amount	% of total	Amount	% of total
Corporate loans (including discounted bills)	11,951,212	53.6	8,701,057	41.3
Personal loans	892,449	4.0	391,929	1.8
Sub-total	12,843,661	57.6	9,092,986	43.1
Financial investments	8,299,921	37.2	10,268,433	48.8
Deposits with Central Bank	553,480	2.5	554,149	2.6
Deposits and Placements with banks and other financial institutions	506,477	2.3	1,096,160	5.2
Financial assets held under resale agreements	87,039	0.4	66,405	0.3
Total	22,290,578	100.0	21,078,133	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers was the essential component of the Bank's interest income. In the first half of 2019, interest income of the Bank from loans and advances to customers amounted to RMB12.844 billion, representing a year-on-year increase of RMB3.751 billion or 41.2%, and accounted for 57.6% of the total interest income, representing an increase of 14.5 percentage points, which was due to the Bank's strengthening of customer marketing management, continuous improvement of the Company's business and retail business system, platforms, teams and mechanisms, and promotion of product, channel and service innovation, leading to the steady growth in the granting of loans, and therefore the increase in the average yield of loans. The following table sets forth the average balances of the loans and advances to customers and the average yields of related interest income and loans and advances to customers for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June					
	2019			2018		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans (including discounted bills)	383,619,826	11,951,212	6.23	281,118,813	8,701,057	6.19
Personal loans	33,311,939	892,449	5.36	17,289,787	391,929	4.53
Total	416,931,765	12,843,661	6.16	298,408,600	9,092,986	6.09

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Interest Income from Financial Investments

In the first half of 2019, interest income of the Bank from financial investments amounted to RMB8.3 billion, representing a year-on-year decrease of RMB1.969 billion or 19.2%, which was mainly due to the decline in the average yield of financial investments as compared with that of the previous year.

3. Interest Income from Deposits with Central Bank

In the first half of 2019, interest income of the Bank from deposits with central bank amounted to RMB0.553 billion, representing a year-on-year decrease of RMB0.669 million or 0.1%, which was mainly due to the slight decline in the average yield of the deposits with central bank.

4. Interest Income from Deposits and Placements with Banks and Other Financial Institutions

In the first half of 2019, interest income of the Bank from deposits and placements with banks and other financial institutions amounted to RMB0.506 billion, representing a year-on-year decrease of RMB0.59 billion or 53.8%, which was mainly due to the year-on-year decrease in the average balance of deposits and placements with bank and other financial institutions due to the Bank's adjustment to asset structure in line with the policies.

5. Interest Income from Financial Assets Held under Resale Agreements

In the first half of 2019, interest income of the Bank from financial assets held under resale agreements amounted to RMB87 million, representing a year-on-year increase of RMB21 million or 31.1%, which was mainly due to the increase in the average balance of financial assets sold under repurchase agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.5 Interest expense

In the first half of 2019, interest expense of the Bank amounted to RMB15.418 billion, representing a year-on-year decrease of RMB0.549 billion or 3.4%, which was mainly due to the optimization of interest-bearing liabilities structure and decrease in the average cost of interest-bearing liabilities. The following table sets forth the principal components of the interest expense of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019		2018	
	Amount	% of total	Amount	% of total
Borrowings from Central Bank	257,465	1.7	286,249	1.8
Deposits from customers	8,554,175	55.5	6,498,360	40.7
Deposits and Placements from banks and other financial institutions	2,797,185	18.1	3,975,772	24.9
Financial assets sold under repurchase agreements	433,805	2.8	1,228,429	7.7
Debt securities issued	3,375,763	21.9	3,978,801	24.9
Total	15,418,393	100.0	15,967,611	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Interest Expense on Deposits from customers

In the first half of 2019, interest expense on deposits from customers amounted to RMB8.554 billion, representing a year-on-year increase of RMB2.056 billion, or 31.6%, which was due to the Bank's operating principle of "taking deposits as the key foundation and driver of the Bank", continuous adjustment of the liability structure, effective consolidation of customer base, and steady increase of average deposit balance.

The following table sets forth the average balance, interest expense and average cost for each of the components of the Bank's deposits from customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June 2019			For the six months ended 30 June 2018		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits						
Demand	165,827,994	786,719	0.95	94,643,962	466,213	0.99
Time	218,190,409	4,322,071	3.96	187,711,547	3,587,267	3.82
Sub-total	384,018,403	5,108,790	2.66	282,355,509	4,053,480	2.87
Personal deposits						
Demand	17,055,093	34,281	0.40	14,189,692	28,523	0.40
Time	157,887,517	3,411,104	4.32	98,760,587	2,416,357	4.89
Sub-total	174,942,610	3,445,385	3.94	112,950,279	2,444,880	4.33
Total deposits from customers	558,961,013	8,554,175	3.06	395,305,788	6,498,360	3.29

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Interest Expense on Deposits and Placements from Banks and Other Financial Institutions

In the first half of 2019, interest expense of the Bank on deposits and placements from banks and other financial institutions amounted to RMB2.797 billion, representing a year-on-year decrease of RMB1.179 billion or 29.6%, which was due to the decrease in the average cost of the deposits and placements with banks and other financial institutions as the Bank acquisition of low-cost interbank liabilities in due course with reference to the capital changes in the interbank market.

3. Interest Expense on Financial Assets Sold under Repurchase Agreements

In the first half of 2019, interest expense of the Bank on financial assets sold under repurchase agreements amounted to RMB0.434 billion, representing a year-on-year decrease of RMB0.795 billion or 64.7%, which was due to the decrease in the average balance and cost of the repurchased financial disposed.

4. Interest Expense on Debt Securities Issued

In the first half of 2019, interest expense of the Bank on debt securities issued amounted to RMB3.376 billion, representing a year-on-year decrease of RMB0.603 billion or 15.2%, which was due to the decrease in the average cost for the issuance of bonds.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.6 Net Non-interest Income

In the first half of 2019, the Bank achieved the net non-interest income of RMB3.265 billion, representing a year-on-year increase of RMB2.347 billion or 255.5%, mainly due to the increasing transaction profitability of financial market of the Bank and quality development of asset management, agency and entrustment, commitments and other intermediate businesses, pushing forward the significant growth of net non-interest income.

1. Net Fee and Commission Income

In the first half of 2019, the Bank achieved a net fee and commission income of RMB611 million, representing a year-on-year increase of RMB238 million or 63.7%, mainly due to the transformation and development of intermediate businesses including corporate sector, retail banking sector and financial market sector by the Bank, continuous improvement of the types of product and service, and year-on-year increases of agency and custody service fees and settlement and clearing services fees.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Fee and commission income				
Agency and custody services fees	455,821	319,404	136,417	42.7
Settlement and clearing services fees	206,175	108,731	97,444	89.6
Bank card services fees	32,488	21,608	10,880	50.4
Fee and commission expense	(83,238)	(76,317)	(6,921)	9.1
Net fee and commission income	611,246	373,426	237,820	63.7

2. Net Trading Gains

In the first half of 2019, gains from financial assets at fair value through profit or loss held by the Bank amounted to RMB1.303 billion, representing a year-on-year increase of RMB238 million or 22.4%, mainly due to the increase in profits and losses from the change in fair value arising from derivative financial instruments held by the Bank incurred at the end of the period..

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Net Gains Arising from Investments

In the first half of 2019, the net gains arising from financial investments of the Bank amounted to RMB2.934 billion, representing a year-on-year increase of RMB1.752 billion or 148.3%, mainly due to the increase in gains from trading of bonds and fair value arising from public funds as the Bank strengthened investment management and research on the market trends, and adjusted the optimization of trading items and investment structure.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Net gains on other financial assets at fair value through profit and loss for the period	1,958,779	1,017,157	941,622	92.6
Net gains on disposal of financial assets at amortised cost	163,153	140,044	23,109	16.5
Dividends from financial assets designated at fair value through other comprehensive income	1,200	15,730	(14,530)	(92.4)
Net gains on disposal of financial assets at fair value through other comprehensive income	810,368	8,476	801,892	9,460.7
Total	2,933,500	1,181,407	1,752,093	148.3

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.7 Operating expenses

In the first half of 2019, the operating expenses of the Bank amounted to RMB2.011 billion, representing a year-on-year increase of RMB195 million or 10.7%, and the cost-to-income ratio was 19.06%, representing a year-on-year decrease of 10.76 percentage points. The increase in operating expense was mainly due to the increase in staff costs, depreciation and amortisation, and office expenses as the Bank proactively adhered to the concept of “taking the talent as the key foundation of the Bank and taking science and technology as the key focus of the Bank” (「人才立行、科技立行」) by increasing the high quality talent pool through various channels, speeding up the investment of information and technology projects and strengthening the restructuring of business outlets and the development of systemization and standardization..

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Staff costs	1,093,697	1,022,230	71,467	7.0
Tax and surcharges	78,664	18,435	60,229	326.7
Depreciation and amortisation	286,776	199,488	87,288	43.8
Rental of property and equipment and property management expenses	32,442	114,607	(82,165)	(71.7)
Office expenses	160,127	103,240	56,887	55.1
Other general and administrative expenses	359,341	358,109	1,232	0.34
Total operating expenses	2,011,047	1,816,109	194,938	10.7

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Staff Costs

In the first half of 2019, total staff costs of the Bank amounted to RMB1.094 billion, representing a year-on-year increase of RMB71 million or 7.0%, mainly due to the increase in the expenses on salaries, bonuses and allowances, other social insurance, and pension and annuity as the Bank, on the one hand, continuously push forward the introduction and foster of the talent in the key business areas, and on the other hand, optimise the salary system to stimulate the efficiency and vitality of human resources.

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
– Salaries, bonuses and allowances	747,049	717,111	29,938	4.2
– Pension and annuity	124,121	118,429	5,692	4.8
– Other social insurance	118,345	93,954	24,391	26.0
– Housing allowances	47,723	45,458	2,265	5.0
– Supplementary retirement benefits	2,527	3,260	(733)	(22.5)
– Others	53,932	44,018	9,914	22.5
Total staff costs	1,093,697	1,022,230	71,467	7.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Office Expenses, Rental of Property and Equipment and Property Management Expenses

Office expenses, rental of property and equipment and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. In the first half of 2019, office expenses, rental of property and equipment and property management expenses of the Bank amounted to RMB193 million, representing a year-on-year decrease of RMB25 million or 11.6%.

3. Depreciation and Amortisation

In the first half of 2019, depreciation and amortisation expenses of the Bank amounted to RMB287 million, representing a year-on-year increase of RMB87 million or 43.8%. The increase in depreciation and amortisation expenses were primarily due to the transformation and upgrading of business outlets of the Bank and increasing investment and science and technology.

4. Other General and Administrative Expenses

In the first half of 2019, other general and administrative expenses of the Bank amounted to RMB359 million, representing a year-on-year increase of RMB1 million or 0.34%. The increase in depreciation and amortisation was primarily due to the business and brand promotion efforts increased by the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.1.8 Impairment losses on assets

In the first half of 2019, impairment losses on assets of the Bank amounted to RMB4.597 billion, representing a year-on-year increase of RMB3.346 billion or 267.5%, mainly due to the risk offset ability further strengthened by the Bank as it adhered to the principle of prudent risk management and increased allowance accruals. The following table sets forth the principal components of impairment losses on assets of the Bank for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the six months ended 30 June			
	2019	2018	Change in amount	Rate of change (%)
Deposits and placements with bank and other financial institutions	137,874	(10,947)	148,821	(1,359.5)
Financial assets held under resale agreements	3,054	(4,748)	7,802	(164.3)
Loans and advances to customers	4,806,729	1,771,793	3,034,936	171.3
Financial investments	(426,390)	8,130	(434,520)	(5,344.6)
Credit commitment	79,676	(500,360)	580,036	(115.9)
Others	(4,201)	(13,211)	9,010	(68.2)
Total	4,596,742	1,250,657	3,346,085	267.5

4.2.1.9 Income tax expense

In the first half of 2019, income tax expense of the Bank amounted to RMB386 million, representing a year-on-year increase of RMB261 million or 210.5%, which was mainly due to the increase in the profit of the Bank during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2 Analysis of the Statement of Financial Position

4.2.2.1 Assets

As at 30 June 2019, total assets of the Bank were RMB1,033.461 billion, representing an increase of RMB48.028 billion or 4.9% as compared with that at the end of the previous year, mainly due to the increase in loans and advances to customers and financial assets held under resale agreements. The principal components of our assets are (i) loans and advances to customers, (ii) financial investments, (iii) cash and deposits with Central Bank and (iv) financial assets held under resale agreements, which accounted for 40.7%, 46.3%, 8.8% and 1.4%, respectively, of total assets of the Bank as at 30 June 2019. The following table sets forth the balances of principal components of total assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	of total (%)	Amount	of total (%)
Assets				
Total loans and advances to customers	430,402,042	41.7	376,597,360	38.2
Interest receivable	2,133,661	0.2	1,839,265	0.2
Provision for impairment	(12,414,750)	(1.2)	(10,358,586)	(1.0)
Net loans and advances to customers	420,120,953	40.7	368,078,039	37.4
Financial investments ⁽¹⁾	478,506,266	46.3	474,765,776	48.1
Deposits with banks and other financial institutions	12,207,742	1.2	29,098,503	3.0
Cash and deposits with Central Bank	91,272,531	8.8	97,573,501	9.9
Financial assets held under resale agreements	14,968,573	1.4	2,146,696	0.2
Placements with banks and other financial institutions	1,700,213	0.2	2,400,914	0.2
Derivative financial assets	3,478,309	0.3	2,171,078	0.2
Other assets ⁽²⁾	11,206,525	1.1	9,198,433	1.0
Total assets	1,033,461,112	100.0	985,432,940	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

- (1) Financial investments include financial assets at fair value through other comprehensive income, financial assets at amortised cost and other financial investments at fair value through profit or loss.
- (2) Includes property and equipment, other receivables, deferred income tax assets and other assets.

1. *Loans and Advances to Customers*

The total loans and advances to customers made by the Bank as at 30 June 2019 amounted to RMB430.402 billion with an increase of RMB53.805 billion or 14.3% as compared with that at the end of last year, and accounted for 41.7% of the total assets, representing an increase of 3.5 percentage points as compared to the end of last year. The loans and advances to customers made by the Bank consisted mainly of corporate loans (including discounted bills) and personal loans.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	of total (%)	Amount	of total (%)
Corporate loans				
– Corporate loans	374,007,251	86.9	347,547,631	92.3
– Discounted bills	17,147,728	4.0	3,597,503	1.0
Personal loans				
– Residential mortgage	26,361,735	6.1	20,822,817	5.5
– Personal consumption loans	11,014,047	2.6	3,075,729	0.8
– Credit cards	1,393,801	0.3	799,698	0.2
– Personal business loans	458,721	0.1	732,873	0.2
– Others	18,759	0.0	21,109	0.0
Total loans and advances to customers	430,402,042	100.0	376,597,360	100.0

Corporate loans constituted the largest component of the Bank's loan portfolio. As at 30 June 2019, the corporate loans (including discounted bills) of the Bank amounted to RMB391.155 billion, representing an increase of RMB40.01 billion or 11.4% as compared to the end of last year and accounting for 90.9% of the total loans and advances to customers, mainly due to the fact that the Bank continuously increasing the efforts to serve real economy by focusing on the operation of main business guided by the market demand, deepening the cooperation with strategic clients and high-quality clients, and proactively developing the individualized, differentiated and customized corporate financial products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Personal loans offered by the Bank mainly include residential mortgage, personal consumption loans, credit cards and personal business loans. As at 30 June 2019, personal loans of the Bank amounted to RMB39.247 billion with an increase of RMB13.795 billion or 54.2% as compared with the end of last year, and accounted for 9.1% of total loans and advances to customers, representing an increase of 2.4 percentage points, mainly due to the rapid growth of year-on-year increase in personal consumption loans and residential mortgage as the Bank proactively promoted the strategic transformation of retail business and accelerated the pace of the development of professionalized operational system of credit loan of retail business to meet clients' demand and optimize the structure of retail asset.

1) Loans by collateral

The structure of collaterals of the Bank's loans and advances to customers was stable and the Bank's capability of mitigating risks was relatively solid. As at 30 June 2019, the balance of loans guaranteed or secured by mortgages and was RMB410.393 billion, representing an increase of RMB48.039 billion or 13.3% as compared with that at the end of the previous year, and accounted for 95.4% of the total loans and advances to customers; and the balance of unsecured loans was RMB20.009 billion, representing an increase of RMB5.766 billion or 40.5% as compared with that at the end of the previous year, and accounted for 4.6% of the total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such a loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	of total (%)	Amount	of total (%)
Loans secured by mortgages	135,774,057	31.5	129,346,181	34.3
Loans secured by pledges	72,413,742	16.8	62,532,085	16.6
Guaranteed loans	202,205,413	47.1	170,476,030	45.3
Unsecured loans	20,008,830	4.6	14,243,064	3.8
Total loans and advances to customers	430,402,042	100.0	376,597,360	100.0

2) Changes in provision for impairment on loans and advances to customers

As at 30 June 2019, the balance of provision for impairment on loans and advances to customers was RMB12.415 billion, representing an increase of RMB2.056 billion or 19.8% as compared with that at the end of the previous year, mainly due to the fact that the Bank increased the level of impairment provision.

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

	As at 30 June 2019				As at 31 December 2018			
	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without credit impairment loss	A lifetime expected credit loss – loans with credit impairment loss	Total	Expected credit loss in the next 12 months	A lifetime expected credit loss – loans without credit impairment loss	A lifetime expected credit loss – loans with credit impairment loss	Total
Balance as at the beginning of the period	3,640,867	1,200,134	5,517,585	10,358,586	3,347,500	1,382,476	2,929,100	7,659,076
Transferred to:								
-to expected credit loss over the next 12 months	1	(1)	-	-	8,328	(8,328)	-	-
-to lifetime expected credit losses: not credit-impaired loans	(36,214)	36,214	-	-	(7,833)	7,833	-	-
-to lifetime expected credit losses: credit-impaired loans	(14,398)	(187,369)	201,767	-	(140,717)	(398,536)	539,253	-
Net charge for the period	474,680	548,489	3,778,902	4,802,071	433,589	216,689	4,470,653	5,120,931
Transfer out	-	-	(2,999,778)	(2,999,778)	-	-	(2,076,660)	(2,076,660)
Unwinding of discount	-	-	(83,624)	(83,624)	-	-	(137,928)	(137,928)
Write-offs	-	-	(15,000)	(15,000)	-	-	(206,976)	(206,976)
Recoveries	-	-	352,495	352,495	-	-	143	143
Balance as at the end of the period	<u>4,064,936</u>	<u>1,597,467</u>	<u>6,752,347</u>	<u>12,414,750</u>	<u>3,640,867</u>	<u>1,200,134</u>	<u>5,517,585</u>	<u>10,358,586</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Financial Investments

As of 30 June 2019, the financial investments (including financial assets at fair value through other comprehensive income, financial assets at amortised cost, other financial assets at fair value through profit or loss) of the Bank amounted to RMB478.506 billion, representing an increase of RMB3.74 billion or 0.8% as compared with those of the end of the previous year, and accounted for 46.3% of the total assets, representing an decrease of 1.8 percentage points as compared with that at the end of the previous year. The following table set forth the main components of the Bank's financial investments (exclusive of interest receivable) as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	168,337,463	35.5	151,690,685	32.3
– Bonds issued by other banks and financial institutions	27,757,104	5.9	35,581,570	7.6
– Corporate entity bonds	1,030,961	0.2	1,030,961	0.2
– Investment management products managed by securities companies	138,441,692	29.2	103,158,400	22.0
– Financial products issued by financial institutions	1,047,943	0.2	10,485,410	2.2
– Bonds issued by policy banks	59,763	0	1,434,344	0.3
Financial assets at fair value through other comprehensive income	44,539,898	9.4	58,741,147	12.4
– Bonds issued by policy banks	25,103,394	5.3	26,904,821	5.7
– Government bonds	7,617,429	1.6	17,882,657	3.8
– Bonds issued by other banks and financial institutions	1,201,945	0.3	1,018,740	0.2
– Corporate entity bonds	2,951,405	0.6	4,532,188	1.0
– Investment management products managed by securities companies	5,593,550	1.2	6,330,566	1.3
– Equity investments	2,072,175	0.4	2,072,175	0.4

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Financial assets at amortised cost	261,883,103	55.1	259,896,591	55.3
– Bonds issued by policy banks	73,171,594	15.4	64,533,451	13.7
– Government bonds	54,338,387	11.5	51,379,771	10.9
– Bonds issued by other banks and financial institutions	9,077,367	1.9	5,888,675	1.3
– Corporate entity bonds	18,726,686	3.9	30,809,362	6.6
– Investment management products managed by securities companies	16,752,223	3.5	21,722,671	4.6
– Investment management products under the trust scheme	91,786,377	19.3	87,960,574	18.7
Less: provisions for financial assets at amortised cost	(1,969,531)	(0.4)	(2,397,913)	(0.5)
Total	474,760,464	100.0	470,328,423	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) Changes in the provision for financial assets at fair value through other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019				As at 31 December 2018			
	Expected credit loss in the next 12 months	A lifetime expected credit loss – without credit impairment loss	A lifetime expected credit loss – with credit impairment loss	Total	Expected credit loss in the next 12 months	A lifetime expected credit loss – without credit impairment loss	A lifetime expected credit loss – with credit impairment loss	Total
		loss	loss			loss	loss	
Balance at the beginning of the period	5,453	–	–	5,453	8,801	–	–	8,801
Net charge for the period	1,992	–	–	1,992	(3,348)	–	–	(3,348)
Balance as at the end of the period	7,445	–	–	7,445	5,453	–	–	5,453

2) Changes in the provision for financial assets at amortised cost

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019				As at 31 December 2018			
	Expected credit loss in the next 12 months	A lifetime expected credit loss – without credit impairment loss	A lifetime expected credit loss – with credit impairment loss	Total	Expected credit loss in the next 12 months	A lifetime expected credit loss – without credit impairment loss	A lifetime expected credit loss – with credit impairment loss	Total
		loss	loss			loss	loss	
Balance at the beginning of the period	1,322,900	785,637	289,376	2,397,913	1,243,608	52,321	57,835	1,353,764
Transferred to :								
- to expected credit losses over the next 12 months	288,792	(288,792)	–	–	37,169	(37,169)	–	–
- without credit impairment loss	(8,620)	8,620	–	–	–	–	–	–
- with credit impairment loss	(6,717)	–	6,717	–	–	(5,494)	5,494	–
Net (release)/charge for the period	(700,622)	(103,027)	375,267	(428,382)	42,123	775,979	226,047	1,044,149
Balance as at the end of the period	895,733	402,438	671,360	1,969,531	1,322,900	785,637	289,376	2,397,913

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2.2 Liabilities

As of 30 June 2019, total liabilities of the Bank amounted to RMB974.693 billion, representing an increase of RMB46.289 billion or 5% as compared with that at the end of the previous year. The Bank's liabilities mainly consisted of (i) deposits from customers; (ii) debt securities issued; and (iii) deposits from banks and other financial institutions, accounting for 61.2%, 14.8% and 9.7%, respectively, with respect to the total liabilities.

The following table sets forth the components of the Bank's total liabilities as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	of total (%)	Amount	of total (%)
Borrowings from Central Bank	30,698,117	3.1	41,718,868	4.5
Deposits from customers	596,528,129	61.2	524,940,548	56.5
Deposits from banks and other financial institutions	94,330,493	9.7	80,993,681	8.7
Financial liabilities at fair value through profit or loss	25,477,066	2.6	14,601,560	1.6
Derivative financial liabilities	724,491	0.1	758,626	0.1
Financial assets sold under repurchase agreements	50,828,091	5.2	32,309,138	3.5
Debt securities issued	143,785,817	14.8	186,567,225	20.1
Placements from banks and other financial institutions	24,137,828	2.5	42,821,263	4.6
Other liabilities ⁽¹⁾	8,182,732	0.8	3,692,547	0.4
Total	974,692,764	100.0	928,403,456	100.0

Note:

- (1) Including amounts in settlement accounts, staff remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Deposits from Customers

As of 30 June 2019, the Bank's total deposits from customers amounted to RMB582.239 billion, with an increase of RMB68.072 billion or 13.2% as compared with the number recorded at the end of the previous year, of which corporate deposits increased by RMB38.583 billion as compared with that at the end of the previous year, and individual deposits increased by RMB21.617 billion as compared with that at the end of the previous year. The total deposits from customers accounted for 61.2% of the total liabilities, representing an increase of 4.7 percentage points as compared with that at the end of the previous year. The following table sets forth the Bank's deposits from customers (exclusive of interest payable) and product types as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Corporate deposits				
Demand deposits	172,586,380	29.7	157,657,454	30.7
Time deposits	182,979,639	31.4	159,325,536	31.0
Sub-total	355,566,019	61.1	316,982,990	61.7
Personal deposits				
Demand deposits	18,071,522	3.1	16,571,753	3.2
Time deposits	162,559,128	27.9	142,442,046	27.7
Sub-total	180,630,650	31.0	159,013,799	30.9
Other deposits ⁽¹⁾	46,042,288	7.9	38,170,208	7.4
Total	582,238,957	100.0	514,166,997	100.0

Note: Mainly including pledged deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued (exclusive of interest payable) as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019 Amount	As at 31 December 2018 Amount
Tier-two capital bond with fixed rate maturing in May 2024	–	2,200,000
Tier-two capital bond with fixed rate maturing in December 2025	10,000,000	10,000,000
Tier-two capital bond with fixed rate maturing in December 2027	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2019	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	12,000,000	12,000,000
Financial fixed rate bonds maturing in October 2021	8,000,000	8,000,000
Financial fixed rate bonds maturing in November 2021	6,900,000	6,900,000
Interbank certificates of deposits issued	92,411,868	133,950,363
Total	142,311,868	186,050,363

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2.2 billion in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. The issuer has an redemption option for such bonds, and the Bank exercised the issuer redemption option on 30 May 2019 to redeem all current bonds in a lump sum per face value.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB10 billion in the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued Tier-two Capital bonds of commercial banks in the aggregate of RMB6 billion on the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The interest is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem all or part of the current bonds in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued 2016 fixed rate financial bonds in the aggregate of RMB5 billion on 26 August 2016 with a term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued 2016 fixed rate financial fixed rate bonds in the aggregate of RMB2 billion on 26 August 2016 with a term of maturity of 5 years and an annual coupon rate of 3.10%.

The Bank issued the first tranche of 2018 fixed-rate financial bonds in the aggregate of RMB12 billion on 15 August 2018 with a term of maturity of 3 years and an annual coupon rate of 4.35%.

The Bank issued the second tranche of 2018 fixed-rate financial bonds in the aggregate of RMB8 billion on 25 October 2018 with a term of maturity of 3 years and an annual coupon rate of 4.10%.

The Bank issued the third tranche of 2018 fixed-rate financial bonds in the aggregate of RMB6.9 billion on 26 November 2018 with a term of maturity of 3 years and an annual coupon rate of 3.98%.

As at 30 June 2019, the balance of certificates of interbank deposit issued by the Bank was RMB92.412 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.2.3 Equity

As of 30 June 2019, the equity balance of the Bank amounted to RMB58.768 billion, representing an increase of RMB1.739 billion or 3.05% as compared with that at the end of the previous year. The following table sets forth the components of the equity of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Share capital	5,796,680	9.9	5,796,680	10.2
Capital reserve	11,855,505	20.2	11,855,505	20.8
Surplus reserve	6,622,797	11.2	6,110,162	10.7
General reserve	13,398,535	22.8	12,571,882	22.0
Investment revaluation reserve	407,881	0.7	1,122,587	2.0
Provision reserve	10,299	0.0	5,311	0.0
Reserve on remeasurement of defined benefit liability	(13,884)	0.0	(13,877)	0.0
Retained earnings	20,130,787	34.2	19,009,618	33.3
Non-controlling interests	559,748	1.0	571,616	1.0
Total equity	58,768,348	100.0	57,029,484	100.0

4.2.3 Loan quality analysis

During the reporting period, the Bank continued to strengthen credit risk management through strict control over incremental risks and multiple measures to mitigate existing risks, thereby the overall quality of the loans remained stable.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.3.1 Breakdown of loans by the five-category classification system

Breakdown of loans by the five-category classification system

The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated. The non-performing loans of the Bank are classified into loans and advances to customers that are substandard, doubtful and loss. As of 30 June 2019, the non-performing loans of the Bank amounted to RMB7.283 billion, impairment provision on loans and advances to customers amounted to RMB12.415 billion, and the non-performing ratio was 1.69, representing a decrease of 0.02 percentage point as compared with that at the end of the previous year. The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification system as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019		As at 31 December 2018	
	Amount	% of total	Amount	% of total
Normal	405,873,526	94.3	352,718,824	93.7
Special mention	17,245,815	4.0	17,437,018	4.6
Substandard	6,955,789	1.6	6,181,817	1.6
Doubtful	288,602	0.1	219,069	0.1
Loss	38,310	0.0	40,632	0.0
Total loans and advance to customers	430,402,042	100.0	376,597,360	100.0
Non-performing loan	7,282,701	1.69	6,441,518	1.71

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.3.2 Concentration of loans

1. Concentration in terms of Industry and Distribution of Non-performing Loans

During the Reporting period, the Bank focused on the market demand. By targeting at mainstream customers in the mainstream industry and quality customers in the quality industry, the Bank allocated financial resources to the key areas of economic and social development so as to vigorously improve the capability to serve the real economy and gradually optimize the industrial structure of loans.

The following table sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019				As at 31 December 2018			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Wholesale and retail	183,700,622	42.7	3,594,721	1.96	173,690,903	46.0	2,950,915	1.70
Renting and business activities	53,972,774	12.5	19,441	0.04	43,515,629	11.6	10,490	0.02
Manufacturing	35,624,011	8.3	2,251,524	6.32	40,591,373	10.8	2,181,386	5.37
Real estate	30,462,048	7.1	327,069	1.07	28,954,810	7.7	82,922	0.29
Construction	29,646,212	6.9	129,284	0.44	19,190,327	5.1	411,499	2.14
Culture, sports and entertainment	6,548,959	1.5	10,000	0.15	1,893,934	0.5	48,000	2.53
Production and supply of electric power, heat, gas and water	4,269,819	1.0	11,891	0.28	5,245,370	1.4	11,891	0.23
Accommodation and catering	3,974,067	0.9	50,590	1.27	6,053,565	1.6	8,740	0.14

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019				As at 31 December 2018			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio (%)
Transportation, storage and postal services	2,837,799	0.7	63,560	2.24	3,895,292	1.0	63,560	1.63
Mining	2,636,396	0.6	19,597	0.74	2,864,996	0.8	19,597	0.68
Agriculture, forestry, animal husbandry and fishery	1,866,412	0.4	15,450	0.83	2,568,981	0.7	14,950	0.58
Household and other services	1,173,000	0.3	–	0.00	1,352,600	0.4	–	0.00
Others	17,295,132	4.0	492,338	2.85	17,729,851	4.7	486,978	2.75
Discounted bills	17,147,728	4.0	–	0.00	3,597,503	1.0	–	0.00
Personal loans	39,247,063	9.1	297,236	0.76	25,452,226	6.7	150,590	0.59
Total	430,402,042	100.0	7,282,701	1.69	376,597,360	100.0	6,441,518	1.71

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

As of 30 June 2019, loans provided to customers of (i) wholesale and retail, (ii) renting and business activities sectors (iii) manufacturing, and (iv) real estate represented the largest components of the Bank's corporate loans. As at 30 June 2019 and 31 December 2018, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB303.759 billion and RMB286.753 billion, respectively, accounting for 70.6% and 76.1%, respectively, with respect to the Bank's total loans and advances to customers. The non-performing loans of the Bank were mainly extended to wholesale, and retail and manufacturing industries, which was primarily affected by downward pressure on the economy and industry restructuring.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Concentration in terms of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the borrowing amounts of the ten largest single borrowers as at 30 June 2019. As of the same date, all such loans were classified as normal loans:

Customer	Industry involved	As at 30 June 2019	
		Amount	% of total
Customer A	Renting and business activities	7,500,000	1.74%
Customer B	Real estate	6,139,979	1.43%
Customer C	Real estate	5,860,000	1.36%
Customer D	Renting and business activities	5,543,730	1.29%
Customer E	Manufacturing	5,408,900	1.26%
Customer F	Renting and business activities	5,101,000	1.19%
Customer G	Wholesale and retail	5,000,000	1.16%
Customer H	Wholesale and retail	5,000,000	1.16%
Customer I	Culture, sports and entertainment	5,000,000	1.16%
Customer J	Wholesale and retail	4,604,151	1.07%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Distribution of Non-performing Loans by Product Type

The following table sets forth the loans and non-performing loans by product type as of the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019			As at 31 December 2018		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	391,154,979	6,985,465	1.79	351,145,134	6,290,928	1.79
Short-term loans	166,564,425	5,649,026	3.39	155,539,564	5,441,449	3.50
Medium and long term loans	207,442,826	1,336,439	0.64	192,008,067	849,479	0.44
Discounted bills	17,147,728	–	0.00	3,597,503	–	0.00
Retail loans	39,247,063	297,236	0.76	25,452,226	150,590	0.59
Residential mortgage	26,361,735	121,111	0.46	20,822,817	83,294	0.40
Personal business loans	458,721	78,241	17.06	732,873	6,969	0.95
Personal consumption loans	11,014,047	55,765	0.51	3,075,729	29,990	0.98
Credit card overdrawn	1,393,801	40,920	2.94	799,698	29,137	3.64
Other	18,759	1,199	6.39	21,109	1,200	5.68
Total	430,402,042	7,282,701	1.69	376,597,360	6,441,518	1.71

As at 30 June 2019 and 31 December 2018, the non-performing loan ratio of the Bank, defined as non-performing loans divided by the Bank's total loans and advances to customers, was 1.69% and 1.71%, respectively.

As at 30 June 2019 and 31 December 2018, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.79% and 1.79%, respectively.

As at 30 June 2019 and 31 December 2018, the non-performing loan ratio of the Bank's personal loan was 0.76% and 0.59%, respectively.

4.2.4 Analysis on Capital Adequacy Ratio

The Bank calculated and disclosed capital adequacy ratios in accordance with the relevant provisions of the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the CBIRC. As at 30 June 2019, the Bank's capital adequacy ratios at all tiers met the regulatory requirements of the new regulation. The Bank's core Tier-one Capital adequacy ratio and Tier-one Capital adequacy ratio were both 8.6%, increased by 0.08 percentage point from the end of the previous year; the capital adequacy ratio was 11.73%, decreased by 0.13 percentage point from the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019	As at 31 December 2018
Core capital		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	6,622,797	6,110,162
– General reserve	13,398,535	12,571,882
– Investment revaluation reserve	407,881	1,122,587
– Provision reserve	10,299	5,311
– Retained earnings	20,130,787	19,009,618
– Qualifying portions of non-controlling interests	79,302	33,468
– Others	(13,884)	(13,877)
Core Tier-one Capital	58,287,902	56,491,336
Core Tier-one capital deductions	(133,701)	(118,219)
Net Core Tier-one Capital	<u>58,154,201</u>	<u>56,373,117</u>
Other Tier-one capital	–	–
Net Tier-one Capital	58,154,201	56,373,117
Tier-two Capital		
– Qualifying portions of tier-two capital instruments issued	16,000,000	18,200,000
– Surplus provision for loan impairment	5,172,173	3,917,068
– Core Tier-two Capital deductions	–	–
Net tier-two Capital	<u>21,172,173</u>	<u>22,117,068</u>
Total net Capital	<u><u>79,326,374</u></u>	<u><u>78,490,185</u></u>
Total risk weighted assets	676,440,483	661,889,166
Core tier-one Capital adequacy ratio	8.60%	8.52%
Tier-one Capital adequacy ratio	8.60%	8.52%
Capital adequacy ratio	<u><u>11.73%</u></u>	<u><u>11.86%</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.5 Segment information

4.2.5.1 Summary of regional branches

The Bank is mainly operating within China. Its head office and 18 branches are located in five provinces and municipalities directly under the Central Government. It also established seven subsidiaries in Liaoning Province, Shanghai and Zhejiang Province.

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating revenue				Non-current assets			
	For the six months ended 30 June				As at 30 June 2019		As at 31 December 2018	
	2019		2018		Amount	Percentage (%)	Amount	Percentage (%)
	Amount	Percentage (%)	Amount	Percentage (%)				
Northeast China Region	9,091,060	89.6	5,069,834	84.1	5,753,539	94.4	5,082,828	93.5
North China Region	655,024	6.5	848,244	14.1	296,089	4.9	307,646	5.6
Others	391,498	3.9	110,934	1.8	40,997	0.7	46,304	0.9
Total	10,137,582	100.0	6,029,012	100.0	6,090,625	100.0	5,436,778	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.5.2 Summary of business segments

Since this year, the Bank adhered to the concept of "returning to its roots and focusing on principal businesses" by accelerating the establishment of large company and sizable retail business and optimizing the business structure of the same industry. In the first half of 2019, the operating revenue of corporate banking amounted to RMB6.02 billion, accounting for 59.4% of the total operating revenue. The operating revenue of retail banking business amounted to RMB878 million, accounting for 8.7% of the total operating revenue. The operating revenue of treasury business amounted to RMB3.234 billion, accounting for 31.8% of the total operating revenue.

The Bank manages its business by dividing its business into several business segment based on business lines and geographical areas. The business segments have been reported in the same way as such information is reported internally, which is provided to the Bank's management for allocating resources to and evaluating results of the business segments. The Bank identified the following segments to be reported based on the business segments:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June			
	2019		2018	
	Amount	of total (%)	Amount	of total (%)
Operating revenue				
Corporate banking	6,020,074	59.4	3,844,543	63.8
Retail banking	878,200	8.7	410,772	6.8
Treasury business	3,234,037	31.8	1,763,361	29.2
Others	5,271	0.1	10,336	0.2
Total	10,137,582	100.0	6,029,012	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.2.6 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptances, issued letters of credit, issued letters of guarantee, unused credit card commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptances, issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptances are commitments made by the Bank to encash a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. As at 30 June 2019, the balance of off-balance sheet items of the Bank totaled RMB345.044 billion. The following table sets forth the Bank's credit commitments and other off-balance sheet items as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 30 June 2019	As at 31 December 2018
Unused credit card commitments	6,817,247	3,450,469
Guarantees, bank acceptances and letters of credit	192,750,429	168,013,533
Operating lease commitments	–	684,937
Capital commitments	463,473	478,644
Pledged assets	145,013,243	146,554,408
Total	345,044,392	319,181,991

4.3 BUSINESS OVERVIEW

4.3.1 Corporate Banking Business

The Bank persistently focused on consolidating operational capabilities for our quality customer base, paid attention to improving the level of execution and market-oriented operation and management, positioned our customers as “high quality customers in high quality industries and mainstream customers in mainstream industries”, and became a “mainstream financial service providers with distinctive characteristics.” In accordance with the operating mode of two-tier management and three-tiers marketing, the Bank focused on the six elements of structure, team, product, mechanism, process and system, established core competitiveness of the corporate banking business. The Bank persistently enhanced the operational capabilities of our quality customer base, effectively developed a business system that employs the “systematic marketing and sales at the frontline + product follow-up at the front office + assurance and support at the back office”. The Bank exerted more efforts in developing institutional clients, improved the comprehensive service capabilities for our strategic customers, strengthened the construction of trading banking platform to improve product coverage.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.1.1 Corporate deposits

The Bank actively seized market opportunities, persistently deepened the cultivation of key customers, focused on clients in the category of “high quality customers in high quality industries and mainstream customers in mainstream industries”, strengthened the expansion capabilities of industrial chains as well as upstream and downstream for core customers, thus the development of customer structure has shown a diversified, varied and high-level trend, with an ever consolidating customer base. The Bank reinforced the marketing mode under the three-tier operational system comprising the head office, branches and sub-branches for key customers and key projects, gave full play to the forward-looking, sophisticated, efficient and scientific resource allocation capabilities of the head office, formulated development plans for product research and development, devised an overall marketing plan and accomplished centralized investment of resources in key industries and core products. It successfully launched the Shengjing Bank Wealth Management product, set up an integrated product service platform, boosted customers’ loyalty, promoted smooth development of key customers and key projects, strengthened the foundation for cooperation, and effectively enhanced the market influence and competitiveness of the Bank while further increasing the balance of deposits from various types of corporations. As of 30 June, 2019, the balance of corporate deposits amounted to RMB355.566 billion, representing an increase of RMB38.583 billion from the end of the year, or an increase of 12.2%.

According to the information provided by the Business Management Department of the PBOC Shenyang Branch, as at 30 June 2019, the balance of Renminbi corporate deposits with the Bank in Shenyang area amounted to RMB240.355 billion, ranking first among the banks in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area represent a market share of 26%.

4.3.1.2 Corporate Loans

The Bank adhered to serving the real economy. With support by key strategies and key projects of China, the Bank has allocated credit resources to key areas and deficiencies of economic and social development. The Bank optimized resource allocation, persistently enhanced utilization efficiency of credit assets, adhered to revitalizing its stock, and continuously increased the effort in recovering maturing loans, accelerated the flow of existing loans. The Bank boosted profit contribution of credit assets, continued to enhance usage efficiency of credit capital, and continued to increase differentiated and refined management levels of customers. As of 30 June 2019, the balance of RMB-denominated corporate loans (including discounted bills) amounted to RMB391.155 billion, representing an increase of RMB40.01 billion or 11.4% from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.1.3 Trade Finance

The Bank devoted itself to the “Going-out” development strategy, exploited advantageous regions and industries as breakthroughs, focused on the diversified demands of the customers, strived to develop the comprehensive financial service integrating clearance, financing, cash management and value-added services. Through improvements on our operation system and interactive platform, the Bank increased the intensity of product innovation, strengthened data integration analysis and application of network information technology, strengthened cooperation with third parties, effectively prevented and controlled risks. The Bank will continue to adhere to compliance operation and constantly enhance the service ability for trade finance. As of 30 June 2019, the clearance volume of the trade finance business reached USD14.087 billion, representing a year-on-year increase of 123%. Revenue from the trade finance intermediary business amounted to USD158 million, representing a year-on-year increase of 114%.

4.3.2 Retail banking

The Bank initiated the development of high-efficient retail banking system on all fronts, and promoted the transformation and upgrading of outlets through replacement by technology, redesign counter work process, reforms of organization, management of service quality and renovation of outlet environment, etc. Concentrating on the development of differentiated and professional operating system for mass finance customers, for wealth management customers and for retail credit products, the Bank enhanced acquisition of customers and operational capabilities, thus the development of retail banking business entered into a new era.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.2.1 *Personal Deposits*

The Bank strived to promote the establishment of a professional and differentiated public finance and wealth management marketing system for customers, forge a professional marketing team, carry out in-depth customer acquisition and operation, carry out accurate marketing and cross-marketing through extensive product system, multi-functional channel system, sophisticated management and characteristic advertisement, raise the contribution of customer deposit, and promote rapid growth of savings deposit with multiple measures. The first measure is the constant optimization of the function of savings products, make use of flexible product systems and pricing strategies to continuously enhance the market competitiveness of deposit products and meet the diverse needs of customers, promoting growth of deposit scale. The second one is to promote the integration of online and offline channels, carry out ecosystem and scenario marketing, and to increase customer's loyalty. The third one is to concentrate on customers' operation, implement flattening and full-process management, adhere to the regularization of whole-company marketing, and persistently stimulate the growth of deposits. The fourth one is to exert greater effort on brand and product advertisement, continuously conduct publicity and marketing activities by focusing on high-quality agency service customers, middle and high-end communities, and the market, and constantly improve recognition by customers. As of 30 June 2019, the balance of personal deposits was RMB180.631 billion, representing an increase of RMB21.617 billion, or 13.6%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.2.2 Personal Loans

The Bank continued to deepen its retail credit transformational development. Firstly, while maintaining the individual residential mortgage loan business, the Bank vigorously promoted the development of its exclusive consumer credit products and initiated the operation of property mortgage loans, continuously optimizing the operating structure of its products. Secondly, the Bank applied Internet, big data and other innovative technologies to achieve online and one-stop loan application review and approval, utilized big data business approval model to carry out identification of risks of customer behaviours in all directions, continuously improving risk prevention and control ability for credit examination and approval as well as credit approval efficiency. Thirdly, the Bank steadily accelerated the construction of personal loan products system and service functions. Through integration of resources, construction of specialized teams and full-process management and control, the Bank realized coordinated growth of business scale and loan efficiency. As of 30 June 2019, the balance of its personal loans amounted to RMB39.247 billion, representing an increase of RMB13.795 billion, or 54.2%.

4.3.2.3 Bank Cards

The Bank proactively promoted the enrichment and perfection of the functionality of our bank cards, expanded our bank card applications revolving around our lifestyle and continued to enhance customer's card-using experience. By inserting customers' life scenes, the Bank realized the application of bank cards and mobile phone payment in real-life situations at schools, public transportation and car parks, thereby customer acquisition and service capabilities were further improved. As of 30 June 2019, the Bank issued 13,585,300 debit cards in total, representing an increase of 726,000 cards from the beginning of the year, and the total amount of consumer transactions amounted to RMB25.950 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.2.4 *Assets Management*

Taking the opportunity of net-worth transformation of products for its transformational development, the Bank proactively explored two new fixed-income public fund product lines, namely the closed-end type (Tianjin) and the cash type (Tianyuan), which further optimized its asset structure and further enhanced the share of active management and the level of research and development, and effectively strengthened its income generation capacities. The Bank's product types have been effectively enriched, a scale of products has been adequately supplied, featured products such as night market wealth management have been promoted, electronic channel functions have been upgraded, transactions on financial trading platform have been active, customer experience has been further improved, and brand value has further increased. The Bank was awarded the "Outstanding Urban Commercial Bank (優秀城商行) for wealth management information registration in 2018" issued by the China Banking Wealth Management Centre; it also received the title of "Shenyang City Pioneer of Workers" (瀋陽市工人先鋒號) from Shenyang Federation of Workers and the "Best Wealth Management Bank for the Citizens" (最佳市民理財銀行) of the Fourth Shenyang Community Wealth Management Festival, the influence and competitiveness of its wealth management brand were thereby effectively enhanced. As of 30 June, 2019, an accumulation of 366 tranches of wealth management products with a total amount of RMB49.850 billion have been issued by the Bank, with an existing balance of RMB61.269 billion, representing a year-on-year increase of RMB11.734 billion; and an income of RMB213 million was realized from wealth management, representing a year-on-year increase of RMB37 million.

4.3.3 Capital and investment banking business

4.3.3.1 Capital business

The Bank has made forward-looking predictions on the market trend, continuously optimized product structure in the financial market, allocated public funds and bond products with both liquidity and profitability, and persistently strengthened active trading capabilities, profit level thus was further enhanced. The Bank steadily adjusted the model of transformational development for investment banks, actively constructed the product platform system, and continuously optimized the business structure, hence asset income level and asset quality were both enhanced. As at 30 June 2019, the capital business had a scale of RMB540.536 billion, representing a year-on-year decrease of RMB20.065 billion, and achieved a profit before taxation of RMB3.322 billion, representing a year-on-year increase of RMB1.34 billion, showing an initial trend of intensive, structural increasing trend, and the transformation effect gradually emerged.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Money Market Transactions*

The Bank kept in mind the objective to “serve the local economy”, therefore implemented the operation philosophy of “taking compliance as the key foundation of the Bank” (合規立行). As one of the sources of liability, the money market business is more exemplified in financial support, and the operation of capital is more focused on liquidity adjustment and the liquidity conduction effect on the interbank market. Ever since the Bank became the Liquidity Mutual Assistance Reserve Management Bank of Liaoning Province in 2018, the Bank has been committed to the steady, smooth and efficient operation of the liquidity mutual assistance mechanism, and has started to accept application from member banks in the first half of 2019, with an accumulated working capital of RMB97.188 billion and a utilization rate of 53.17%, effectively meeting the liquidity needs of the urban commercial banks in Liaoning Province. As of 30 June 2019, the balance of deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements was RMB169.296 billion, representing 17.4% of total liabilities of the Bank. The balance of deposits and placements with banks and other financial institutions and financial assets held under resale agreements was RMB28.877 billion, representing 2.8% of the total assets of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Investments in Securities and Other Financial Assets

The Bank continuously adjusted and optimized our business structure, continuously increased the proportion of non-interest income and promoted the overall sustainable development of our business. Firstly, with forward-looking prediction on market trend, the active trading capability has been continuously improved, and business revenue increased steadily through transactions at the bottom of the bond yield curve; layout of bond-type of public fund investment was formed to optimize product structure. As at 30 June 2019, the balance of investment bonds of the Bank amounted to RMB27.363 billion. Secondly, interbank market business was actively carried out and the level of activity and influence was enhanced. Volume of X-Repo was increased, the Bank was awarded the third place in the X-BOND monthly list of in May by China Foreign Exchange Trading System Center in the first half of 2019. The bank pushed forward the of X-Repo repurchase business to a new stage and gained pre-offer quotation eligibility of X-Repo, was awarded the “X-Repo Active Dealer by China Foreign Exchange Trade System for multiple times, and achieved historical best performance by ranking second in the Active Dealer Evaluation in April. Thirdly, the Bank strengthened the effort on distribution of policy-based financial bonds in the primary market, strengthened business cooperation and increased the sources of income from intermediary businesses. In the first half of 2019, the Bank underwrote a total of RMB48.16 billion of bonds.

4.3.4 Specialised institutions and subsidiaries

4.3.4.1 *Financial service center for Small Businesses*

The financial service center for small businesses of the Bank actively practices the social responsibilities of a financial enterprise, responds to the call of the state and the regulators, faithfully positions itself as a bank in the market which “serves the local economy, small and micro businesses, as well as urban and rural residents”. The Bank strengthened the organizational structure and administration mode of two-tiers management of the head office and the branches and three-tiers marketing of the head office, the branches and the sub-branches, continuously increased the allocation of credit resources to small and micro enterprises. The Bank delegated the review power to lower tier for credit businesses of small and micro enterprises under inclusive finance with the single transaction credit line less than RMB10 million (inclusive), and also established a green approval channel to enhance business responsiveness. The Bank provided preferential policies on the required size of loans for small and micro enterprises, adhered to the principle of immediate approval of loan upon requested as long as meeting loan granting conditions; vigorously developed supply chain finance, formulated a “one chain and one strategy”(一鏈一策) business plan and provided services to the small and micro enterprises on the chain with precision; insisted on technology empowerment, continuously improved the credit management system for small and micro enterprises, innovated products, streamlined the processes and improved the quality and effectiveness of serving the real economy.

As of June 30, 2019, there were 1,320 small and micro enterprise RMB loan customers, with a loan balance of RMB138.822 billion.

4.3.4.2 Credit card center

Consumption scenarios were closely scrutinized, potential of the channels were tapped into, product systems were established, and customer segmentation was promoted: the credit card center of the Bank actualized cross-field cooperation between Internet finance and business trip, and provided customers with customized products and services, thereby leapfrogging the development of credit card business. Through digital transformation of technology empowerment, the Bank actively promoted the use of big data technology in the areas such as customer operation and risk management, realized the risk management through the credit card life cycle; adhered to the construction of mobile finance technology, continuously improved and innovated platforms of livelihood mobile application, Official Account, etc., and the active users grew month by month: mobile application's cumulative volume of downloads was 270,000, volume of logins was 200,000; whereas the number of followers of WeChat Official Account was 240,000, which was six times that of the same period last year.

As of 30 June 2019, there were in aggregate 603,600 credit cards issued by the Bank, representing an increase of 331,300 cards or 121.7% from the beginning of the year; the aggregated transaction amount reached RMB4.359 billion, representing a year-on-year increase of 101.5%, and trading volume in a single month exceeded RMB900 million; the balance of existing credit card loans amounted to RMB1.394 billion, representing an increase of RMB594 million or 74.3% from the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.4.3 Shengjing Bank Consumer Finance Co., Ltd.

Shengjing Bank Consumer Finance Co., Ltd. (“Shengjing Consumer Finance”) was the first consumer financial company established by the Bank as its major contributor and was approved to start business on 24 February 2016. Shengjing Consumer Finance conducts business in accordance with the relevant regulations of the Pilot Measures for the Administration of Consumer Finance Companies (《消費金融公司試點管理辦法》), based on the principle of small amount and diversification, and relying on Internet technology, and it provides personal consumption loan services to a new generation of social consumer groups, with its products covering all consumer sectors except car loans and mortgage loans, including online shopping, healthcare, tourism, education, beauty industry, wedding, decoration, computer, communication and consumer electronics products and other daily life consumption of the residents.

Shengjing Consumer Finance adhered to the basic principle of compliance operation, properly managed the relationships between efficiency, quality and scale and coordinated development and promoted steadily scale growth. Taking “first-class return on assets, first-class customer experience, first-class corporate culture” as management objectives, Shengjing Consumer Finance actively implemented the concept of Inclusive Finance to provide high-quality, efficient and caring consumer finance services to our customers. At the same time, Shengjing Consumer Finance continued to build core competitiveness characterized by high-quality talents, high-tech guidance, and high-level risk control, and expanded the business lines of cooperation diversion, online and offline channels, and gradually built into a boutique consumer finance company with professional influence. As at 30 June 2019, Shengjing Consumer Finance had the total assets of RMB2,848.8712 million, the loan balance of RMB2,370.6799 million and an aggregate of 813,000 customers to whom the company provide services for, and achieved an operating income in period of RMB81.1313 million, a profit before provision of RMB16.2758 million and a non-performing loan ratio of 0.27%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.3.4.4 Village banks

As of 30 June 2019, the Bank was the principal contributor to jointly establish six Fumin Village Banks, four of which are located in Shenyang City in Liaoning Province, being Shenyang Shenbei Fumin Rural Bank, Shenyang Xinmin Fumin Village Bank, Shenyang Faku Fumin Rural Bank, Shenyang and Liaozhong Fumin Village Bank; the other two being Ningbo Jiangbei Fumin Rural Bank in Ningbo, Zhejiang Province and Shanghai Baoshan Fumin Rural Bank in Shanghai. All six Fumin Village Banks are independent legal entities.

The Fumin Village Banks established by the Bank actively implemented the Bank's overall development strategy, faithfully fulfilled their social responsibilities, adhered to the business philosophy of "supporting agriculture, rural areas and farmers", positioned itself in the market "based on villages and towns, serving agriculture, rural areas and farmers, and supporting small and micro enterprises", and serviced customers that are small and micro enterprises in counties and the market-oriented rural households. In the principle of granting credit in small-amount and diversified way, it provided financial services to customers in the form of small-amount credit products, and promoted the operation and development of Fumin Village Bank according to their plans and objectives. As of 30 June 2019, the total assets of the six Fumin Village Banks amounted RMB1,126.90 million, total liabilities amounted to RMB509.15 million, various deposits amounted to RMB491.39 million, and various loans amounted to RMB350.13 million.

4.3.5 Distribution Channels

4.3.5.1 Physical Outlets

As of 30 June 2019, the Bank operated businesses through its head office, 3 branch-level specialised institutions, 202 branches and sub-branch institutions, 6 village banks and one Shengjing Bank Consumer Finance Co., Ltd. it established all around 18 cities including Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian and other cities in Liaoning Province. Most of the operating institutions are located in developed regions such as Northeast China Region, the Bohai Rim and the Yangtze River Delta Economic Zones, which enjoy distinctive advantageous policies and huge market opportunities. According to the outlets construction plan of the Bank in 2019, two new sub-branches were opened and four traditional sub-branches were to be established in the first half of the year and the coverage of institutional outlets was further expanded.

4.3.5.2 Self-service Banking

The Bank accelerated the development of smart outlets to form a relatively established an intelligent financial service system, focused on enhancing the popularization and application of smart counter, remote video banking and high-speed cash recycling system, accelerated the replacement of system functions, realized upgrading of various financial and non-financial personal business functions such as card activation, e-banking activation, etc., and continuously improved service capacity and customer experience of self-service equipment.

As of 30 June 2019, the Bank owned 1,386 self-service facilities, including 293 ATMs, 334 cash recycling systems, 95 inquiry and payment machines, 251 card activating machines, 41 VTMs, 30 online banking machines, 30 mobile banking machines, 47 smart queuing machines, 213 smart counters, 30 high-speed cash recycling systems and 22 interactive desktops.

4.3.5.3 Electronic Banking

The Bank adhered to the principle of customer first and meeting customers' various preferences. Orderly, coordinately and differentiated service needs of corporate and personal customers, continuously pushed forward for function upgrading of multiple electronic channels such as online banking, mobile banking, WeChat banking and TV banking. It strengthened replacements for mobile application services and counter technologies, enriched channel functions and pursued fast increment in customer experience, number of users and trading volume.

1. Online Banking

1) Corporate Online Banking

In response to the needs of corporate customers, the Bank continued to enhance its electronic services for corporate capital and actively improved the settlement efficiency and the service quality. As at 30 June 2019, the Bank had a total of 26,161 online banking corporate customers, representing an increase of 13% compared to the end of the previous year; in the first half of 2019, the Bank's accumulated transaction amount reached RMB1,447.667 billion; and the number of transactions reached 633,900.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2) Personal Online Banking

The Bank continued to improve the function, service and experience of its online banking by focusing on differentiated needs such as payment thresholds limitations and security verification methods for different customer groups and provided convenient and secure online services to its customers. As of 30 June 2019, there were a total of 547,400 personal online banking customers, representing an increase of 36% from the beginning of the year. There were 498,900 transactions in the first half of 2019 and an accumulated transaction amount of RMB15.127 billion.

2. *Mobile Banking*

The Bank focused on building upgrading of mobile end application services represented by mobile banking to meet customers' needs for convenient, intelligent and secure financial services anytime and anywhere. The Bank continued to expand financial and lifestyle scenarios for its customers, in terms of such as wealth management, payment clearance and settlement and convenience payment, continued to improve the functions of mobile banking services, facilitated mobile integration in the financial and non-financial eco-line, with the number of mobile banking customers exceeding 1 million customers.

As of 30 June 2019, there were a total of 1.3015 million mobile banking customers, with an accumulated transaction amount of RMB15.738 billion in the first half of 2019, representing an increase of 63% over the same period of the previous year; the number of transactions reached 1.8737 million, representing an increase of 32% over the same period of the previous year.

4.3.6 Information Technology and R&D

The Bank continued to accelerate the construction of the financial technology platform, comprehensively enhanced the customer experience, promoted digital transformation, and continuously enhanced the ability of technology to support business development.

Firstly, the Bank has built a digital information system platform. We completed the work of uploading online of 126 technology-based business needs such as new front desk, face recognition platform, retail assessment system, supply chain financial system, and application monitoring system. We used information technology to drive the use of data, and gradually made information technology a strong backing force to support the business development of the whole Bank.

Secondly, new progress has been made in key projects. With the introduction of Alibaba Cloud and Ant Financial's mobile platform as a service, our mobile banking customers have exceeded one million, and the new version of intelligent 5.0 mobile banking was about to go online. We developed the Bank's performance appraisal system, marketing action system, target task management, assessment process management, performance showcase management, reward allocation management and other full process technology-based management.

Thirdly, we have improved the level of technology-based management and enhanced the efficiency of system operation. We have implemented comprehensive data management, built a new generation retail credit management system, small enterprises "Zhihui (智滙) intelligent platform" system, unified credit management system, risk management information system, audit management system and continued to optimize business treatment process.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4.4 RISK MANAGEMENT

During the Reporting Period, the domestic and international economic and financial situations were complex and changeable, and the Bank strengthened its prejudging of the economic and financial situation, actively adapted to the requirements of the new normal in the banking industry for risk management, adhered to coordinated development between quality, scale and efficiency, strengthened the top-level design of risk management, and further improved the construction of risk management system and mechanism. The Bank introduced the due diligence rules for branch risk management director, implemented the stationing system of risk officer at each asset line in the head office, and preposed risk threshold, improved the professionalism and independence of risk management of the business departments, and created a comprehensive risk prevention and control system which integrated with the transformation and upgrading of business model. We have strengthened risk early warning management and continued to improve the risk management evaluation system with asset quality management as the core. We thoroughly implemented the customer strategy of “high quality customers in high quality industries and mainstream customers in mainstream industries”, optimized the asset structure, prevented and controlled incremental risks, resolved stock risks, consolidated credit asset quality, and the credit risk prevention and control capabilities continued to improve. We continued to enrich the identification, measurement, monitoring and control model and methods of market risk, strengthened the continuous monitoring and effective prevention of market risks such as interest rates and exchange rates, and the professional level of market risk control continued to improve. The Bank improved the operational risk management mechanism, optimized operational risk management and control measures such as job skills and operation process, and the operational risk prevention and control capabilities continued to enhance. We deepened the business philosophy of “taking deposits as the key foundation of the Bank, and developing the Bank through absorbing deposits”, reasonably matched the structure and duration of assets and liabilities, and the balance sheet has been reshaped, and liquidity has remained reasonably abundant. We continued to improve the application of risk management information technology, aiming at the refinement and technicalisation of risk management, developed and constructed credit risk information management system in stages to enhance the quantitative assessment of risks, improve the information level of risk management, and provide effective support for the stable and sustainable development of the Bank’s operation and management.

4.4.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The credit risk exposure of the Bank mainly exists in the credit business and treasury business.

During the Reporting Period, the Bank adhered to the business strategy of “strengthening internal operation and management and building a positive market image externally”, the business philosophy of “taking compliance as the key foundation of the Bank”, the customer positioning guidance of “high quality customers in high quality industries and mainstream customers in mainstream industries”, and the target of “adjusting structure, increasing customers, ensuring quality, and consolidating foundation”, and focused on the coordinated development between quality, efficiency and scale to effectively construct a bottom line of risk and realize steady operation of credit business. Firstly, the credit management mechanism and system were increasingly perfected. Under the framework of comprehensive risk management and in line with regulatory requirements and business development needs, the construction of credit management system was continuously strengthened, and the complement of system construction short board was accelerated. Guided by the concept of unified credit management, we focused on refined management and as guided by forward-looking policy analysis, the quality and effectiveness of credit management continued to improve. Secondly, we focused on the customer positioning of “high quality customers in high quality industries and mainstream customers in mainstream industries”, thus the asset structure adjustment has achieved initial results. The Bank firmly returned to its roots, based ourselves upon local area, deep-cultivated quality industries, regional leading enterprises and quality private enterprises, and implemented strategic customer credit cooperation through entering into headquarters to headquarters strategic cooperation agreements. We also extended the industrial chain and supply chain to dig quality resources, so as to promote the diversification of customer structure, and further enhance the added value of financial services. Thirdly, the stock assets were effectively consolidated. The Bank aimed at resolving risks and preventing ultimate risks. Under the risk-controllable conditions, we achieved risk restructuring and resolution by customised solutions for customers, adapting to local conditions, step-by-step implementation and market-based means. Fourthly, the efficiency of credit management has continued to improve. We implemented a way of management to reduce the aggregate amount of due loans, strengthened the due repayment behaviour of customers, resulting in improved asset liquidity. We continued to strengthen the key aspects of credit management such as authorized business review and approval management, and collateral management, resulting in further enhanced normative management of credit risk.

4.4.2 Operational Risk Management

Operational risk refers to the risk of loss caused by inadequate or problematic internal procedures, personnel and information technology systems as well as external events.

During the Reporting Period, the Bank continued to strengthen operational risk management; thus various business operations were further standardized, and overall control of operational risks was in good condition. Firstly, we continued to optimize the operational risk management mechanism. The Bank closely followed the changes in regulatory policies, paid great attention to the regulatory focus, and constantly improved the operational risk management rules and regulations covering the whole business line, whole process, all positions, and all products to improve the refined management level of operational risks. Secondly, we continued to strengthen the awareness of all employees toward risk-related responsibility. We have strengthened the operational risk training including job skills and practical cases, resulting in effective enhancement in operational risk management and control capabilities in key areas and key businesses. Thirdly, we strengthened the management of operational risk assessment. We regularly carried out operational risk assessments, strengthened operational risk monitoring and management and improved operational risk prevention and control capabilities to effectively promote the realisation of the Bank's internal control objectives.

4.4.3 Market Risk Management

Market risks refer to the risk of losses that may be suffered by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, commodity price and stock price. Such risks mainly include interest rate risk and exchange rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. **Market Risk of Bank Accounts**

1) *Interest Rate Risk Management of Bank Accounts*

The interest rate risk in the banking book refers to risks of losses in economic value and overall income in the banking book due to adverse changes in interest rate level, term structure and other elements, including gap risk, basis risk and option-related risk. Among which, the gap risk is the main interest rate risk faced by the Bank. The Bank mainly applied gap analysis, scenario simulation and stress test to measure, monitor and analyse interest rate risk management of bank accounts.

During the Reporting Period, the international economic situation was complicated, the pressure on slow down and downward of world economy was increasing, and the World Bank has lowered its global economic growth forecast for 2019 twice. The domestic fiscal policy was more active, the monetary policy remained stable, the market liquidity was reasonably abundant, and the fund interest rate fluctuated downward. The Bank closely monitored the changes in the external interest rate environment, regularly analysed the domestic and international macroeconomic situation and the trend of market interest rates, and continued to optimize the bank account interest rate risk management structure and system to strengthen the limit management and adopted the gap analysis method to monitor and analyse the repricing risk on a monthly basis. We focused on the changes in the market environment and the business development strategy of the Bank to adjust the repricing cycle and the fixed and floating interest rate type of asset-liability business according to the target gap. In respect of the asset side, we actively lengthened the repricing cycle of asset business, and adjusted the asset interest rate type with an original term of less than or equal to 3 years to a fixed interest rate. We optimized relevant factors of the retail loan contract interest rate, and adjusted the personal mortgage loan interest rate repricing cycle to annual adjustment. In respect of debt side, according to the business development plan, we adjusted the internal funds transfer pricing (FTP) of savings deposits for different periods, optimised the term structure of liability business to effectively manage the interest rate risk of the Bank during the downturn period of market interest rate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2) *Exchange Rate Risk Management of Bank Accounts*

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank's exposure to the exchange rate risk is mainly arisen from proprietary foreign exchange businesses and the mismatch of currency denominations between deposits and loans.

During the Reporting Period, the Bank mainly applied foreign exchange exposure analysis to measure the size of exchange rate risk, and managed its foreign exchange risk by matching assets denominated in foreign currency with corresponding liabilities in the same currency. During the Reporting Period, the Bank's exchange rate risk continued to remain within the management objectives.

2. *Market Risk of Trading Accounts*

During the Reporting Period, the Bank continued to enrich the methods of market risk identification, measurement, monitoring and control to improve the level of market risk management. Firstly, the Bank strengthened the use of risk measurement tools, carried out quantitative management on market risks through management tools of risk measurement such as sensitivity analysis, duration, and Value of Risk (VaR). Secondly, we have improved the limit management and early warning to promptly alert market risks, monitor the implementation of market risk limit of trading accounts on a daily basis and carry out market value revaluation, strictly implement the risk warning alerts and stop-loss limit to ensure the market risk is stable and controllable. Thirdly, we conducted regular stress tests to assess the damage caused to the Bank by extremely adverse scenarios, conduct post-event tests against stress tests, and evaluate and improve the measurement models based on the test results to improve the timeliness and effectiveness of market risk monitoring.

4.4.4 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

During the Reporting Period, the Bank thoroughly implemented the national macro-control policies and implemented a prudent and sound liquidity risk management strategy. The Bank strictly implemented the supervision policy of “focusing on the main business and returning to its roots”, insisting on business transformation, innovation-driven growth and technology empowerment, continuously increased the absorption of core liabilities such as general deposits, increased the reserve scale of high-quality liquidity assets, stretching the duration of interbank liabilities with foresight, and gradually built a “fortress-style” balance sheet. Meanwhile, the Bank continued to improve the refining level of liquidity risk management. Firstly, the Bank optimized the liquidity risk management system and mechanism, implemented an independent treasury system, and revised the “Liquidity Risk Emergency Plan of Shengjing Bank” and the “Implementation Rules for Liquidity Risk Limit Management of Shengjing Bank”. Secondly, the Bank improved the forward-looking and predictive nature of liquidity risk management, established a liquidity mutual assistance mechanism with state-owned banks and intra-region corporate banks, established a liquidity reserve mechanism in cooperation with excellent joint-stock banks. Thirdly, the Bank strengthened the monitoring of liquidity indicators and limit management, monitored large amount capital transactions and changes in positions in real-time, scientifically set up liquidity gaps with various durations, thus ensuring that the liquidity regulatory indicators continue to meet the standards.

4.4.5 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

During the Reporting Period, the information technology risk management capabilities of the Bank continued to be enhanced. Firstly, the Bank regularly implemented information technology risk inspections, conducted rectification and tracking to ensure timely and effective handling of information technology risks, and promote continuous improvement of information technology risk management capabilities. Secondly, the Bank improved service capabilities and efficiency, focused on optimizing the structure of science and technology governance and improving institutional processes to strengthen information technology risks and safety management and control capabilities. Thirdly, we carried out technological innovation, accelerated the transformation of technology, optimized the system structure, and carried out key projects such as risk management system construction, data standards and data quality improvement. Based on the big data platform, taking comprehensive risk management as the core and fulfilling the business development needs of the Bank as the fundamental need, the Bank conducted all-round risk management before, during and after business to achieve full identification, accurate measurement, timely monitoring and effective control of various risks. Fourthly, the Bank optimized the information technology outsourcing strategy, focused on the evaluation and access of outsourcing risks, strengthened the due diligence of service providers, tightened the execution of outsourcing service contracts, as well as monitored and evaluated the outsourcing services to effectively prevent outsourcing risks.

4.4.6 Reputational Risk Management

Reputational risk refers to the risk that may cause negative comments on the Bank from the stakeholders due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

During the Reporting Period, the Bank conscientiously implemented the requirements of the regulatory institutions for reputational risk management of commercial banks. Through the establishment of an active and effective reputational risk management system, the Bank realized the identification, monitoring, control and resolution of reputational risks, reduced the losses caused by reputational events, maintained a good brand image of the Bank, and promoted the sustainable and healthy development of the Bank. Firstly, the Bank further improved the reputational risk management system, refined the reputational risk management mechanism, strengthened the reporting system to enhance the reputational risk prevention and response level of the whole Bank. Secondly, the Bank comprehensively strengthened the public opinion monitoring, increased the scope and effort of public opinion monitoring, improved the comprehensiveness, timeliness and accuracy of public opinion monitoring, attached great importance to the problems found, and timely analysed, responded and handled relevant work. Thirdly, the Bank focused on handling of incidents at the source, conducted regular reputational risk screening, attached great importance to supervision and evaluation of complaints to eliminate potential risks. Fourthly, the Bank increased the intensity of positive publicity, unified the image for external publicity, effectively carried out high-quality publicity, and innovated publicity methods to effectively enhance the reputation and influence of the Bank.

4.4.7 Compliance Risk Management

Compliance risk refers to the risk of suffering from legal sanction, regulatory punishment, significant financial loss or reputation loss due to failure to comply with relevant laws, rules and codes of conduct.

The Bank's compliance management objective is to achieve effective identification and management of compliance risks by establishing and improving a compliance management system which is compatible with the Bank's development strategy and organizational structure, and to apply effective control measures to provide guarantee for compliance operations. During the Reporting Period, the Bank effectively implemented the compliance management policy of "regulated behaviour, strong inspection, effective mechanism, and proper monitoring". Firstly, the Bank continuously improved the compliance risk management system. The Bank strictly implemented the compliance risk management policy of the Bank, deepened the philosophy of "taking compliance as the key foundation of the Bank", strengthened the bottom line thinking of "value both risk and compliance", implemented construction of whole process compliance mechanism, and effectively improved the quality and effectiveness of compliance management. Secondly, the Bank strengthened its compliance risk prevention capabilities. The Bank effectively carried out system evaluation work, strengthened pre-argument of research and development of new business and new product, and improved compliance management functions such as compliance audit, compliance inspection, assessment and evaluation to achieve effective identification, monitoring, evaluation, management and reporting of compliance risks. Thirdly, the Bank deepened the construction of compliance culture. The Bank conducted compliance culture education and publicity through various forms such as "Compliance Lecture", "Compliance Manual", compliance sub-portal website, and compliance management competition to enhance the awareness of active compliance of all employees and form a compliance cultural atmosphere of "prohibited from breaching the rules, not daring to breach the rules and unwilling to breach the rules".

4.4.8 Anti-Money Laundering Management

The Bank actively built a money laundering risk management culture, promoted all employees to establish awareness of money laundering risk management, and created an anti-money laundering work environment with active management and compliance management. During the Reporting Period, the Bank continued to deepen the management of money laundering risk, and the overall level of anti-money laundering work of the Bank improved steadily. Firstly, the Bank further improved the top-level design of the anti-money laundering system. The Bank thoroughly implemented various anti-money laundering laws and regulations to effectively improve the money laundering risk management and control capabilities of the Bank. Secondly, the Bank tightened daily supervision and investigation. The Bank conducted regular off-site supervision and inspection of various anti-money laundering business data, and promoted the improvement of performance of anti-money laundering staff at branches and sub-branches. Thirdly, the Bank actively organized anti-money laundering training. In line with the latest situation and rules and regulations of anti-money laundering work, the Bank organized top-down learning and training in the Bank to further enhance the sense of responsibility and initiative of the Bank in anti-money laundering work. Fourthly, the Bank actively carried out anti-money laundering publicity activities. The Bank further promoted the effectiveness of illegal fundraising and crime crackdown to further improve the people's understanding of anti-money laundering work, and jointly create a good anti-money laundering social atmosphere.

4.4.9 Country-specific Risk Management

Country-specific risks represent the risks of economic, political and social changes and developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfil their obligations to banking financial institutions, or incur loss to commercial presences of banking financial institutions in that country or region, or other loss to banking financial institutions in that country or region. It mainly exists in business activities such as credit, international capital market business, establishment of overseas institutions, agency transactions, and outsourcing services provided by overseas service providers.

During the Reporting Period, in accordance with the requirements of CBIRC, the Bank continued to comprehensively promote country-specific risk management and conducted a series of effective work in identifying, measuring, monitoring and controlling country-specific risks. The Bank conducted real-time monitoring of the country-specific risks involved in its own business and implemented full process control, and established a quarterly accrual system for country-specific risk reserves. For overseas debt-based businesses, after fully considering the risk transfer and risk mitigation factors, the Bank accrued the corresponding country-specific risk reserve according to classification of countries and regions and accounted the same as part of the Bank's asset impairment provision.

4.5 FUTURE PROSPECTS

At present, the economic growth of major countries in the world has slowed down, and monetary policy tends to be loose. The domestic economy shows a stable and decelerating growth trend. Due to the existence of structural and cyclical factors and the potential impact of Sino-US trade friction, the uncertainty in economic growth has increased. However, the active fiscal policy will be more effective in the second half of the year, and the sound monetary policy will maintain liquidity reasonably abundant. The fundamentals of “stable growth, structural adjustment, and risk prevention” will not change. China’s economy still has strong resilience.

The Bank will closely focus on the general direction of the high-quality development of China, comply with the requirements for structural reform of finance on the supply side, and continuously enhance the Bank’s comprehensive strength according to the three-year development strategy plan. Firstly, the Bank will steadily promote capital increase and share expansion to ensure future development capabilities. In accordance with the market environment and the Bank’s actual needs, we will promote the private placement of domestic shares and H shares in an orderly manner, apply new capital replenishment tools when appropriate to expand capital replenishment channels and consolidate the capital base of the Bank. Secondly, the Bank will improve the ability of asset and liability management and adhere to the operating principle of “taking deposits as the key foundation and driver of the Bank”. By clarifying development goals, improving supporting measures, and tightening assessing incentives, the Bank will effectively enhance the stability of debt sources. The Bank will continue to promote the development light banking model to promote increase in asset return and saving in capital consumption. Thirdly, the Bank will consolidate the foundation for business development to enhance customer operation capabilities. The business lines of the Bank will adhere to the customer positioning of “mainstream customers in mainstream industries and high quality customers in high quality industries”, strengthen the structure, team, products, mechanisms, processes and systems building to build the core competitiveness of its banking business. The retail banking line will rapidly promote the development of mass finance, wealth management, retail credit differentiation, and specialized management systems, creating a standardized, intensive, and intelligent service system to enhance quality service capabilities, and promote the “big retail” strategic transformation. The financial market line will continue to improve the diversification and stability of the financing structure, continue to optimize the interbank assets allocation structure, and steadily promote the business development of financial

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

market. Fourthly, the Bank will establish a risk-based business development philosophy and improve the level of risk management. The Bank will continue to enrich risk management methods and tools, and continuously promote the construction of comprehensive risk management system which is compatible with the Bank's strategic direction, business scope and risk characteristics. The Bank will strictly control the risk of new loans, and promote settlement of non-performing assets to further improve asset quality. The Bank will adhere to legal and compliance operation and effectively strengthen compliance management. Fifthly, the Bank will deepen the reform of system and mechanism and stimulate the organic growth driver. The Bank will continue to improve the market-oriented organizational structure, personnel structure and compensation system, build a team of talents that is high-quality, capable and successful in business, promote the integrated operation layout to improve the operational efficiency of the whole Bank. The Bank will thoroughly implement the strategy of relying on the talented personnel to develop the Bank, increase the number of market-oriented talents to enhance market competitiveness. Sixthly, the Bank will adhere to the strategy of relying on science and technology to develop the Bank and empower future transformation and development. The Bank will accelerate the construction of information systems to enhance its business support capabilities; deepen the integration of business scenarios to strengthen the construction of customer sourcing channels; promote the exploration of digital banks to create new advantages in financial technology. Seventhly, the Bank will strengthen the brand management of the Bank to establish a good market image. The Bank will effectively integrate brand resources, make use of media publicity in an efficient manner, and optimize the brand identification system to enhance bank popularity and reputation, and create a brand image of a first-class commercial bank with its own characteristics.

By means of the implementation of a series of development initiatives, the Bank will adopt a business strategy of "strengthening internal operation and management and building a positive market image externally" to deeply promote strategic transformation, continuously optimize business models and constantly enhance market competitiveness, thus creating a new pattern of healthy, favorable and sustainable development.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

	31 December 2018		Changes during the Reporting Period			30 June 2019	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic							
Shares legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
Total	5,796,680,200	100.00	nil	nil	nil	5,796,680,200	100.00

Note:

At the end of the Reporting Period, the Bank had 3,461 holders of Domestic Shares and 151 holders of H Shares. In respect of the holders of Domestic Shares, 37 are state-owned shareholders, 106 are private corporate shareholders and 3,318 are natural person shareholders.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

5.1 PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF DOMESTIC SHARES OF THE BANK

As at 30 June 2019, the top ten Shareholders of the Domestic Shares of the Bank are as follows:

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nan Chang) Co., Ltd. (恒大集團(南昌)有限公司) ("Evergrande Nan Chang")	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司) ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. (遼寧匯寶國際投資集團有限公司) ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. (新湖中寶股份有限公司) ("Xinhu Zhongbao")	Private	300,000,000	5.18	80,000,000
5	Founder Securities Co., Ltd. (方正證券股份有限公司) ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. (瀋陽中油天寶(集團)物資裝備有限公司) ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	59,760,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	2.04	0
Total			3,309,675,427	57.10	139,760,000

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

5.2 INTERESTS AND SHORT POSITIONS OF THE SECURITIES AND FUTURE ORDINANCE (THE “SFO”) OF HONG KONG

As at 30 June 2019, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Suen Cho Hung, Paul ⁽¹⁾	Beneficial owner/ Interest of a controlled corporation	420,898,500 (Long position)	27.32	7.26
Lo Ki Yan, Karen ⁽²⁾	Beneficial owner/ Interest of a controlled corporation	410,610,000 (Long position)	26.65	7.08
Satinu Resources Group Ltd ⁽³⁾	Interest of a controlled corporation	203,676,000 (Long position)	13.22	3.51
Luck Extreme Limited ⁽⁴⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Lau Luen Hung ⁽⁴⁾	Interest of a child under 18 or spouse	197,180,500 (Long position)	12.80	3.40
Chan Hoi Wan ⁽⁴⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Enerchina Holdings Limited ⁽⁵⁾	Interest of a controlled corporation	190,435,000 (Long position)	12.36	3.29
Cheung Chung Kiu ⁽⁶⁾	Interest of a controlled corporation	179,651,500 (Long position)	11.66	3.27
Cheng Yu Tung Family (Holdings II) Limited ⁽⁷⁾	Interest of a controlled corporation ⁽²⁾	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings) Limited ⁽⁷⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Name of Shareholder	Nature of Interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Chow Tai Fook (Holding) Limited ⁽⁷⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited ⁽⁷⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Nominee Limited ⁽⁷⁾	Beneficial owner/ Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Shanghai International Trust Co., Ltd. (上海國際信託有限公司)	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Shun Yi International Trading Co., Ltd. (順意國際貿易有限公司)	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co., Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

Notes:

- (1) 80,500 H Shares were held in the capacity of beneficial owner, and 420,818,000 H Shares were held in the capacity of a controlled corporation.

Novel Well Limited held 20,818,000 H Shares of the Bank. Novel Well Limited was wholly owned by Mr. Suen Cho Hung, Paul. By virtue of the SFO, Novel Well Limited and Mr. Suen Cho Hung, Paul are deemed to be interested in the Shares held by Novel Well Limited.

Reference is made to the announcement of the Bank dated 20 June 2019. On 20 June 2019, the Bank entered into an H share subscription agreement with Zhengbo Holdings Limited, pursuant to which, Zhengbo Holdings Limited has conditionally agreed to subscribe for, and the Bank has conditionally agreed to issue and allot, 400,000,000 H Shares. Zhengbo Holdings Limited was wholly owned by Mr. Suen Cho Hung, Paul. By virtue of the SFO, Mr. Suen Cho Hung, Paul is deemed to be interested in the Shares Zhengbo Holdings Limited has agreed to subscribe for.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (2) 610,000 H Shares were held in the capacity of beneficial owner, and 410,000,000 H Shares were held in the capacity of a controlled corporation.

Ferrex Holdings Limited held 10,000,000 H Shares of the Bank. Ferrex Holdings Limited was owned as to 68.08% by Ms. Lo Ki Yan, Karen. By virtue of the SFO, Ms. Lo Ki Yan, Karen is deemed to be interested in the Shares held by Ferrex Holdings Limited.

Reference is made to the announcement of the Bank dated 20 June 2019. On 20 June 2019, the Bank entered into an H share subscription agreement with Future Capital Group Limited, pursuant to which, Future Capital Group Limited has conditionally agreed to subscribe for, and the Bank has conditionally agreed to issue and allot, 400,000,000 H Shares. Future Capital Group Limited was wholly-owned by Ms. Lo Ki Yan, Karen. By virtue of the SFO, Ms. Lo Ki Yan, Karen is deemed to be interested in the Shares Future Capital Group Limited has agreed to subscribe for.

- (3) Murtsa Capital Management Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Management Limited was wholly owned by Satinu Investment Group Ltd.; Satinu Investment Group Ltd. was wholly owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Investment Group Ltd. and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Murtsa Capital Management Limited.
- (4) Great Captain Limited held 197,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by Perfect Sign Investments Limited; Perfect Sign Investments Limited was wholly owned by Luck Extreme Limited; Luck Extreme Limited was wholly owned by Ms. Chan Hoi Wan. By virtue of the SFO, Perfect Sign Investments Limited, Luck Extreme Limited, Ms. Chan Hoi Wan and Mr. Lau Luen Hung are deemed to be interested in the Shares held by Great Captain Limited.
- (5) Smart Jump Corporation held 435,000 H Shares of the Bank. Smart Jump Corporation was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Smart Jump Corporation.

Nu Kenson Limited held 190,000,000 H Shares of the Bank. Nu Kenson Limited was wholly owned by Win Wind Intermediary Financial Services Limited; Win Wind Intermediary Financial Services Limited was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Intermediary Financial Services Limited, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Nu Kenson Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

- (6) Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly owned by Mighty Gain Enterprises Limited; Mighty Gain Enterprises Limited was wholly owned by C C Land Holdings Limited; C C Land Holdings Limited was held as to 41.37% by Thrivetrade Limited; Thrivetrade Limited was wholly owned by Mr. Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Thrivetrade Limited and Mr. Chueng Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.

Bondic International Holdings Limited held 154,651,500 H Shares of the Bank. Bondic International Holdings Limited was wholly owned by Mr. Cheung Chung Kiu. By virtue of the SFO, Mr. Chueng Chung Kiu is deemed to be interested in the Shares held by Bondic International Holdings Limited.

- (7) Acemax Enterprises Limited held 50,776,620 H Shares of the Bank. Acemax Enterprises Limited was wholly owned by Chow Tai Fook Nominee Limited. By virtue of SFO, Chow Tai Fook Nominee Limited is deemed to be interested in the Shares held by Acemax Enterprises Limited.

Oceanic Fortress Limited held 76,164,940 H Shares of the Bank. Oceanic Fortress Limited was wholly owned by Chow Tai Fook Nominee Limited. By virtue of SFO, Chow Tai Fook Nominee Limited is deemed to be interested in the Shares held by Oceanic Fortress Limited.

Chow Tai Fook Nominee Limited held 179,518,060 H Shares of the Bank (of which 52,576,500 H Shares were held in the capacity of beneficial owner, and 126,941,560 H Shares were held in the capacity of a controlled corporation). Chow Tai Fook Nominee Limited was held as to 99.80% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 30 June 2019, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
China Evergrande Group ⁽¹⁾	Interest of a controlled corporation	3,201,680,000 (Long position)	75.23	55.23
Shenyang Hengxin ⁽²⁾	Beneficial owner	479,836,334 (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. ⁽³⁾	Interest of a controlled corporation	479,836,334 (Long position)	11.27	8.28
Huibao International ⁽⁴⁾	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Chenjingyi (Beijing) Cultural Development Co., Ltd. ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao ⁽⁵⁾	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Li Ping ⁽⁵⁾	Interest of a child under 18 or spouse	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes:

- (1) Evergrande Nan Chang held 1,001,680,000 Domestic Shares of the Bank. Evergrande Nan Chang was indirectly wholly owned by China Evergrande Group (a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange). By virtue of the SFO, China Evergrande Group is deemed to be interested in the Shares held Evergrande Nan Chang.

Reference is made to the announcement of the Bank dated 20 June 2019. On 20 June 2019, the Bank entered into a domestic share subscription agreement with Evergrande Nan Chang, pursuant to which, Evergrande Nan Chang has conditionally agreed to subscribe for, and the Bank has conditionally agreed to issue and allot, 2,200,000,000 Domestic Shares. Evergrande Nan Chang was wholly owned by China Evergrande Group. By virtue of the SFO, China Evergrande Group is deemed to be interested in the Shares Evergrande Nan Chang has agreed to subscribe for.

- (2) According to the register of shareholders of the Bank as at 30 June 2019, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) According to the register of shareholders of the Bank as of 30 June 2019. Huibao International held 400,000,000 Domestic Shares. Huibao International was wholly owned by Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司), which was in turn controlled by Mr. Li Yuguo (李玉國) as Chenjingyi (Beijing) Cultural Development Co., Ltd. is accustomed to act in accordance with Mr. Li Yuguo's direction pursuant to a shareholding entrustment agreement entered into between Mr. Li Yuguo and Chenjingyi (Beijing) Cultural Development Co., Ltd. By virtue of the SFO, Chenjingyi (Beijing) Cultural Development Co., Ltd. and Mr. Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Xinhua Zhongbao held 300,000,000 Domestic Shares of the Bank. Based on the information provided by Xinhua Zhongbao, Xinhua Zhongbao was owned as to 32.41%, 16.86%, 5.38% and 2.44% by Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Mr. Huang Wei (黃偉), Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司) and Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司), respectively; Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) owned 99% of Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司), and Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) wholly owned Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司); Mr. Huang Wei (黃偉) owned 53.06% of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司). By virtue of the SFO, each of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Mr. Huang Wei (黃偉) and Ms. Li Ping (李萍) are deemed to be interested in the Shares held by Xinhua Zhongbao.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 30 June 2019 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

5.3 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Nan Chang, Shenyang Hengxin, Huibao International, Xinhua Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively.

5.4 INFORMATION ON SUBSTANTIAL SHAREHOLDERS AND THEIR CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS, RELATED PARTIES, PERSONS ACTING IN CONCERT AND ULTIMATE BENEFICIARIES

Below is the information on the Bank's substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries as at the end of the Report Period. For the definition of relevant concepts, please see the relevant requirements of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by the CBIRC.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

No.	Name of shareholder	Number of Shares held	Shareholding percentage	Reasons of being a substantial shareholder	Number of shares pledged (number)	Controlling shareholder	De facto controller	Parties acting in concert	Ultimate beneficial owner
1	Evergrande Nan Chang	1,001,680,000	17.28%	Holding 5% of more of the Bank's shares	0	China Evergrande Group	Hui Ka Yan	Nil	Evergrande Nan Chang
2	Shenyang Hengxin	479,836,334	8.28%	Holding 5% of more of the Bank's shares	0	Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司)	State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government	Nil	Shenyang Hengxin
3	Huibao International	400,000,000	6.90%	Holding 5% of more of the Bank's shares	0	Chenjingyi (Beijing) Cultural Development Co., Ltd. (辰景怡(北京)文化發展有限公司)	Li Yuguo	Nil	Huibao International
4	Xinhu Zhongbao	300,000,000	5.18%	Holding 5% of more of the Bank's shares	80,000,000	Zhejiang Xinhu Group Co., Ltd	Huang Wei	Nil	Xinhu Zhongbao
5	Founder Securities	300,000,000	5.18%	Holding 5% of more of the Bank's shares	0	Peking University Founder Group Co., Ltd. (北大方正集團有限公司)	Peking University	Nil	Founder Securities

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

No.	Name of shareholder	Number of Shares held	Shareholding percentage	Reasons of being a substantial shareholder	Number of shares pledged (number)	Controlling shareholder	De facto controller	Parties acting in concert	Ultimate beneficial owner
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	200,000,000	3.45%	Appointed supervisor	0	Chen Zhaogui	Chen Zhaogui	Nil	Shanghai Changxin Group Co., Ltd.
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	200,000,000	3.45%	Appointed supervisor	0	Lhasa Economic and Technological Development Zone Lianmei Holdings Co., Ltd. (拉薩經濟技術開發區聯美控股有限公司)	Su Zhuangqiang	Nil	Luenmei Group Co., Ltd.
8	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	120,000,000	2.07%	Appointed supervisor	59,760,000	Yu Haobo	Yu Haobo	Nil	Shenyang Dayang Decoration Engineering Co., Ltd.
9	Liaoning Huafeng Investment Co., Ltd. (遼寧華峰投資有限公司)	100,000,000	1.73%	Appointed director	49,800,000	Liaoning Shengshi Holdings Management Group Co., Ltd. (遼寧盛世控股管理集團有限公司)	Bao Lijun	Nil	Liaoning Huafeng Investment Co., Ltd.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

5.5 ISSUANCE OF DEBT SECURITIES

1. Debt Securities Issued

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2.2 billion in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. The issuer has an redemption option for such bonds, and the Bank exercised the issuer redemption option on 30 May 2019 to redeem all current bonds in a lump sum per face value.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB10 billion in the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued Tier-two Capital bonds of commercial banks in the aggregate of RMB6 billion in the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The interest rate is calculated per annum based on fixed interest rate. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem all or part of the current bond in a lump sum at the face value on the last day of the fifth interest calculating year for such bonds

The Bank issued 2016 fixed financial bonds in the aggregate of RMB5 billion on 26 August 2016 with the term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued 2016 fixed rate financial fixed-rate bonds in the aggregate of RMB2 billion on 26 August 2016 with the term of maturity of 5 years and an annual coupon rate of 3.10%.

The Bank issued the first tranche of 2018 fixed-rate financial bonds in the aggregate of RMB12 billion on 15 August 2018 with the term of maturity of 3 years and an annual coupon rate of 4.35%.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

The Bank issued the second tranche of 2018 fixed-rate financial bonds in the aggregate of RMB8 billion on 25 October 2018 with the term of maturity of 3 years and an annual coupon rate of 4.10%.

The Bank issued the third tranche of 2018 financial fixed-rate financial bonds in the aggregate of RMB6.9 billion on 26 November 2018 with the term of maturity of 3 years and an annual coupon rate of 3.98%.

2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2018 second extraordinary general meeting of the Bank held on 17 August 2018 that, subject to necessary governmental and regulatory authorities, the Bank will issue capital bonds with no fixed term in the aggregate principal amount of up to RMB9 billion to members of the interbank bond market in China. The bonds will have no fixed term, with the date of triggering event being the date of maturity; and the interest rate of the bonds will be determined with reference to the market interest rate. The investors will not be entitled to repurchase the bonds, and the Bank is entitled to redeem all or part of the bonds from the fifth year following the date of issuance. The proceeds from the issuance of the bonds, after deducting issuance expenses, will be used to replenish other Tier-one Capital.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

5.6 PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, redeemed or sold any of the Bank's listed securities.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of disclosure of this report, the Directors, Supervisors and senior management of the Bank comprised:

Name	Age	Position
Mr. QIU Huofa (邱火發)	59	Executive Director, Chairperson of the Board
Mr. ZHANG Qiang (張強)	56	Executive Director, President
Mr. WANG Yigong (王亦工)	53	Executive Director, Vice President
Mr. WU Gang (吳剛)	49	Executive Director, Vice President
Mr. ZHANG Qiyang (張啟陽)	54	Non-executive Director
Mr. LIU Yanxue (劉彥學)	53	Non-executive Director
Mr. LI Jianwei (李建偉)	59	Non-executive Director
Mr. LI Yuguo (李玉國)	65	Non-executive Director
Mr. YUEN Wing Shing (袁永誠)	72	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	60	Non-executive Director
Mr. NI Guoju (倪國巨)	65	Independent Non-executive Director
Mr. KEUNG Chak (姜策)	59	Independent Non-executive Director
Mr. TAI Kwok Leung, Alexander (戴國良)	61	Independent Non-executive Director
Mr. XING Tiancai (邢天才)	58	Independent Non-executive Director
Mr. LI Jinyi (李進一)	55	Independent Non-executive Director
Mr. YANG Liya (楊利亞)	56	Employee Supervisor, Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	54	Employee Supervisor
Mr. WANG Lijun (王立軍)	38	Employee Supervisor
Mr. PAN Wenge (潘文戈)	52	Shareholder Supervisor
Mr. LIU Huidi (劉惠弟)	58	Shareholder Supervisor
Mr. YU Haobo (于浩波)	54	Shareholder Supervisor
Mr. BA Junyu (巴俊宇)	64	External Supervisor
Mr. SUN Hang (孫航)	53	External Supervisor
Mr. DAI Qiang (戴強)	53	External Supervisor
Mr. SUN Yonghseng (孫永生)	58	Vice President
Mr. Zhang Xuewen (張學文)	51	Vice President
Mr. Li Xin (李欣)	49	Vice President
Mr. Shen Guoyong (沈國勇)	49	Vice President
Mr. ZHOU Zhi (周峙)	50	Secretary of the Board
Mr. ZHANG Yi (張翼)	48	Chief Information Officer
Mr. LIU Zhiyan (劉志岩)	59	Chief Financial Officer
Ms. Zhang Jun (張珺) ^{note 1}	48	Chief Risk Officer

Note 1: The qualification of Ms. Zhang Jun as the Chief Risk Officer is subject to the official approval of the CBIRC.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

As at 30 June 2019, to the knowledge of the Directors after making reasonable enquiries the interests or short positions of the Directors, the Supervisors and the chief executives of the Bank and their respective associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules were set out as follows:

Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held of the Bank (share)	Representing percentage with respect to Domestic Shares of the Bank (%)	Representing percentage with respect to the total share capital of the Bank (%)
LI Yuguo (李玉國)	Non-executive Director	Interest of a controlled corporation	400,000,000 ⁽¹⁾	9.3986	6.9005
SHI Yang (石陽)	Employee Supervisor	Beneficial owner	107,684	0.0025	0.0019
		Interest of spouse	5,722	0.0001	0.0001
WU Gang (吳剛)	Executive Director, Vice President	Beneficial owner	<u>146,149</u>	<u>0.0034</u>	<u>0.0025</u>

Notes:

- (1) Please refer to “Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons” in this report for details.

Save as disclosed above, none of the Directors, the Supervisors, or the chief executives and their respective associates held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 30 June 2019 which are required to be notified to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the Listing Rules.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

6.2 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Reference is made to the announcement of the Bank dated 23 April 2019. Mr. ZHANG Qiyang has resigned from the positions of chairman of the Board, vice chairman of the nomination and remuneration committee of the Board and chairman of the strategic development committee of the Board with effect from 23 April 2019 due to work arrangement.

Reference is made to the announcement of the Bank dated 29 April 2019. On the meeting of the Board of the Bank held on 29 April 2019, Mr. QIU Huofa has been elected as the chairman of the sixth session of the Board and re-designated from a non-executive director to an executive director. With effect from 29 April 2019, the Bank's nomination and remuneration committee consists of Mr. XING Tiancai as the chairman, Mr. QIU Huofa as the vice chairman, and Mr. ZHANG Qiyang, Mr. KEUNG Chak and Mr. LI Jinyi as members; the Bank's strategic development committee consists of Mr. QIU Huofa as the chairman, and Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. ZHAO Weiqing and Mr. XING Tiancai as members.

The CBIRC Liaoning Bureau has ratified the eligibility of Mr. QIU Huofa to serve as the chairman of the Board. Accordingly, the term of office of Mr. QIU Huofa commenced from 9 May 2019.

As resolved by the Board, Mr. Zhang Xuwen has been appointed as the vice president of the Bank. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. Zhang to serve as the vice president of the Bank, with his term of office commenced from 1 April 2019.

As resolved by the Board, Mr. Li Xin has been appointed as the vice president of the Bank. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. Li to serve as the vice president of the Bank, with his term of office commenced from 14 June 2019.

As resolved by the Board, Mr. Shen Guoyong has been appointed as the vice president of the Bank. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. Shen to serve as the vice president of the Bank, with his term of office commenced from 14 June 2019.

As resolved by the Board, Ms. Zhang Jun has been appointed as the vice president of the Chief Risk Officer. Ms. Wang Yigong will cease to hold such position. The eligibility of Ms. Zhang shall be subject to the approval of the CBIRC Liaoning Bureau.

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

6.3 SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not less exacting than the required standard in the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

6.4 EMPLOYEES, EMPLOYEES’ COMPENSATION POLICIES AND TRAINING SCHEMES

As at the end of period, the Bank had 5,609 employees, increased by 175 from the end of the previous year.

The Bank has established a compensation system that is consistent with corporate governance requirements, balanced with bank competitiveness and sustainable capacity building, and is compatible with business performance after risk adjustment, with short-term incentives and long-term incentives. Employee compensation consists of fixed salary, variable salary, and welfare income. It is determined by ability and contribution, and takes into account external competitiveness and internal equity. The Bank contributes to its employees’ social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

According to its overall development strategies and training plans, aiming at continuous improvement of overall quality and business ability of personnel of all levels and positions, with training focus on leadership, professional skills and improvement of marketing capabilities, the Bank has continued to improve the training management system that is compatible with customer needs, market environment and industry development. The Bank has implemented a diversified training programme, effectively enhancing the overall competence of and supporting the professional growth of its employees of all levels and positions to cultivate Shengjing Bank's own expert talents and achieve sustainable competition of human resources. During the Reporting Period, the Bank continued to strengthen the construction of the three-level training system of head office, branches and sub-branches, actively carry out business demonstration training by business lines, and continuously strengthen the training courses and development and management of training materials. In addition, the Bank strengthened the construction of its internal training lecturers. During the Reporting Period, the Bank conducted employee training sessions with total enrolments of 29,723.

7.1 CORPORATE GOVERNANCE CODE

The Bank strives to improve the transparency and accountability of corporate governance and ensure high standards of corporate governance to safeguard shareholders' interests and enhance its enterprise value and commitment.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of insider information. The Bank issued 2018 Environmental, Social and Governance Report under the Listing Rules.

7.2 EARNINGS AND DIVIDENDS

The Bank's revenue for the six months ended 30 June 2019 and the Bank's financial position as at the same date are set out in the section headed "Interim Financial Statements".

A final dividend of RMB1.2 for every ten Shares (tax inclusive) for the year 2018, or in an aggregate amount of RMB695.60 million (tax inclusive), has been distributed by the Bank upon consideration and approval at the Bank's 2018 annual general meeting held on 31 May 2019. The final dividend for the year 2018 was distributed to holders of Domestic Shares and H Shares on 29 July 2019.

The Bank will not distribute any interim dividend for the first six months of 2019 or convert any capital reserve into share capital.

7.3 RELATED PARTY TRANSACTIONS

No material related party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

7.4 MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

SIGNIFICANT EVENTS (CONTINUED)

7.5 PLEDGE OF ASSETS

Details of the Bank's pledge of assets for the six months ended 30 June 2019 are set out in the financial statement.

7.6 PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

7.7 REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN

Reference is made to pages 164 to 165 of the prospectus of the Bank dated 15 December 2014 (the "Prospectus") in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as "Other Receivables" as the loan is interest-free) (the "Relevant Receivables") owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) ("Shenyang City Construction") in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering.

SIGNIFICANT EVENTS (CONTINUED)

As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the "Lock-up Period"). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank's written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

Reference is further made to (i) the announcement of the Bank dated 31 March 2017 in relation to the withdrawal of its A-share listing application; and (ii) the announcement of the Bank dated 13 April 2017 in relation to the repayment of the Relevant Receivables by Shenyang Hengxin. The Bank and Shenyang Hengxin have been proactively pushing forward the relevant work related to the repayment of the Relevant Receivables, including but not limited to, going through the relevant approval procedures in accordance with the applicable PRC laws and regulations, with a view to implement the repayment of the Relevant Receivables.

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables due and payable was approximately RMB654 million, and the balance of the impairment provision was RMB261 million.

SIGNIFICANT EVENTS (CONTINUED)

7.8 AMENDMENTS TO ARTICLES OF ASSOCIATION, RULES OF PROCEDURES FOR SHAREHOLDERS' GENERAL MEETINGS AND RULES OF PROCEDURES FOR BOARD MEETINGS

Reference is made to the announcement of the Bank dated 22 February 2019 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association, the amendments to the rules of procedures for shareholders' general meetings and the amendments to the rules of procedures for Board meetings by Shareholders at the 2019 first extraordinary general meeting of the Bank. The said amendments to the Articles of Association are subject to approval of the CBIRC Liaoning Bureau.

7.9 FUND RAISING PLAN

Reference is made to the announcement of the Bank dated 22 April 2019. The Bank convened a Board meeting on 19 April 2019 at which the Board resolved to conduct a proposed capital increase by way of issuing new shares in order to replenish its core capital base and has preliminarily decided to conduct a rights issue on a pro rata basis to its existing Shareholders.

Reference is made to the announcement of the Bank dated 17 May 2019. The Bank has decided not to proceed with the rights issue Plan and was in discussion with potential investors on issue of Domestic Shares and H Shares to them, in order to strengthen its capital base and support its future development.

Reference is made to the announcement of the Bank dated 20 June 2019. On 20 June 2019, Evergrande Nan Chang, a wholly-owned subsidiary of China Evergrande Group, and the Bank entered into a domestic share subscription agreement, pursuant to which, Evergrande Nan Chang has conditionally agreed to subscribe for, and the Bank has conditionally agreed to issue and allot, 2,200,000,000 Domestic Shares. As at the date of such announcement, Evergrande Nan Chang held 1,001,680,000 Domestic Shares, representing approximately 17.28% equity interest in the Bank and therefore was a connected person of the Bank under Chapter 14A of the Listing Rules. Accordingly, the Proposed Subscription and Issuance of Domestic Shares constitutes a connected transaction of the Bank and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Under Rule 26.1 of the Takeovers Code, Evergrande Nan Chang would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Bank not already owned or agreed to be acquired by Evergrande Nan Chang or parties acting in concert with it unless the Whitewash Waiver is granted by the Executive and approved by the independent Shareholders with at least 75% of the independent vote at the EGM and Class

SIGNIFICANT EVENTS (CONTINUED)

Meetings pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. On the same day, the Bank entered into an H share subscription agreement with Zhengbo Holdings Limited and Future Capital Group Limited, respectively, pursuant to which, each of Zhengbo Holdings Limited and Future Capital has conditionally agreed to subscribe for, and the Bank has conditionally agreed to issue and allot, 400,000,000 H Shares.

Reference is made to the announcement of the Bank dated 16 August 2019, in relation to, among other things, the resolution on the approval of the Proposed Subscription and Issuance of Domestic Shares, the Proposed Subscriptions and Issuance of H Shares and the whitewash waiver to be granted by the Executive by Shareholders at the 2019 second extraordinary general meeting, the 2019 first domestic share class meeting and the 2019 H share class meeting. All resolutions proposed at the EGM and the Class Meetings were duly passed by way of poll on 16 August 2019, and part of the condition of the Whitewash Waiver was also fulfilled on the same day.

7.10 REVIEW OF THE INTERIM RESULTS REPORT

Financial statements disclosed herein have not been audited. The interim financial statements for the six months ended 30 June 2019 prepared by the Bank in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410.

The Board and the Audit Committee of the Board have reviewed and approved the interim results report of the Bank.

7.11 PUBLICATION OF INTERIM RESULTS REPORT

This report is prepared in both English and Chinese versions. In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

REVIEW REPORT OF THE INDEPENDENT AUDITORS

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

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 112 to 253 which comprises the consolidated statement of financial position of Shengjing Bank Co., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The board of directors is responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

REVIEW REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

23 August 2019

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	Six months ended 30 June	
		2019	2018
Interest income		22,290,578	21,078,133
Interest expense		<u>(15,418,393)</u>	<u>(15,967,611)</u>
Net interest income	5	<u>6,872,185</u>	<u>5,110,522</u>
Fee and commission income		694,484	449,743
Fee and commission expense		<u>(83,238)</u>	<u>(76,317)</u>
Net fee and commission income	6	<u>611,246</u>	<u>373,426</u>
Net trading gains	7	1,302,617	1,064,286
Net gains arising from investments	8	2,933,500	1,181,407
Net foreign exchange losses		(1,589,387)	(1,719,387)
Other operating income	9	<u>7,421</u>	<u>18,758</u>
Operating income		10,137,582	6,029,012
Operating expenses	10	(2,011,047)	(1,816,109)
Impairment losses on assets	11	<u>(4,596,742)</u>	<u>(1,250,657)</u>
Profit before taxation		3,529,793	2,962,246
Income tax expense	12	<u>(385,602)</u>	<u>(124,187)</u>
Profit for the period		<u>3,144,191</u>	<u>2,838,059</u>

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

*For the six months ended 30 June 2019
(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)*

	<i>Note</i>	Six months ended 30 June	
		2019	2018
Net profit attributable to:			
Equity shareholders of the Bank		3,156,059	2,840,709
Non-controlling interests		(11,868)	(2,650)
		<u>3,144,191</u>	<u>2,838,059</u>
Net profit		<u>3,144,191</u>	<u>2,838,059</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(7)	(1,674)
Items that may be reclassified subsequently to profit or loss			
– Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve		(714,706)	530,782
– net movement in the provision reserve		4,988	3,121
		<u>(709,725)</u>	<u>532,229</u>
Other comprehensive income net of tax		<u>(709,725)</u>	<u>532,229</u>
Total comprehensive income		<u>2,434,466</u>	<u>3,370,288</u>
Total comprehensive income attributable to:			
Equity shareholders of the Bank		2,446,334	3,372,938
Non-controlling interests		(11,868)	(2,650)
		<u>2,434,466</u>	<u>3,370,288</u>
Basic and diluted earnings per share (<i>in RMB</i>)	13	<u>0.54</u>	<u>0.49</u>

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2019	31 December 2018
Assets			
Cash and deposits with central bank	14	91,272,531	97,573,501
Deposits with banks and other financial institutions	15	12,207,742	29,098,503
Placements with banks and other financial institutions	16	1,700,213	2,400,914
Derivative financial assets	17	3,478,309	2,171,078
Financial assets held under resale agreements	18	14,968,573	2,146,696
Loans and advances to customers	19	420,120,953	368,078,039
Financial investments:			
Financial assets at fair value through profit or loss	20(a)	168,337,463	151,690,685
Financial assets at fair value through other comprehensive income	20(b)	45,256,114	59,925,100
Financial assets measured at amortised cost	20(c)	264,912,689	263,149,991
Property and equipment	21	5,232,919	5,260,425
Deferred tax assets	22	2,733,326	2,152,558
Other assets	23	3,240,280	1,785,450
Total assets		1,033,461,112	985,432,940

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 30 June 2019
(Expressed in thousands of RMB, unless otherwise stated)*

	<i>Note</i>	30 June 2019	31 December 2018
Liabilities			
Borrowings from central bank	24	30,698,117	41,718,868
Deposits from banks and other financial institutions	25	94,330,493	80,993,681
Placements from banks and other financial institutions	26	24,137,828	42,821,263
Financial liabilities at fair value through profit or loss		25,477,066	14,601,560
Derivative financial liabilities	17	724,491	758,626
Financial assets sold under repurchase agreements	27	50,828,091	32,309,138
Deposits from customers	28	596,528,129	524,940,548
Income tax payable		9,601	63,858
Debt securities issued	29	143,785,817	186,567,225
Other liabilities	30	8,173,131	3,628,689
Total liabilities		974,692,764	928,403,456

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

(Expressed in thousands of RMB, unless otherwise stated)

	Note	30 June 2019	31 December 2018
Equity			
Share capital	31	5,796,680	5,796,680
Capital reserve	32(a)	11,855,505	11,855,505
Surplus reserve	32(b)	6,622,797	6,110,162
General reserve	32(c)	13,398,535	12,571,882
Fair value reserve	32(d)	407,881	1,122,587
Provision reserve	32(e)	10,299	5,311
Deficit on remeasurement of net defined benefit liability	32(f)	(13,884)	(13,877)
Retained earnings		20,130,787	19,009,618
Total equity attributable to equity shareholders of the Bank		58,208,600	56,457,868
Non-controlling interests		559,748	571,616
Total equity		58,768,348	57,029,484
Total liabilities and equity		1,033,461,112	985,432,940

Approved and authorised for issue by the board of directors on 23 August 2019.

Qiu Huofa

Chairman of Board of Directors

Zhang Qiang

President

Bao Hong

General Manager of Accounting Department

Company chop

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019
(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019		5,796,680	11,855,505	6,110,162	12,571,882	1,122,587	5,311	(13,877)	19,009,618	56,457,868	571,616	57,029,484
Profit for the period		-	-	-	-	-	-	-	3,156,059	3,156,059	(11,868)	3,144,191
Other comprehensive income		-	-	-	-	(714,706)	4,988	(7)	-	(709,725)	-	(709,725)
Total comprehensive income		-	-	-	-	(714,706)	4,988	(7)	3,156,059	2,446,334	(11,868)	2,434,466
Appropriation of profit:												
– Appropriation to surplus reserve	33	-	-	512,635	-	-	-	-	(512,635)	-	-	-
– Appropriation to general reserve (Note (i))	33	-	-	-	826,653	-	-	-	(826,653)	-	-	-
– Cash dividends	33	-	-	-	-	-	-	-	(695,602)	(695,602)	-	(695,602)
Subtotal		-	-	512,635	826,653	-	-	-	(2,034,890)	(695,602)	-	(695,602)
Balance at 30 June 2019		5,796,680	11,855,505	6,622,797	13,398,535	407,881	10,299	(13,884)	20,130,787	58,208,600	559,748	58,768,348

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB1,103 thousand.

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019

(Expressed in thousands of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,034,031	(335,375)	-	(6,076)	17,984,108	51,681,375	574,281	52,255,656
Impact on initial application of IFRS 9		-	-	-	-	169,856	7,337	-	(764,294)	(587,101)	(96)	(587,197)
Balance at 1 January 2018		5,796,680	11,855,505	5,352,502	11,034,031	(165,519)	7,337	(6,076)	17,219,814	51,094,274	574,185	51,668,459
Profit for the period		-	-	-	-	-	-	-	2,840,709	2,840,709	(2,650)	2,838,059
Other comprehensive income		-	-	-	-	530,782	3,121	(1,674)	-	532,229	-	532,229
Total comprehensive income		-	-	-	-	530,782	3,121	(1,674)	2,840,709	3,372,938	(2,650)	3,370,288
Appropriation of profit:												
- Appropriation to surplus reserve	33	-	-	757,660	-	-	-	-	(757,660)	-	-	-
- Appropriation to general reserve (Note (i))	33	-	-	-	1,537,809	-	-	-	(1,537,809)	-	-	-
- Cash dividends	33	-	-	-	-	-	-	-	(1,043,402)	(1,043,402)	-	(1,043,402)
Subtotal		-	-	757,660	1,537,809	-	-	-	(3,338,871)	(1,043,402)	-	(1,043,402)
Balance at 30 June 2018		5,796,680	11,855,505	6,110,162	12,571,840	365,263	10,458	(7,750)	16,721,652	53,423,810	571,535	53,995,345

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB234 thousand.

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019
(Expressed in thousands of RMB, unless otherwise stated)

Attributable to equity shareholders of the Bank											
	Share	Capital	Surplus	General	Fair	Provision	Deficit on	Retained		Non-	Total
Note	capital	reserve	reserve	reserve	value	reserve	remeasurement	earnings	Total	controlling	equity
					reserve		of net defined			interests	
							benefit liability				
Balance at 1 July 2018	5,796,680	11,855,505	6,110,162	12,571,840	365,263	10,458	(7,750)	16,721,652	53,423,810	571,535	53,995,345
Profit for the period	-	-	-	-	-	-	-	2,288,008	2,288,008	81	2,288,089
Other comprehensive income	-	-	-	-	757,324	(5,147)	(6,127)	-	746,050	-	746,050
Total comprehensive income	-	-	-	-	757,324	(5,147)	(6,127)	2,288,008	3,034,058	81	3,034,139
Appropriation of profit:											
- Appropriation to surplus reserve	33	-	-	-	-	-	-	-	-	-	-
- Appropriation to general reserve	33	-	-	42	-	-	-	(42)	-	-	-
- Cash dividends	33	-	-	-	-	-	-	-	-	-	-
Subtotal		-	-	42	-	-	-	(42)	-	-	-
Balance at 31 December 2018	5,796,680	11,855,505	6,110,162	12,571,882	1,122,587	5,311	(13,877)	19,009,618	56,457,868	571,616	57,029,484

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2019	2018
Cash flows from operating activities			
Profit before taxation		3,529,793	2,962,246
<i>Adjustments for:</i>			
Impairment losses on assets		4,596,742	1,250,657
Depreciation and amortisation		286,776	199,488
Interest element of lease rentals paid		15,231	–
Unwinding of discount		(83,624)	(60,563)
Unrealised foreign exchange losses		2,308	335,037
Net gains on disposal of property and equipment		(128)	–
Dividend income		(1,200)	(15,730)
Net trading gains of financial assets at fair value through profit or loss		(1,322,479)	(1,192,091)
Net gains on disposal of financial investments		(2,817,099)	(1,165,677)
Interest expense on debt securities issued		3,375,763	3,978,801
Interest income on financial investments		(8,299,921)	(10,268,433)
		<u>(717,838)</u>	<u>(3,976,265)</u>
<i>Changes in operating assets</i>			
Net decrease/(increase) in deposits with central bank		3,471,399	(5,911,624)
Net decrease/(increase) in deposits and placements with banks and other financial institutions		21,052,224	(4,904,562)
Net increase in loans and advances to customers		(42,275,427)	(54,661,970)
Net increase in other operating assets		<u>(3,433,618)</u>	<u>(875,659)</u>
		<u>(21,185,422)</u>	<u>(66,353,815)</u>

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

*For the six months ended 30 June 2019
(Expressed in thousands of RMB, unless otherwise stated)*

<i>Note</i>	Six months ended 30 June	
	2019	2018
<i>Changes in operating liabilities</i>		
Net decrease in borrowings from central bank	(11,160,000)	(8,730,000)
Net decrease in deposits and placements from banks and other financial institutions	(5,951,401)	(124,712,055)
Net increase/(decrease) in financial assets sold under repurchase agreements	18,521,051	(41,831,568)
Net increase in deposits from customers	68,071,960	31,284,995
Income tax paid	(784,053)	(575,791)
Net increase/(decrease) in other operating liabilities	<u>7,820,307</u>	<u>(1,638,370)</u>
	<u>76,517,864</u>	<u>(146,202,789)</u>
Net cash flows generated from/(used in) operating activities	<u>54,614,604</u>	<u>(216,532,869)</u>
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	732,450,745	703,398,919
Proceeds from disposal of property and equipment	361	–
Payments on acquisition of investments	(726,289,721)	(609,582,761)
Payments on acquisition of property and equipment, intangible assets and other assets	<u>(193,163)</u>	<u>(175,074)</u>
Net cash flows generated from investing activities	<u>5,968,222</u>	<u>93,641,084</u>

The notes on pages 123 to 253 form part of this interim financial report.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2019

(Expressed in thousands of RMB, unless otherwise stated)

	Note	Six months ended 30 June	
		2019	2018
Cash flows from financing activities			
Net proceeds from new debt securities issued		186,427,226	379,194,529
Repayment of debt securities issued		(230,165,721)	(307,931,752)
Interest paid on debt securities issued		(2,418,676)	(3,566,156)
Dividends paid		(24,078)	(37,425)
Payment of lease liabilities		(109,605)	–
Net cash flows (used in)/generated from financing activities		(46,290,854)	67,659,196
Effect of foreign exchange rate changes on cash and cash equivalents		4,026	196,687
Net increase/(decrease) in cash and cash equivalents		14,295,998	(55,035,902)
Cash and cash equivalents as at 1 January		42,094,149	81,559,847
Cash and cash equivalents as at 30 June	34	56,390,147	26,523,945
Net cash flows generated from operating activities include:			
Interest received		14,769,745	10,313,298
Interest paid (excluding interest expense on debt securities issued)		(7,858,612)	(13,975,069)

The notes on pages 123 to 253 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in thousands of RMB, unless otherwise stated)

1 REPORTING ENTITY

Shengjing Bank Co., Ltd. (the “Bank”) is a bank domiciled in the People’s Republic of China (the “PRC”). These consolidated interim financial statements (the “interim financial report”) as at and for the six months ended 30 June 2019 comprise the Bank and its subsidiaries (together referred to as the “Group”). The principal activities of the Group are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the China Bank Insurance Regulatory Commission (the “CBIRC”). The Bank mainly operated in mainland China, which, for the purpose of this interim financial report, excludes the Hong Kong Special Administration Region of the PRC (“Hong Kong”), the Macau Special Administration Region of the PRC (“Macau”) and Taiwan.

As at 30 June 2019, details of the subsidiaries are as follows:

	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei Fumin Village Bank Co., Ltd. (“Shenyang Shenbei”)	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin Fumin Village Bank Co., Ltd. (“Shenyang Xinmin”)	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku Fumin Village Bank Co., Ltd. (“Shenyang Faku”)	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong Fumin Village Bank Co., Ltd. (“Shenyang Liaozhong”)	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei Fumin Village Bank Co., Ltd. (“Ningbo Jiangbei”)	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan Fumin Village Bank Co., Ltd. (“Shanghai Baoshan”)	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Bank Consumer Finance Co., Ltd. (“Shengjing Consumer”)	25/02/2016	Liaoning, China	300,000	60%	Consumer finance

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, Interim financial reporting, issued by the International Accounting Standards Board. It was authorised for issue on 23 August 2019.

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES

Except as described below accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 31 December 2018. The changes in accounting policies are also expected to be reflected in the Group's annual financial statements for the year ending 31 December 2019. The principal effects of new and revised International Financial Reporting Standards ("IFRSs", including International Accounting Standards ("IASs"), and International Financial Reporting Interpretations Committee ("IFRICs")) are as follows:

IFRS 16, Leases

The Group has initially adopted IFRS 16, Leases ("IFRS 16") from 1 January 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

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

Definition of a lease

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

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

The Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, Leases (Continued)

Significant accounting policies

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

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group includes all major leases in the consolidated statement of financial position and recognises right-of-use assets and lease liabilities.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets, and leases with less than 12 months of lease term. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 16, Leases (Continued)

Impacts on IFRS16 transition

The Group has adopted IFRS 16 initially on 1 January 2019, using the modified retrospective approach. As at 1 January 2019, the Group initially recognised lease liabilities of RMB648 million and right-of-use assets of RMB648 million. Therefore, the cumulative effect of adopting the new lease standards was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group chose to measure right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. Thus the adoption of the new lease standards does not have an effect on the beginning balance of retained earnings.

The difference between the minimum lease payments in respect of operating leases as at 31 December 2018 and the lease liabilities recognised in the consolidated statement of financial position at 1 January 2019 for the Group is summarised below. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

	1 January 2019
Operating lease commitments at 31 December 2018	684,937
Lease payments under IFRS 16 (without discounting)	738,816
Lease liabilities recognised at 1 January 2019	647,837

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING

(a) Business Segment

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

Corporate banking

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

Retail banking

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

Treasury business

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others

Others represent equity investment and related income and any other business which cannot form a single reportable segment.

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	Six months ended 30 June 2019				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	5,900,865	(2,101,873)	3,073,193	–	6,872,185
Internal net interest income/ (expense)	<u>(282,197)</u>	<u>2,789,216</u>	<u>(2,507,019)</u>	<u>–</u>	<u>–</u>
Net interest income	5,618,668	687,343	566,174	–	6,872,185
Net fee and commission income	398,598	190,315	22,333	–	611,246
Net trading gains	–	–	1,302,617	–	1,302,617
Net gains arising from investments	–	–	2,932,300	1,200	2,933,500
Net foreign exchange losses	–	–	(1,589,387)	–	(1,589,387)
Other operating income	<u>2,808</u>	<u>542</u>	<u>–</u>	<u>4,071</u>	<u>7,421</u>
Operating income	6,020,074	878,200	3,234,037	5,271	10,137,582
Operating expenses	(1,296,663)	(511,171)	(197,942)	(5,271)	(2,011,047)
Impairment losses on assets	<u>(4,744,602)</u>	<u>(137,602)</u>	<u>285,462</u>	<u>–</u>	<u>(4,596,742)</u>
Profit before taxation	<u>(21,191)</u>	<u>229,427</u>	<u>3,321,557</u>	<u>–</u>	<u>3,529,793</u>
Other segment information					
– Depreciation and amortisation	<u>196,761</u>	<u>80,695</u>	<u>9,320</u>	<u>–</u>	<u>286,776</u>
– Capital expenditure	<u>132,532</u>	<u>54,354</u>	<u>6,277</u>	<u>–</u>	<u>193,163</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	30 June 2019				Total
	Corporate Banking	Retail banking	Treasury business	Others	
Segment assets	441,890,439	48,301,335	540,536,012	–	1,030,727,786
Deferred tax assets					<u>2,733,326</u>
Total assets					<u><u>1,033,461,112</u></u>
Segment liabilities/Total liabilities	<u>410,228,949</u>	<u>190,218,007</u>	<u>373,428,971</u>	<u>816,837</u>	<u>974,692,764</u>
Credit commitments	<u>192,273,201</u>	<u>7,294,475</u>	<u>–</u>	<u>–</u>	<u>199,567,676</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/ (expense)	3,663,696	(2,054,531)	3,501,357	–	5,110,522
Internal net interest income/ (expense)	18,063	2,285,868	(2,303,931)	–	–
Net interest income	3,681,759	231,337	1,197,426	–	5,110,522
Net fee and commission income	159,318	178,721	35,387	–	373,426
Net trading gains	–	–	1,064,286	–	1,064,286
Net gains arising from investments	–	–	1,180,527	880	1,181,407
Net foreign exchange losses	–	–	(1,719,387)	–	(1,719,387)
Other operating income	3,466	714	5,122	9,456	18,758
Operating income	3,844,543	410,772	1,763,361	10,336	6,029,012
Operating expenses	(1,157,187)	(366,396)	(289,397)	(3,129)	(1,816,109)
Impairment losses on assets	(1,762,582)	4,000	507,925	–	(1,250,657)
Profit before taxation	924,774	48,376	1,981,889	7,207	2,962,246
Other segment information					
– Depreciation and amortisation	145,717	46,577	7,194	–	199,488
– Capital expenditure	127,883	40,877	6,314	–	175,074

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Others (Continued)

	30 June 2018				Total
	Corporate Banking	Retail banking	Treasury business	Others	
Segment assets	365,974,214	29,504,182	560,600,557	–	956,078,953
Deferred tax assets					<u>1,871,439</u>
Total assets					<u><u>957,950,392</u></u>
Segment liabilities/Total liabilities	<u>354,515,729</u>	<u>163,504,060</u>	<u>384,794,666</u>	<u>1,140,592</u>	<u>903,955,047</u>
Credit commitments	<u>162,301,122</u>	<u>2,849,036</u>	<u>–</u>	<u>–</u>	<u>165,150,158</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information

The Group operates principally in mainland China with eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Northeast China” refers to headquarter and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong and Shengjing Consumer;
- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 SEGMENT REPORTING (CONTINUED)

(b) Geographical information (Continued)

	Operating income	
	Six months ended 30 June	
	2019	2018
Northeast China	9,091,060	5,069,834
North China	655,024	848,244
Others	391,498	110,934
Total	10,137,582	6,029,012

	Non-current assets <i>(Note i)</i>	
	30 June	31 December
	2019	2018
Northeast China	5,753,539	5,082,828
North China	296,089	307,646
Others	40,997	46,304
Total	6,090,625	5,436,778

Note:

- (i) Non-current assets include property and equipment, intangible assets, right-of-use assets, long-term deferred expense and land use rights.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Interest income arising from		
Deposits with central bank	553,480	554,149
Deposits and placements with banks and other financial institutions	506,477	1,096,160
Loans and advances to customers		
– Corporate loans and advances	11,736,104	8,579,521
– Personal loans and advances	892,449	391,929
– Discounted bills	215,108	121,536
Financial assets held under resale agreements	87,039	66,405
Financial investments	8,299,921	10,268,433
Subtotal	22,290,578	21,078,133
Interest expense arising from		
Borrowings from central bank	(257,465)	(286,249)
Deposits and placements from banks and other financial institutions	(2,797,185)	(3,975,772)
Deposits from customers	(8,554,175)	(6,498,360)
Financial assets sold under repurchase agreements	(433,805)	(1,228,429)
Debt securities issued	(3,375,763)	(3,978,801)
Subtotal	(15,418,393)	(15,967,611)
Net interest income	6,872,185	5,110,522

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

5 NET INTEREST INCOME (CONTINUED)

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the six months ended 30 June 2019 amounted to RMB22,268 million (the six months ended 30 June 2018: RMB21,067 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2019 amounted to RMB15,418 million (the six months ended 30 June 2018: RMB15,968 million).

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
Fee and commission income		
Agency and custody services fees	455,821	319,404
Settlement and clearing services fees	206,175	108,731
Bank card services fees	32,488	21,608
Subtotal	694,484	449,743
Fee and commission expense	(83,238)	(76,317)
Net fee and commission income	611,246	373,426

7 NET TRADING GAINS

Net trading gains include gains arising from the buying and selling of, and changes in the fair value of debt securities held for trading purpose and derivative financial instruments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

8 NET GAINS ARISING FROM INVESTMENTS

	Six months ended 30 June	
	2019	2018
Net gains on financial assets at fair value through profit or loss	1,958,779	1,017,157
Net gains on disposal of financial assets at fair value through other comprehensive income	810,368	8,476
Net gains on disposal of financial assets measured at amortised cost	163,153	140,044
Dividends from designated as financial assets at fair value through other comprehensive income	1,200	15,730
Total	<u>2,933,500</u>	<u>1,181,407</u>

9 OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
Rental income	3,220	10,099
Government grants	1,545	7,150
Handling charge income	542	713
Net gains on disposal of property and equipment	128	–
Others	1,986	796
Total	<u>7,421</u>	<u>18,758</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

10 OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
Staff costs		
– Salaries, bonuses and allowances	747,049	717,111
– Pension and annuity	124,121	118,429
– Other social insurance	118,345	93,954
– Housing allowances	47,723	45,458
– Supplementary retirement benefits	2,527	3,260
– Others	53,932	44,018
	<hr/>	<hr/>
Subtotal	1,093,697	1,022,230
Depreciation and amortisation	206,540	199,488
Office expenses	160,127	103,240
Depreciation charge for the right-of-use assets	80,236	–
Tax and surcharges	78,664	18,435
Rental and property management expenses (Note(a))	32,442	114,607
Interest expense on lease liabilities	15,231	–
Other general and administrative expenses	344,110	358,109
	<hr/>	<hr/>
Total	<u>2,011,047</u>	<u>1,816,109</u>

Note:

- (a) Rental and property management expenses include expenses relating to short-term leases and expenses relating to low-value assets.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2019	2018
Deposits and placements with banks and other financial institutions	137,874	(10,947)
Financial assets held under resale agreements	3,054	(4,748)
Loans and advances to customers	4,806,729	1,771,793
Financial investments	(426,390)	8,130
Credit commitment	79,676	(500,360)
Others	(4,201)	(13,211)
Total	<u>4,596,742</u>	<u>1,250,657</u>

12 INCOME TAX EXPENSE

(a) Income tax for the period:

	Six months ended 30 June	
	2019	2018
Current tax	729,796	3,501
Deferred tax	<u>(344,194)</u>	<u>120,686</u>
Total	<u>385,602</u>	<u>124,187</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended 30 June	
	2019	2018
Profit before taxation	<u>3,529,793</u>	<u>2,962,246</u>
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	882,448	740,562
Non-deductible expenses		
– Entertainment expenses	1,628	1,358
– Others	661	771
	2,289	2,129
Non-taxable income	(498,072)	(618,504)
Subtotal	386,665	124,187
Over-provision in prior years	(1,063)	–
Income tax	<u>385,602</u>	<u>124,187</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

	Six months ended 30 June	
	2019	2018
Net profit attributable to equity shareholders of the Bank	3,156,059	2,840,709
Weighted average number of ordinary shares (<i>in thousands</i>)	5,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank (<i>in RMB</i>)	0.54	0.49

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

14 CASH AND DEPOSITS WITH CENTRAL BANK

	<i>Note</i>	30 June 2019	31 December 2018
Cash on hand		1,033,454	702,533
Deposits with central bank			
– Statutory deposit reserves	14(a)	61,233,632	64,812,844
– Surplus deposit reserves	14(b)	28,416,935	31,572,455
– Foreign currency risk reserves	14(c)	275,228	195,327
– Fiscal deposits		281,360	253,448
Subtotal		90,207,155	96,834,074
Add: interest receivable		31,922	36,894
Total		91,272,531	97,573,501

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK (CONTINUED)

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

	30 June 2019	31 December 2018
Reserve ratio for RMB deposits	11.5%	12.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The foreign currency risk reserves are maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserves are payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign currency risk reserves are non-interest bearing and will be repayable in 12 months.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Deposits in mainland China		
– Banks	7,344,212	27,162,902
– Other financial institutions	1,888,214	4,519
Deposits outside mainland China		
– Banks	<u>3,091,808</u>	<u>1,210,880</u>
Subtotal	12,324,234	28,378,301
Add: interest receivable	30,379	728,945
Less: provision for impairment losses	<u>(146,871)</u>	<u>(8,743)</u>
Total	<u><u>12,207,742</u></u>	<u><u>29,098,503</u></u>

(b) Movements of provision for impairment losses

	2019	2018
As at 1 January	8,743	15,300
Net charge/(release) for the period/year	<u>138,128</u>	<u>(6,557)</u>
As at 30 June/31 December	<u><u>146,871</u></u>	<u><u>8,743</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Placements in mainland China		
– Other financial institutions	1,700,000	2,400,000
Add: interest receivable	719	1,674
Less: provision for impairment losses	(506)	(760)
Total	<u>1,700,213</u>	<u>2,400,914</u>

(b) Movements of provision for impairment losses

	2019	2018
As at 1 January	760	9,853
Net release for the period/year	(254)	(9,093)
As at 30 June/31 December	<u>506</u>	<u>760</u>

17 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Analysed by nature of contract

	30 June 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	190,370,000	427,442	(383,074)
Currency swaps	43,946,907	339,428	(292,361)
Currency options	81,614,998	114	(7,720)
Precious metal derivatives	26,191,690	2,682,180	(36,091)
Foreign exchange forwards	1,759,245	29,145	(5,245)
Total	<u>343,882,840</u>	<u>3,478,309</u>	<u>(724,491)</u>

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate swaps	220,090,000	433,617	(476,400)
Currency swaps	109,317,896	1,223,944	(275,805)
Currency options	71,079,507	–	(4,954)
Precious metal derivatives	15,053,139	489,588	–
Foreign exchange forwards	1,008,753	23,929	(1,467)
Total	<u>416,549,295</u>	<u>2,171,078</u>	<u>(758,626)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Analysed by credit risk-weighted amount

	30 June 2019	31 December 2018
Currency swaps	109,867	273,295
Foreign exchange options	204,037	177,698
Precious metal derivatives	65,480	37,633
Foreign exchange forwards	17,592	10,088
Total	<u>396,976</u>	<u>498,714</u>

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the former CBRC.

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	13,253,800	1,500,000
– Other financial institutions	1,714,500	645,860
Subtotal	14,968,300	2,145,860
Add: interest receivable	3,708	1,217
Less: provision for impairment losses	(3,435)	(381)
Total	<u>14,968,573</u>	<u>2,146,696</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	30 June 2019	31 December 2018
Debt securities held under resale agreements	14,968,300	2,145,860
Add: interest receivable	3,708	1,217
Less: provision for impairment losses	<u>(3,435)</u>	<u>(381)</u>
Total	<u>14,968,573</u>	<u>2,146,696</u>

(c) Movements of provision for impairment losses

	2019	2018
As at 1 January	381	5,282
Net charge/(release) for the period/year	<u>3,054</u>	<u>(4,901)</u>
As at 30 June/31 December	<u>3,435</u>	<u>381</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	30 June 2019	31 December 2018
Measured at amortised cost:		
Corporate loans and advances	373,971,751	347,511,078
Personal loans and advances		
– Residential mortgage	26,361,735	20,822,817
– Personal consumption loans	11,014,047	3,075,729
– Personal business loans	458,721	732,873
– Credit cards	1,393,801	799,698
– Others	18,759	21,109
Subtotal	39,247,063	25,452,226
Gross loans and advances to customers measured at amortised cost	413,218,814	372,963,304
Measured at fair value through other comprehensive income:		
– Corporate loans and advances	35,500	36,553
– Discounted bills	17,147,728	3,597,503
Gross loans and advances to customers measured at fair value through other comprehensive income	17,183,228	3,634,056
Gross loans and advances to customers	430,402,042	376,597,360
Add: interest receivable	2,133,661	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(12,414,750)	(10,358,586)
Net loans and advances to customers	420,120,953	368,078,039

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysed by nature (Continued)

As at 30 June 2019, the Group's provision amount for loans and advances to customers measured at fair value through other comprehensive income is RMB6.29 million (31 December 2018: RMB1.63 million), as detailed in Note 19 (f).

(b) Analysed by economic sector

	30 June 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	183,700,622	43%	70,972,065
Renting and business activities	53,972,774	13%	33,083,282
Manufacturing	35,624,011	8%	8,591,605
Real estate	30,462,048	7%	26,128,442
Construction	29,646,212	7%	6,830,798
Culture, sports and entertainment	6,548,959	1%	218,000
Production and supply of electric power, gas and water	4,269,819	1%	843,693
Accommodation and catering	3,974,067	1%	3,646,227
Transportation, storage and postal services	2,837,799	1%	1,170,385
Mining	2,636,396	1%	100,897
Agriculture, forestry, animal husbandry and fishery	1,866,412	0%	322,781
Household and other services	1,173,000	0%	534,200
Others	17,295,132	4%	9,707,015
Subtotal of corporate loans and advances	374,007,251	87%	162,149,390
Personal loans and advances	39,247,063	9%	28,890,681
Discounted bills	17,147,728	4%	17,147,728
Gross loans and advances to customers	430,402,042	100%	208,187,799

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector (Continued)

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	173,690,903	46%	76,602,639
Renting and business activities	43,515,629	12%	26,486,108
Manufacturing	40,591,373	11%	12,568,637
Real estate	28,954,810	8%	24,502,540
Construction	19,190,327	4%	6,541,088
Accommodation and catering	6,053,565	2%	5,723,185
Production and supply of electric power, gas and water	5,245,370	1%	1,033,527
Transportation, storage and postal services	3,895,292	1%	1,043,478
Mining	2,864,996	1%	505,997
Agriculture, forestry, animal husbandry and fishery	2,568,981	1%	383,481
Culture, sports and entertainment	1,893,934	1%	234,100
Household and other services	1,352,600	0%	109,000
Others	17,729,851	4%	9,340,764
Subtotal of corporate loans and advances	347,547,631	92%	165,074,544
Personal loans and advances	25,452,226	7%	23,206,219
Discounted bills	3,597,503	1%	3,597,503
Gross loans and advances to customers	376,597,360	100%	191,878,266

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	30 June 2019	31 December 2018
Unsecured loans	20,008,830	14,243,064
Guaranteed loans	202,205,413	170,476,030
Loans secured by tangible assets other than monetary assets	135,774,057	129,346,181
Loans secured by intangible assets or monetary assets	<u>72,413,742</u>	<u>62,532,085</u>
Gross loans and advances to customers	<u>430,402,042</u>	<u>376,597,360</u>
Add: interest receivable	2,133,661	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(12,414,750)</u>	<u>(10,358,586)</u>
Net loans and advances to customers	<u><u>420,120,953</u></u>	<u><u>368,078,039</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

	30 June 2019				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	53,110	25,207	15,857	7,011	101,185
Guaranteed loans	3,842,378	9,400,549	5,397,843	69,052	18,709,822
Loans secured by tangible assets other than monetary assets	2,102,161	1,364,550	2,055,704	206,464	5,728,879
Loans secured by intangible assets or monetary assets	<u>1,658,167</u>	<u>49,342</u>	<u>21,478</u>	<u>69,998</u>	<u>1,798,985</u>
Total	<u><u>7,655,816</u></u>	<u><u>10,839,648</u></u>	<u><u>7,490,882</u></u>	<u><u>352,525</u></u>	<u><u>26,338,871</u></u>
As a percentage of gross loans and advances to customers	<u>1.78%</u>	<u>2.52%</u>	<u>1.74%</u>	<u>0.08%</u>	<u>6.12%</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	31 December 2018				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	12,213	17,888	13,887	2,368	46,356
Guaranteed loans	5,108,830	12,618,439	681,944	56,255	18,465,468
Loans secured by tangible assets other than monetary assets	4,569,736	7,070,353	372,280	187,353	12,199,722
Loans secured by intangible assets or monetary assets	598,157	40,278	–	70,000	708,435
Total	10,288,936	19,746,958	1,068,111	315,976	31,419,981
As a percentage of gross loans and advances to customers	2.73%	5.25%	0.28%	0.08%	8.34%

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses

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

	30 June 2019			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit- impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Gross loans and advances to customers	403,430,133	7,539,607	19,432,302	430,402,042
Add: interest receivable	2,133,661	-	-	2,133,661
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(4,064,936)</u>	<u>(1,597,467)</u>	<u>(6,752,347)</u>	<u>(12,414,750)</u>
Net loans and advances to customers	<u>401,498,858</u>	<u>5,942,140</u>	<u>12,679,955</u>	<u>420,120,953</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	31 December 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Gross loans and advances to customers	348,833,928	6,016,102	21,747,330	376,597,360
Add: interest receivable	1,839,265	–	–	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(3,640,867)</u>	<u>(1,200,134)</u>	<u>(5,517,585)</u>	<u>(10,358,586)</u>
Net loans and advances to customers	<u>347,032,326</u>	<u>4,815,968</u>	<u>16,229,745</u>	<u>368,078,039</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses

As at 30 June 2019, the movements of provision for loans and advances to customers are as follows:

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

	Six months ended 30 June 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	3,640,867	1,200,134	5,517,585	10,358,586
Transferred:				
– to ECL over the next 12 months	1	(1)	–	–
– to lifetime ECL- not credit- impaired loans	(36,214)	36,214	–	–
– to lifetime ECL- credit-impaired loans	(14,398)	(187,369)	201,767	–
Net charge for the year	474,680	548,489	3,778,902	4,802,071
Transfer out (<i>Note (a)</i>)	–	–	(2,999,778)	(2,999,778)
Unwinding of discount	–	–	(83,624)	(83,624)
Write-offs	–	–	(15,000)	(15,000)
Recoveries	–	–	352,495	352,495
As at 30 June	<u>4,064,936</u>	<u>1,597,467</u>	<u>6,752,347</u>	<u>12,414,750</u>

Note:

(a) For the six months ended 30 June 2019, the Group transferred loans and advances with gross amount of RMB9,999.26 million to three asset management companies, and the transfer price was RMB6,999.48 million.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	Six months ended 30 June 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	1,629	-	-	1,629
- to lifetime ECL- not credit- impaired loans	(565)	565	-	-
Net charge for the period	4,658	-	-	4,658
As at 30 June	5,722	565	-	6,287

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

As at 31 December 2018, the movement of provision for loans and advances to customers are as follows:

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

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	3,347,500	1,382,476	2,929,100	7,659,076
Transferred:				
– to ECL over the next 12 months	8,328	(8,328)	–	–
– to lifetime ECL- not credit- impaired loans	(7,833)	7,833	–	–
– to lifetime ECL- credit-impaired loans	(140,717)	(398,536)	539,253	–
Net charge for the year	433,589	216,689	4,470,653	5,120,931
Transfer out	–	–	(2,076,660)	(2,076,660)
Unwinding of discount	–	–	(137,928)	(137,928)
Write-offs	–	–	(206,976)	(206,976)
Recoveries	–	–	143	143
As at 31 December	<u>3,640,867</u>	<u>1,200,134</u>	<u>5,517,585</u>	<u>10,358,586</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

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

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit-impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January	982	-	-	982
Net charge for the year	<u>647</u>	<u>-</u>	<u>-</u>	<u>647</u>
As at 31 December	<u><u>1,629</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,629</u></u>

Provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are recognised in other comprehensive income, while the impairment losses are recognised in profit or loss. Besides, the carrying amount of the financial assets presented in the balance sheet are not reduced.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	<i>Note</i>	30 June 2019	31 December 2018
Financial assets at fair value through profit or loss	20(a)	168,337,463	151,690,685
Financial assets at fair value through other comprehensive income	20(b)	45,256,114	59,925,100
Financial assets measured at amortised cost	20(c)	<u>264,912,689</u>	<u>263,149,991</u>
Total		<u><u>478,506,266</u></u>	<u><u>474,765,776</u></u>

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

	30 June 2019	31 December 2018
Debt securities at fair value listed outside Hong Kong		
– Policy banks	59,763	1,434,344
– Banks and other financial institutions	394,387	1,101,407
– Corporate	<u>1,030,961</u>	<u>1,030,961</u>
Subtotal	1,485,111	3,566,712
Wealth management plan	138,441,692	103,158,400
Investment funds	27,362,717	34,480,163
Financial products issued by financial institutions	<u>1,047,943</u>	<u>10,485,410</u>
Total	<u><u>168,337,463</u></u>	<u><u>151,690,685</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

	Note	30 June 2019	31 December 2018
Debt securities at fair value listed outside Hong Kong			
– Government		7,617,429	17,882,657
– Policy banks		25,103,394	26,904,821
– Banks and other financial institutions		1,201,945	1,018,740
– Corporate		2,951,405	4,532,188
Subtotal		36,874,173	50,338,406
Wealth management plan		5,593,550	6,330,566
Equity investments			
– Unlisted	20(b)(i)	2,072,175	2,072,175
Subtotal		7,665,725	8,402,741
Add: interest receivable		716,216	1,183,953
Total		45,256,114	59,925,100

- (i) The Group chose to designate non-trading equity investments as at financial assets at fair value through other comprehensive income on the transition date. As at 30 June 2019, the amount for these non-trading equity investments was RMB2,072 million. For the six months ended 30 June 2019, the dividend income from these non-trading equity investments amounted to RMB1.2 million and was included in profit or loss. As at 30 June 2019, non-trading equity investments of the Group were not disposed and no accumulated gain or loss was transferred from other comprehensive income to retained earnings.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

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

The movements of provision for financial assets at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	5,453	–	–	5,453
Net charge for the period	<u>1,992</u>	<u>–</u>	<u>–</u>	<u>1,992</u>
As at 30 June	<u><u>7,445</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>7,445</u></u>

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	8,801	–	–	8,801
Net release for the year	<u>(3,348)</u>	<u>–</u>	<u>–</u>	<u>(3,348)</u>
As at 31 December	<u><u>5,453</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>5,453</u></u>

Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses or gains from impairment are included in profit or loss. Besides, the book value of the financial assets presented in the balance sheet are not reduced.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost

	30 June 2019	31 December 2018
Debt securities at fair value listed outside Hong Kong		
– Government	54,338,387	51,379,771
– Policy banks	73,171,594	64,533,451
– Banks and other financial institutions	9,077,367	5,888,675
– Corporate	18,726,686	30,809,362
Subtotal	155,314,034	152,611,259
Wealth management plan	16,752,223	21,722,671
Beneficial investment of trust	91,786,377	87,960,574
Subtotal	108,538,600	109,683,245
Add: interest receivable	3,029,586	3,253,400
Less: provision for impairment losses	(1,969,531)	(2,397,913)
Total	264,912,689	263,149,991

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost (Continued)

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

	Six months ended 30 June 2019			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	1,322,900	785,637	289,376	2,397,913
Transferred:				
– to ECL over the next 12 months	288,792	(288,792)	–	–
– to lifetime ECL – not credit-impaired investments	(8,620)	8,620	–	–
– to lifetime ECL – credit-impaired investments	(6,717)	–	6,717	–
Net (release)/charge for the period	<u>(700,622)</u>	<u>(103,027)</u>	<u>375,267</u>	<u>(428,382)</u>
As at 30 June	<u>895,733</u>	<u>402,438</u>	<u>671,360</u>	<u>1,969,531</u>

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired	Lifetime ECL- credit-impaired	
As at 1 January	1,243,608	52,321	57,835	1,353,764
Transferred:				
– to ECL over the next 12 months	37,169	(37,169)	–	–
– to lifetime ECL – credit-impaired investments	–	(5,494)	5,494	–
Net charge for the year	<u>42,123</u>	<u>775,979</u>	<u>226,047</u>	<u>1,044,149</u>
As at 31 December	<u>1,322,900</u>	<u>785,637</u>	<u>289,376</u>	<u>2,397,913</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost						
As at 1 January 2018	3,622,113	760,458	2,494,551	734,594	100,913	7,712,629
Additions	40,124	78,254	87,193	74,940	1,416	281,927
CIP transfers	254,280	55,803	(310,083)	–	–	–
Disposals	–	–	–	(6,218)	–	(6,218)
As at 31 December 2018 and 1 January 2019	<u>3,916,517</u>	<u>894,515</u>	<u>2,271,661</u>	<u>803,316</u>	<u>102,329</u>	<u>7,988,338</u>
Additions	2,733	52,848	46,979	63,994	1,314	167,868
CIP transfers	–	8,485	(8,485)	–	–	–
Disposals	–	–	–	–	(1,515)	(1,515)
As at 30 June 2019	<u>3,919,250</u>	<u>955,848</u>	<u>2,310,155</u>	<u>867,310</u>	<u>102,128</u>	<u>8,154,691</u>
Accumulated depreciation						
As at 1 January 2018	(1,288,941)	(461,871)	–	(515,014)	(89,554)	(2,355,380)
Additions	(189,510)	(99,684)	–	(85,285)	(4,084)	(378,563)
Disposals	–	–	–	6,030	–	6,030
As at 31 December 2018 and 1 January 2019	<u>(1,478,451)</u>	<u>(561,555)</u>	<u>–</u>	<u>(594,269)</u>	<u>(93,638)</u>	<u>(2,727,913)</u>
Additions	(95,266)	(54,958)	–	(43,137)	(1,780)	(195,141)
Disposals	–	–	–	–	1,282	1,282
As at 30 June 2019	<u>(1,573,717)</u>	<u>(616,513)</u>	<u>–</u>	<u>(637,406)</u>	<u>(94,136)</u>	<u>(2,921,772)</u>
Net book value						
As at 31 December 2018	<u>2,438,066</u>	<u>332,960</u>	<u>2,271,661</u>	<u>209,047</u>	<u>8,691</u>	<u>5,260,425</u>
As at 30 June 2019	<u>2,345,533</u>	<u>339,335</u>	<u>2,310,155</u>	<u>229,904</u>	<u>7,992</u>	<u>5,232,919</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	16,084,572	4,021,143	12,375,648	3,093,912
Supplementary retirement benefits	<u>95,780</u>	<u>23,945</u>	<u>98,488</u>	<u>24,622</u>
	<u>16,180,352</u>	<u>4,045,088</u>	<u>12,474,136</u>	<u>3,118,534</u>
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	(543,840)	(135,960)	(1,496,780)	(374,195)
Change in fair value of derivative financial instruments	(2,766,384)	(691,596)	(1,412,452)	(353,113)
Change in fair value of financial assets at fair value through profit or loss	<u>(1,936,824)</u>	<u>(484,206)</u>	<u>(954,672)</u>	<u>(238,668)</u>
	<u>(5,247,048)</u>	<u>(1,311,762)</u>	<u>(3,863,904)</u>	<u>(965,976)</u>
Net deferred income tax	<u>10,933,304</u>	<u>2,733,326</u>	<u>8,610,232</u>	<u>2,152,558</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement

	At 31 December 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 30 June 2019
Deferred income tax assets:				
Allowance for impairment losses	3,093,912	927,231	–	4,021,143
Supplementary retirement benefits	24,622	(679)	2	23,945
Subtotal	3,118,534	926,552	2	4,045,088
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	(374,195)	–	238,235	(135,960)
Change in fair value of derivative financial instruments	(353,113)	(338,483)	–	(691,596)
Change in fair value of financial assets at fair value through profit or loss	(238,668)	(245,538)	–	(484,206)
Subtotal	(965,976)	(584,021)	238,235	(1,311,762)
Net deferred income tax	2,152,558	342,531	238,237	2,733,326

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement (Continued)

	At 31 December 2017	Changes in accounting policies	At 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2018
Deferred income tax assets:						
Allowance for impairment losses	1,627,742	205,264	1,833,006	1,260,906	-	3,093,912
Change in fair value of available-for-sale financial assets	111,792	(111,792)	-	-	-	-
Change in fair value of derivative financial instruments	209,873	-	209,873	(209,873)	-	-
Supplementary retirement benefits	24,395	-	24,395	(2,373)	2,600	24,622
Subtotal	<u>1,973,802</u>	<u>93,472</u>	<u>2,067,274</u>	<u>1,048,660</u>	<u>2,600</u>	<u>3,118,534</u>
Deferred income tax liabilities:						
Change in fair value of financial assets at fair value through other comprehensive income	-	55,173	55,173	-	(429,368)	(374,195)
Change in fair value of derivative financial instruments	-	-	-	(353,113)	-	(353,113)
Change in fair value of financial assets at fair value through profit or loss	-	47,087	47,087	(285,755)	-	(238,668)
Subtotal	<u>-</u>	<u>102,260</u>	<u>102,260</u>	<u>(638,868)</u>	<u>(429,368)</u>	<u>(965,976)</u>
Net deferred income tax	<u>1,973,802</u>	<u>195,732</u>	<u>2,169,534</u>	<u>409,792</u>	<u>(426,768)</u>	<u>2,152,558</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS

	<i>Note</i>	30 June 2019	31 December 2018
Reposessed assets	23(a)	1,060,569	615,138
Right-of-use assets	23(b)	667,457	–
Interest receivable	23(c)	180,587	221,614
Prepayments		185,341	175,078
Settlement and clearing accounts		136,047	69,148
Intangible assets	23(d)	133,701	118,218
Land use rights		56,548	58,135
Others	23(e)	<u>820,030</u>	<u>528,119</u>
Total		<u><u>3,240,280</u></u>	<u><u>1,785,450</u></u>

(a) Reposessed assets

	30 June 2019	31 December 2018
Land use rights and buildings	1,120,009	674,578
Less: impairment allowance	<u>(59,440)</u>	<u>(59,440)</u>
Total	<u><u>1,060,569</u></u>	<u><u>615,138</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(b) Right-of-use assets

	Leased properties and buildings
Cost	
As at 1 January	647,837
Additions	<u>99,856</u>
As at 30 June	<u>747,693</u>
Accumulated depreciation	
As at 1 January	–
Depreciation charge for the period	<u>(80,236)</u>
As at 30 June	<u>(80,236)</u>
Carrying amount:	
As at 1 January	<u>647,837</u>
As at 30 June	<u>667,457</u>

(c) Interest receivable

	30 June 2019	31 December 2018
Interest receivable arising from:		
– Loans and advances to customers	<u>180,587</u>	<u>221,614</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(d) Intangible assets

	30 June 2019	31 December 2018
Cost		
As at 1 January	220,785	193,914
Additions	<u>25,295</u>	<u>26,871</u>
As at 30 June/31 December	<u>246,080</u>	<u>220,785</u>
Accumulated amortisation		
As at 1 January	(102,567)	(85,826)
Additions	<u>(9,812)</u>	<u>(16,741)</u>
As at 30 June/31 December	<u>(112,379)</u>	<u>(102,567)</u>
Net value		
As at 1 January	<u>118,218</u>	<u>108,088</u>
As at 30 June/31 December	<u>133,701</u>	<u>118,218</u>

Intangible assets of the Group mainly represent computer software.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 OTHER ASSETS (CONTINUED)

(e) Others

	30 June 2019	31 December 2018
Receivable due from disposal of non-performing assets <i>(Note (i))</i>	653,754	653,754
Others	454,085	166,375
Subtotal	1,107,839	820,129
Less: impairment allowance	(287,809)	(292,010)
Total	<u>820,030</u>	<u>528,119</u>

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

24 BORROWINGS FROM CENTRAL BANK

	30 June 2019	31 December 2018
Borrowings <i>(Note (i))</i>	30,500,000	41,660,000
Add: interest payable	198,117	58,868
Total	<u>30,698,117</u>	<u>41,718,868</u>

Note:

- (i) Borrowings from central bank mainly include Medium-term Lending Facility and open market operations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

25 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Deposits in mainland China		
– Banks	58,555,745	48,587,425
– Other financial institutions	<u>34,823,997</u>	<u>32,051,369</u>
Subtotal	93,379,742	80,638,794
Add: interest payable	<u>950,751</u>	<u>354,887</u>
Total	<u><u>94,330,493</u></u>	<u><u>80,993,681</u></u>

26 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Placements in mainland China		
– Banks	23,997,194	42,685,766
– Other financial institutions	<u>–</u>	<u>3,777</u>
Subtotal	23,997,194	42,689,543
Add: interest payable	<u>140,634</u>	<u>131,720</u>
Total	<u><u>24,137,828</u></u>	<u><u>42,821,263</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

27 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	49,155,150	31,113,230
– Other financial institutions	<u>1,642,070</u>	<u>1,162,939</u>
Subtotal	50,797,220	32,276,169
Add: interest payable	<u>30,871</u>	<u>32,969</u>
Total	<u><u>50,828,091</u></u>	<u><u>32,309,138</u></u>

(b) Analysed by type of security held

	30 June 2019	31 December 2018
Debt securities sold under repurchase agreements	50,247,768	31,860,300
Bills sold under repurchase agreements	<u>549,452</u>	<u>415,869</u>
Subtotal	50,797,220	32,276,169
Add: interest payable	<u>30,871</u>	<u>32,969</u>
Total	<u><u>50,828,091</u></u>	<u><u>32,309,138</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

	30 June 2019	31 December 2018
Demand deposits		
– Corporate deposits	172,586,380	157,657,454
– Personal deposits	<u>18,071,522</u>	<u>16,571,753</u>
Subtotal	<u>190,657,902</u>	<u>174,229,207</u>
Time deposits		
– Corporate deposits	182,979,639	159,325,536
– Personal deposits	<u>162,559,128</u>	<u>142,442,046</u>
Subtotal	<u>345,538,767</u>	<u>301,767,582</u>
Pledged deposits		
– Acceptances	39,832,319	33,519,498
– Letters of credit	2,957,450	1,626,410
– Letters of guarantees	1,572,029	1,467,943
– Others	<u>362,484</u>	<u>301,613</u>
Subtotal	<u>44,724,282</u>	<u>36,915,464</u>
Inward and outward remittances	<u>1,318,006</u>	<u>1,254,744</u>
Total deposits from customers at amortised cost	582,238,957	514,166,997
Add: interest payable	<u>14,289,172</u>	<u>10,773,551</u>
Total	<u>596,528,129</u>	<u>524,940,548</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEBT SECURITIES ISSUED

	<i>Note</i>	30 June 2019	31 December 2018
Tier two capital fixed rate debts maturing in May 2024	29(a)	–	2,200,000
Tier two capital fixed rate debts maturing in December 2025	29(b)	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	29(c)	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2019	29(d)	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	29(e)	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	29(f)	12,000,000	12,000,000
Financial fixed rate bonds maturing in October 2021	29(g)	8,000,000	8,000,000
Financial fixed rate bonds maturing in November 2021	29(h)	6,900,000	6,900,000
Certificates of interbank deposit	29(i)	92,411,868	133,950,363
Subtotal		142,311,868	186,050,363
Add: interest payable		1,473,949	516,862
Total		143,785,817	186,567,225

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEBT SECURITIES ISSUED (CONTINUED)

Notes:

- (a) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has redeemed the debts at the end of the 5th year at the nominal amount.
- (b) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Tier two capital fixed rate debts of RMB6.0 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (d) Financial fixed rate bonds of RMB5.0 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.
- (e) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (f) Financial fixed rate bonds of RMB12.0 billion with a term of three years were issued on 15 August 2018. The coupon rate is 4.35% per annum.
- (g) Financial fixed rate bonds of RMB8.0 billion with a term of three years were issued on 25 October 2018. The coupon rate is 4.10% per annum.
- (h) Financial fixed rate bonds of RMB6.9 billion with a term of three years were issued on 26 November 2018. The coupon rate is 3.98% per annum.
- (i) As at 30 June 2019, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB91,168 million (31 December 2018: RMB132,848 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES

	<i>Note</i>	30 June 2019	31 December 2018
Payment and collection clearance accounts		4,133,364	1,405,060
Expected credit loss of credit commitment	30(a)	790,630	710,954
Dividend payable		816,837	145,313
Lease liabilities	30(b)	653,319	–
Taxes payable	30(c)	523,603	398,475
Accrued staff cost	30(d)	501,299	515,698
Deferred income		125,904	73,327
Dormant accounts		39,815	40,464
Others		588,360	339,398
		<u>8,173,131</u>	<u>3,628,689</u>
Total		<u>8,173,131</u>	<u>3,628,689</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(a) Expected credit loss of credit commitment

	Six months ended 30 June 2019			Total
	ECL over the next 12 months	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January	551,708	45,849	113,397	710,954
Transferred:				
– to ECL over the next 12 months	336	(336)	–	–
– to lifetime ECL-not credit-impaired	(27,405)	27,405	–	–
Net charge/(release) for the period	<u>199,237</u>	<u>(8,055)</u>	<u>(111,506)</u>	<u>79,676</u>
As at 30 June	<u>723,876</u>	<u>64,863</u>	<u>1,891</u>	<u>790,630</u>

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January	920,325	187	900	921,412
Transferred:				
– to ECL over the next 12 months	16	(16)	–	–
– to lifetime ECL-not credit-impaired	(18)	18	–	–
Net (release)/charge for the year	<u>(368,615)</u>	<u>45,660</u>	<u>112,497</u>	<u>(210,458)</u>
As at 31 December	<u>551,708</u>	<u>45,849</u>	<u>113,397</u>	<u>710,954</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(b) Maturity analysis of contractual undiscounted cash flows of lease liabilities

	30 June 2019
Within one month	14,693
Between one month and three months	39,151
Between three months and one year	128,555
Between one year and five years	407,827
More than five years	<u>171,101</u>
Contractual undiscounted cash flows of lease liabilities as at 30 June 2019	<u><u>761,327</u></u>
Ending balance of lease liabilities as at 30 June 2019	<u><u>653,319</u></u>

(c) Taxes payable

	30 June 2019	31 December 2018
Value-added tax and surcharges payable	441,496	371,632
Others	<u>82,107</u>	<u>26,843</u>
Total	<u><u>523,603</u></u>	<u><u>398,475</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost

	<i>Note</i>	30 June 2019	31 December 2018
Salary, bonuses and allowances payable		281,837	294,176
Pension and annuity payable	30(d)(i)	76,145	77,003
Supplementary retirement benefits payable	30(d)(ii)	95,779	98,487
Housing allowances payable		30,348	31,208
Other social insurance payable		2,638	2,302
Others		14,552	12,522
Total		<u>501,299</u>	<u>515,698</u>

(i) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to the total salaries and bonuses of employees, which are charged to profit or loss when the contributions are made.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 OTHER LIABILITIES (CONTINUED)

(d) Accrued staff cost (Continued)

(ii) *Supplementary retirement benefits*

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation.

31 SHARE CAPITAL

Issued share capital

	30 June 2019	31 December 2018
Number of shares, issued and fully paid at par value (in thousands)	5,796,680	5,796,680

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 RESERVES

(a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”) after making good prior year’s accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

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

(c) General reserve

From 1 July 2012, pursuant to the “Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)” issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 30 June 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 RESERVES (CONTINUED)

(d) Fair value reserve

	2019	2018
As at 1 January	1,122,587	(165,519)
Changes in fair value recognised in fair value reserve	(157,355)	1,345,120
Transfer to profit or loss upon disposal	(795,586)	372,354
Less: income tax	238,235	(429,368)
Subtotal	(714,706)	1,288,106
As at 30 June/31 December	407,881	1,122,587

(e) Provision reserve

	2019	2018
As at 1 January	5,311	7,337
Changes in fair value recognised in provision reserve	6,651	(2,701)
Less: income tax	(1,663)	675
As at 30 June/31 December	10,299	5,311

(f) Deficit on remeasurement of net defined benefit liability

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

33 PROFIT DISTRIBUTION

- (i) In accordance with the resolution of the Bank's 2018 Annual General Meeting held on 31 May 2019, the shareholders approved the following profit distribution plan for the year ended 31 December 2018 is as follows:
- Appropriated RMB512.64 million to the discretionary surplus reserve fund;
 - Appropriated RMB825.55 million to the general reserve;
 - Declared cash dividends of RMB1.20 per ten shares before tax and in aggregation of RMB695.60 million to all shareholders.
- (ii) In accordance with the resolution of the Bank's 2017 Annual General Meeting held on 31 May 2018, the shareholders approved the following profit distribution plan for the year ended 31 December 2017 is as follows:
- Appropriated RMB757.66 million to the discretionary surplus reserve fund;
 - Appropriated RMB1,537.58 million to the general reserve;
 - Declared cash dividends of RMB1.80 per ten shares before tax and in aggregation of RMB1,043.40 million to all shareholders.

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise:

	30 June 2019	31 December 2018
Cash on hand	1,033,454	702,533
Deposits with central bank other than restricted deposits	28,416,935	31,572,455
Deposits with banks and other financial institutions with original maturity of three months or less	10,271,458	5,273,301
Placements with banks and other financial institutions with original maturity of three months or less	1,700,000	2,400,000
Financial assets held under resale agreements with original maturity of three months or less	14,968,300	2,145,860
Total	56,390,147	42,094,149

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

	30 June 2019	31 December 2018
Evergrande Group (Nanchang) Co., Ltd.	17.28%	17.28%
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Liaoning Huafeng Investment Co., Ltd.	1.73%	1.73%

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Main condition of major shareholders:

Company Name	Registered Address	Main business	Company nature	Legal Representative
Evergrande Group (Nanchang) Co., Ltd.	Nanchang	Industrial investment; investment management	Limited Liability Company	Zhong Wenyan
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	Shenyang	Management and operation of asset	Limited Liability Company	Li Jianwei
Liaoning Huibao International Investment Group Co., Ltd.	Shenyang	Investment management; exploitation and sales of real estate	Limited Liability Company	Li Yuguo
Xinhu Zhongbao Co., Ltd.	Jiaxing	Industrial investment; exploitation and sales of real estate	Company Limited by Shares	Lin Junbo
Founder Securities Co., Ltd.	Changsha	Share broking; asset management	Company Limited by Shares	Shi Hua
Liaoning Huafeng Investment Co., Ltd.	Shenyang	Project investment and project management	Limited Liability Company	Bao Lijun

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Registered capital of major shareholders:

Company Name	Currency	30 June 2019	31 December 2018
Evergrande Group (Nanchang) Co., Ltd.	RMB	99,984,980	53,984,000
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	RMB	10,000,000	10,000,000
Liaoning International Investment Group Co., Ltd.	RMB	80,000	80,000
Xinhu Zhongbao Co., Ltd.	RMB	8,599,000	8,599,000
Founder Securities Co., Ltd.	RMB	8,232,000	8,232,000
Liaoning Huafeng Investment Co., Ltd.	RMB	50,000	50,000

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 1.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 35(a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 30(d)).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(i) Transactions between the Bank and major shareholders

(1) Deposits from customers

	30 June 2019	31 December 2018
Evergrande Group (Nanchang) Co., Ltd.	18,503,056	16
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	30,478	48,734
Liaoning Huibao International Investment Group Co., Ltd.	377	2,434
Xinhu Zhongbao Co., Ltd.	14	14
Liaoning Huafeng Investment Co., Ltd.	–	41
Total	<u>18,533,925</u>	<u>51,239</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(i) Transactions between the Bank and major shareholders (Continued)

(2) Guarantees received

	30 June 2019	31 December 2018
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	891,000	977,500
Xinhu Zhongbao Co., Ltd.	220,600	340,600
Liaoning Huibao International Investment Group Co., Ltd.	265,000	275,000
Liaoning Huafeng Investment Co., Ltd.	–	24,730
Total	<u>1,376,600</u>	<u>1,617,830</u>

(3) Interest expense

	Six months ended 30 June	
	2019	2018
Evergrande Group (Nanchang) Co., Ltd.	3,626	–
Shenyang Hengxin State-Owned Asset Management Co., Ltd.	153	41
Liaoning Huibao International Investment Group Co., Ltd.	3	3
Xinhu Zhongbao Co., Ltd.	–	1
Total	<u>3,782</u>	<u>45</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(ii) Transactions between the Bank and subsidiaries

	30 June 2019	31 December 2018
Balances at the end of the period/year:		
Deposits from banks and other financial institutions	2,928,806	180,885
Placements from banks and other financial institutions	–	100,000
	Six months ended 30 June	
	2019	2018
Transactions during the period:		
Interest income	1,664	–
Interest expense	22,555	403

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) Transactions between the Bank and other related parties

	30 June 2019	31 December 2018
Balances at the end of the period/year:		
Loans and advances to customers	9,038,998	9,236,545
Financial assets measured at amortised cost	15,063,000	15,342,955
Deposits from customers	38,320,029	18,166,929
Bank acceptances	60	60
Guarantees received	17,712,010	30,830,350
	Six months ended 30 June	
	2019	2018
Transactions during the period:		
Interest income	836,689	538,727
Interest expense	76,652	34,140

(c) Key management personnel

(i) Key management personnel remuneration

	Six months ended 30 June	
	2019	2018
Salaries and other emoluments	10,484	9,060
Discretionary bonuses	9,299	9,208
Contributions to pension schemes	900	820
Total	<u>20,683</u>	<u>19,088</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

35 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

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

At 30 June 2019 and 31 December 2018, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

(iii) Transactions between the Bank and key management personnel

	30 June 2019	31 December 2018
Balances at the end of the period/year:		
Deposits from customers	14,118	12,940
Loans and advances to customers	–	526
	Six months ended 30 June	
	2019	2018
Transactions during the period:		
Interest income	3	–
Interest expense	184	1,258

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through Risk Control and Consumer Rights Protection Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control and Consumer Rights Protection Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

(a) Credit risk

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

Credit business

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Markets Center carry out credit businesses according to the Group's risk management policies and procedures.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

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

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

The lifetime probability of default is to deduce the marginal probability of default by using supervisory formula or conditional probability formula.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

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

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

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

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 38(a).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers

Loans and advances to customers were analysed as follows as at 30 June 2019:

	30 June 2019	31 December 2018
Gross balance of loans and advances to customers		
– ECL over the next 12 months	403,430,133	348,833,928
– Lifetime ECL – not credit-impaired loans	7,539,607	6,016,102
– Lifetime ECL – credit-impaired loans	19,432,302	21,747,330
	<u>430,402,042</u>	<u>376,597,360</u>
Add: Interest receivable		
– ECL over the next 12 months	2,133,661	1,839,265
	<u>2,133,661</u>	<u>1,839,265</u>
Less: allowance for impairment losses		
– ECL over the next 12 months	(4,064,936)	(3,640,867)
– Lifetime ECL – not credit-impaired loans	(1,597,467)	(1,200,134)
– Lifetime ECL – credit-impaired loans	(6,752,347)	(5,517,585)
	<u>(12,414,750)</u>	<u>(10,358,586)</u>
Net balance		
– ECL over the next 12 months	401,498,858	347,032,326
– Lifetime ECL – not credit-impaired loans	5,942,140	4,815,968
– Lifetime ECL – credit-impaired loans	12,679,955	16,229,745
	<u>420,120,953</u>	<u>368,078,039</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(1) ECL over the next 12 months loans

	30 June 2019	31 December 2018
Corporate loans and advances	364,539,985	323,599,659
Personal loans and advances	<u>38,890,148</u>	<u>25,234,269</u>
Total gross balance	<u><u>403,430,133</u></u>	<u><u>348,833,928</u></u>

(2) Lifetime ECL – not credit-impaired loans

	30 June 2019			
	Not overdue	Less than 1 month (inclusive)	1 to 3 months (inclusive)	Total
Corporate loans and advances	87,900	4,468,875	2,924,374	7,481,149
Personal loans and advances	<u>–</u>	<u>12,888</u>	<u>45,570</u>	<u>58,458</u>
Total gross balance	<u><u>87,900</u></u>	<u><u>4,481,763</u></u>	<u><u>2,969,944</u></u>	<u><u>7,539,607</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

(2) Lifetime ECL – not credit-impaired loans (Continued)

	31 December 2018			Total
	Not overdue	Less than 1 month (inclusive)	1 to 3 months (inclusive)	
Corporate loans and advances	30,000	3,543,656	2,420,826	5,994,482
Personal loans and advances	4,900	–	16,720	21,620
Total gross balance	34,900	3,543,656	2,437,546	6,016,102

Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired as at 30 June was analysed as follows:

	30 June 2019	31 December 2018
Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired	3,136,485	3,894,552

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(3) Lifetime ECL – credit-impaired loans

	30 June 2019	31 December 2018
Corporate loans and advances	19,133,845	21,550,993
Personal loans and advances	298,457	196,337
Total gross balance	<u>19,432,302</u>	<u>21,747,330</u>
% of total loans and advances	<u>4.51%</u>	<u>5.77%</u>
Allowance for impairment losses		
– Corporate loans and advances	6,578,409	5,409,112
– Personal loans and advances	173,938	108,473
Total	<u>6,752,347</u>	<u>5,517,585</u>
Fair value of collateral held against credit-impaired loans and advances	<u>17,412,426</u>	<u>16,227,881</u>

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iii) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2019	31 December 2018
Carrying amount		
Neither overdue nor impaired		
– grade A to AAA	12,125,090	20,824,797
– grade B to BBB	944,985	11,000,415
– grade C to CCC	6,245	1,014,430
– unrated (<i>Note (i)</i>)	15,916,214	84,519
	<hr/>	<hr/>
Subtotal	28,992,534	32,924,161
Add: interest receivable	34,806	–
Less: provision for impairment loss	(150,812)	(9,884)
	<hr/>	<hr/>
Total	<u>28,876,528</u>	<u>32,914,277</u>

Note:

- (i) All unrated carrying amount are pledged by government debt securities or policy banks debt securities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	30 June 2019	31 December 2018
Neither overdue nor impaired		
– Government	61,955,816	69,262,427
– Policy banks	98,334,751	92,872,616
– Banks and other financial institutions	10,673,699	8,008,823
– Corporate	<u>22,709,052</u>	<u>36,372,511</u>
Subtotal	<u>193,673,318</u>	<u>206,516,377</u>
Impairment loss	<u>(47,335)</u>	<u>(15,090)</u>
Net balance	<u>193,625,983</u>	<u>206,501,287</u>
Total	<u><u>193,625,983</u></u>	<u><u>206,501,287</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(v) *Financial assets measured at amortised cost*

	30 June 2019	31 December 2018
Gross balance of financial assets measured at amortised cost		
– ECL over the next 12 months	258,935,612	256,829,918
– Lifetime ECL – not credit-impaired investments	3,392,491	4,500,000
– Lifetime ECL – credit-impaired investments	1,524,531	964,586
	<u>263,852,634</u>	<u>262,294,504</u>
Add: Interest receivable		
– ECL over the next 12 months	3,029,586	3,253,400
	<u>3,029,586</u>	<u>3,253,400</u>
Less: allowance for impairment losses		
– ECL over the next 12 months	(895,733)	(1,322,900)
– Lifetime ECL – not credit-impaired investments	(402,438)	(785,637)
– Lifetime ECL – credit-impaired investments	(671,360)	(289,376)
	<u>(1,969,531)</u>	<u>(2,397,913)</u>
Net balance		
– ECL over the next 12 months	261,069,465	258,760,418
– Lifetime ECL – not credit-impaired investments	2,990,053	3,714,363
– Lifetime ECL – credit-impaired investments	853,171	675,210
	<u>264,912,689</u>	<u>263,149,991</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to identify, measure, monitor and control market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control Committee and the Consumer Protection Committee to supervise the market risk management conducted by the senior management. The Asset and Liability Management Department of the Bank is responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines, providing various data on market risks and other technical support. The Asset and Liability Management Committee is responsible for overall market risk management.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

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

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

(i) Interest rate risk

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

(1) Repricing risk

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

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

	30 June 2019					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	91,272,531	1,065,376	90,207,155	-	-	-
Deposits with banks and other financial institutions	12,207,742	30,379	10,553,485	1,623,878	-	-
Placements with banks and other financial institutions	1,700,213	719	1,699,494	-	-	-
Financial assets held under resale agreements	14,968,573	3,708	14,964,865	-	-	-
Loans and advances to customers <i>(Note (i))</i>	420,120,953	2,133,661	315,379,956	54,944,848	21,865,806	25,796,682
Financial investments <i>(Note (ii))</i>	478,506,266	6,859,628	127,337,218	95,122,456	153,012,258	96,174,706
Others	14,684,834	11,206,525	312,075	2,784,957	380,005	1,272
Total assets	1,033,461,112	21,299,996	560,454,248	154,476,139	175,258,069	121,972,660

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	30 June 2019					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from central bank	(30,698,117)	(198,117)	(28,000,000)	(2,500,000)	–	–
Deposits from banks and other financial institutions	(94,330,493)	(950,751)	(59,333,742)	(34,046,000)	–	–
Placements from banks and other financial institutions	(24,137,828)	(140,634)	(21,622,171)	(2,375,023)	–	–
Financial assets sold under repurchase agreements	(50,828,091)	(30,871)	(50,411,597)	(385,623)	–	–
Deposits from customers	(596,528,129)	(14,289,172)	(248,864,888)	(123,467,775)	(209,810,490)	(95,804)
Debt securities issued	(143,785,817)	(1,473,949)	(52,420,577)	(44,991,291)	(28,900,000)	(16,000,000)
Others	<u>(34,384,289)</u>	<u>(8,182,732)</u>	<u>(197,173)</u>	<u>(25,673,126)</u>	<u>(329,986)</u>	<u>(1,272)</u>
Total liabilities	<u>(974,692,764)</u>	<u>(25,266,226)</u>	<u>(460,850,148)</u>	<u>(233,438,838)</u>	<u>(239,040,476)</u>	<u>(16,097,076)</u>
Asset-liability gap	<u>58,768,348</u>	<u>(3,966,230)</u>	<u>99,604,100</u>	<u>(78,962,699)</u>	<u>(63,782,407)</u>	<u>105,875,584</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2018					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	97,573,501	1,373,041	96,200,460	-	-	-
Deposits with banks and other financial institutions	29,098,503	728,945	6,068,598	22,300,960	-	-
Placements with banks and other financial institutions	2,400,914	1,674	2,399,240	-	-	-
Financial assets held under resale agreements	2,146,696	1,217	2,145,479	-	-	-
Loans and advances to customers <i>(Note (i))</i>	368,078,039	1,839,265	328,614,488	31,235,115	5,077,313	1,311,858
Financial investments <i>(Note (ii))</i>	474,765,776	2,104,685	139,095,040	130,905,073	85,013,527	117,647,451
Others	11,369,511	9,198,433	676,118	1,137,672	356,031	1,257
Total assets	<u>985,432,940</u>	<u>15,247,260</u>	<u>575,199,423</u>	<u>185,578,820</u>	<u>90,446,871</u>	<u>118,960,566</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2018					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Liabilities						
Borrowings from central bank	(41,718,868)	(58,868)	(36,660,000)	(5,000,000)	-	-
Deposits from banks and other financial institutions	(80,993,681)	(354,887)	(34,518,743)	(46,120,051)	-	-
Placements from banks and other financial institutions	(42,821,263)	(131,720)	(39,508,953)	(3,180,590)	-	-
Financial assets sold under repurchase agreements	(32,309,138)	(32,969)	(32,074,853)	(201,316)	-	-
Deposits from customers	(524,940,548)	(10,773,551)	(256,704,734)	(134,285,588)	(123,176,666)	(9)
Debt securities issued	(186,567,225)	(516,862)	(49,872,030)	(89,078,333)	(28,900,000)	(18,200,000)
Others	<u>(19,052,733)</u>	<u>(3,692,547)</u>	<u>(163,911)</u>	<u>(14,851,230)</u>	<u>(343,788)</u>	<u>(1,257)</u>
Total liabilities	<u>(928,403,456)</u>	<u>(15,561,404)</u>	<u>(449,503,224)</u>	<u>(292,717,108)</u>	<u>(152,420,454)</u>	<u>(18,201,266)</u>
Asset-liability gap	<u>57,029,484</u>	<u>(314,144)</u>	<u>125,696,199</u>	<u>(107,138,288)</u>	<u>(61,973,583)</u>	<u>100,759,300</u>

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 30 June 2019 included overdue amounts (net of provision for impairment losses) of RMB6,041 million (31 December 2018: RMB9,012 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

Notes: (Continued)

- (ii) Financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.

(2) Interest rate sensitivity analysis

	30 June 2019 Increase/ (decrease)	31 December 2018 Increase/ (decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	395,184	458,086
Down 100 bps parallel shift in yield curves	(395,184)	(458,086)
Change in equity		
Up 100 bps parallel shift in yield curves	(659,111)	(959,863)
Down 100 bps parallel shift in yield curves	745,207	1,088,948

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis (Continued)

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

- Interest rate movements apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three -months but within one year reprice or mature in the mid of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

	30 June 2019			
	RMB	USD <i>(RMB Equivalent)</i>	Others <i>(RMB Equivalent)</i>	Total <i>(RMB Equivalent)</i>
Assets				
Cash and deposits with central bank	90,797,384	405,917	69,230	91,272,531
Deposits with banks and other financial institutions	8,931,257	2,942,977	333,508	12,207,742
Placements with banks and other financial institutions	1,700,213	-	-	1,700,213
Financial assets held under resale agreements	14,968,573	-	-	14,968,573
Loans and advances to customers	417,268,043	1,636,219	1,216,691	420,120,953
Financial investments <i>(Note (i))</i>	478,506,266	-	-	478,506,266
Others	11,443,604	1,704,887	1,536,343	14,684,834
Total assets	1,023,615,340	6,690,000	3,155,772	1,033,461,112

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Borrowings from central bank	(30,698,117)	–	–	(30,698,117)
Deposits from banks and other financial institutions	(94,330,446)	–	(47)	(94,330,493)
Placements from banks and other financial institutions	(8,420,634)	(13,913,980)	(1,803,214)	(24,137,828)
Financial assets sold under repurchase agreements	(50,828,091)	–	–	(50,828,091)
Deposits from customers	(590,910,984)	(4,526,516)	(1,090,629)	(596,528,129)
Debt securities issued	(143,785,817)	–	–	(143,785,817)
Others	(32,791,891)	(1,330,654)	(261,744)	(34,384,289)
Total liabilities	<u>(951,765,980)</u>	<u>(19,771,150)</u>	<u>(3,155,634)</u>	<u>(974,692,764)</u>
Net position	<u>71,849,360</u>	<u>(13,081,150)</u>	<u>138</u>	<u>58,768,348</u>
Off-balance sheet credit commitments	<u>192,572,486</u>	<u>4,969,830</u>	<u>2,025,360</u>	<u>199,567,676</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2018			
	RMB	USD <i>(RMB Equivalent)</i>	Others <i>(RMB Equivalent)</i>	Total <i>(RMB Equivalent)</i>
Assets				
Cash and deposits with central bank	97,145,881	311,759	115,861	97,573,501
Deposits with banks and other financial institutions	27,449,084	1,315,897	333,522	29,098,503
Placements with banks and other financial institutions	2,400,914	–	–	2,400,914
Financial assets held under resale agreements	2,146,696	–	–	2,146,696
Loans and advances to customers	363,151,107	3,568,749	1,358,183	368,078,039
Financial investments <i>(Note (i))</i>	474,765,776	–	–	474,765,776
Others	9,215,442	250,466	1,903,603	11,369,511
Total assets	976,274,900	5,446,871	3,711,169	985,432,940

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Liabilities				
Borrowings from central bank	(41,718,868)	–	–	(41,718,868)
Deposits from banks and other financial institutions	(80,993,634)	–	(47)	(80,993,681)
Placements from banks and other financial institutions	(12,611,720)	(28,822,354)	(1,387,189)	(42,821,263)
Financial assets sold under repurchase agreements	(32,309,138)	–	–	(32,309,138)
Deposits from customers	(522,094,148)	(590,912)	(2,255,488)	(524,940,548)
Debt securities issued	(186,567,225)	–	–	(186,567,225)
Others	<u>(17,217,342)</u>	<u>(1,792,518)</u>	<u>(42,873)</u>	<u>(19,052,733)</u>
Total liabilities	<u>(893,512,075)</u>	<u>(31,205,784)</u>	<u>(3,685,597)</u>	<u>(928,403,456)</u>
Net position	<u>82,762,825</u>	<u>(25,758,913)</u>	<u>25,572</u>	<u>57,029,484</u>
Off-balance sheet credit commitments	<u>165,101,258</u>	<u>4,730,096</u>	<u>1,632,648</u>	<u>171,464,002</u>

Note:

- (i) Financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	30 June 2019 Increase/ (decrease)	31 December 2018 Increase/ (decrease)
Change in profit after taxation and equity		
Up 100 bps parallel shift in yield curves	(14,271)	(28,121)
Down 100 bps parallel shift in yield curves	14,271	28,121

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

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group centrally manages liquidity risk through a liquidity risk governance structure consisting of Board of Directors, Board of Supervisors, senior management, as well as the liquidity risk management structure consisting of the Asset and Liability Management Committee, Asset and Liability Management Department and Risk Management Department at the head office:

- The Asset and Liability Management Committee is the Bank's liquidity risk management body that is responsible for developing, and regularly assessing and monitoring the implementation of liquidity risk management policies and measures;
- As the leading department in liquidity risk management, the Asset and Liability Management Department is responsible for developing and implementing the relevant system; identifying, measuring, monitoring and controlling the liquidity risk and the implementation of limitations; performing stress testing, risk analysis and reporting; as well as organizing the daily management of the liquidity risk by business departments, and arranges for performance evaluation ;
- The Group includes liquidity risk in a comprehensive risk management system. The Risk Management Department initiates ideas on limitation management of the liquidity risk.

The Group manages liquidity risk by managing the term structure of assets and liabilities, as well as dynamically monitoring liquidity indicators such as loan-to-deposit ratio, liquidity ratio, liquidity coverage ratio, excess reserves ratio, inter-bank loan to saving ratio, credit quality ratio, liquidity gap ratio, etc. The Group forecasts liquidity weekly, analyses liquidity monthly, and performs stress testing of liquidity risk quarterly.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

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

(i) Maturity analysis

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

	30 June 2019							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with central bank	61,514,992	29,482,311	-	-	275,228	-	-	91,272,531
Deposits with banks and other financial institutions	-	10,216,958	302,712	60,142	1,627,930	-	-	12,207,742
Placements with banks and other financial institutions	-	-	1,700,213	-	-	-	-	1,700,213
Financial assets held under resale agreements	-	-	13,966,713	1,001,860	-	-	-	14,968,573
Loans and advances to customers	13,393,636	13,097,870	32,449,287	34,052,604	194,602,783	100,438,545	32,086,228	420,120,953
Financial investments (Note (i))	7,745,738	1,015,283	7,447,554	93,987,172	67,984,780	160,371,002	139,954,737	478,506,266
Others	10,069,861	180,587	385,963	62,159	3,604,987	380,005	1,272	14,684,834
Total assets	92,724,227	53,993,009	56,252,442	129,163,937	268,095,708	261,189,552	172,042,237	1,033,461,112

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	30 June 2019							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities								
Borrowings from central bank	-	-	(23,055,575)	(5,131,542)	(2,511,000)	-	-	(30,698,117)
Deposits from banks and other financial institutions	-	(1,024,064)	(29,498,311)	(29,415,477)	(34,392,641)	-	-	(94,330,493)
Placements from banks and other financial institutions	-	-	(12,222,550)	(9,508,618)	(2,406,660)	-	-	(24,137,828)
Financial assets sold under repurchase agreements	-	-	(48,091,750)	(2,350,484)	(385,857)	-	-	(50,828,091)
Deposits from customers	-	(205,776,382)	(27,616,509)	(21,579,464)	(126,498,076)	(214,959,767)	(97,931)	(596,528,129)
Debt securities issued	-	-	(19,607,288)	(33,463,665)	(45,814,864)	(28,900,000)	(16,000,000)	(143,785,817)
Others	-	(901,940)	(4,185,577)	(2,503,316)	(25,812,828)	(720,373)	(260,255)	(34,384,289)
Total liabilities	<u>-</u>	<u>(207,702,386)</u>	<u>(164,277,560)</u>	<u>(103,952,566)</u>	<u>(237,821,926)</u>	<u>(244,580,140)</u>	<u>(16,358,186)</u>	<u>(974,692,764)</u>
Long/(short) position	<u>92,724,227</u>	<u>(153,709,377)</u>	<u>(108,025,118)</u>	<u>25,211,371</u>	<u>30,273,782</u>	<u>16,609,412</u>	<u>155,684,051</u>	<u>58,768,348</u>
Notional amount of derivatives	<u>-</u>	<u>-</u>	<u>46,890,508</u>	<u>94,801,434</u>	<u>140,920,898</u>	<u>61,170,000</u>	<u>100,000</u>	<u>343,882,840</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2018							
	Indefinite (Note (iii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	Total
Assets								
Cash and deposits with central bank	65,066,292	32,274,988	–	36,894	195,327	–	–	97,573,501
Deposits with banks and other financial institutions	–	2,202,980	1,206,879	2,814,669	22,873,975	–	–	29,098,503
Placements with banks and other financial institutions	–	–	2,400,914	–	–	–	–	2,400,914
Financial assets held under resale agreements	–	–	2,146,696	–	–	–	–	2,146,696
Loans and advances to customers	19,831,248	4,622,081	13,801,290	38,137,902	141,896,008	122,633,137	27,156,373	368,078,039
Financial investments (Note (i))	7,299,486	7,818,115	12,960,647	86,105,924	93,836,575	92,446,143	174,298,886	474,765,776
Others	8,379,552	221,614	654,826	90,440	1,665,791	356,031	1,257	11,369,511
Total assets	100,576,578	47,139,778	33,171,252	127,185,829	260,467,676	215,435,311	201,456,516	985,432,940

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2018							Total
	Indefinite (Note (ii))	Repayable on demand (Note (ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Liabilities								
Borrowings from central bank	-	-	(36,711,803)	-	(5,007,065)	-	-	(41,718,868)
Deposits from banks and other financial institutions	-	(6,098,465)	(8,808,596)	(19,763,597)	(46,323,023)	-	-	(80,993,681)
Placements from banks and other financial institutions	-	-	(34,312,728)	(5,297,901)	(3,210,634)	-	-	(42,821,263)
Financial assets sold under repurchase agreements	-	-	(31,932,939)	(174,677)	(201,522)	-	-	(32,309,138)
Deposits from customers	-	(183,600,265)	(50,549,572)	(27,933,391)	(137,099,760)	(125,757,551)	(9)	(524,940,548)
Debt securities issued	-	-	(23,271,819)	(26,615,963)	(89,579,443)	(28,900,000)	(18,200,000)	(186,567,225)
Others	-	(1,892,951)	(1,483,621)	(158,677)	(15,073,952)	(343,788)	(99,744)	(19,052,733)
Total liabilities	<u>-</u>	<u>(191,591,681)</u>	<u>(187,071,078)</u>	<u>(79,944,206)</u>	<u>(296,495,399)</u>	<u>(155,001,339)</u>	<u>(18,299,753)</u>	<u>(928,403,456)</u>
Long/(short) position	<u>100,576,578</u>	<u>(144,451,903)</u>	<u>(153,899,826)</u>	<u>47,241,623</u>	<u>(36,027,723)</u>	<u>60,433,972</u>	<u>183,156,763</u>	<u>57,029,484</u>
Notional amount of derivatives	<u>-</u>	<u>-</u>	<u>71,849,665</u>	<u>49,574,825</u>	<u>242,725,845</u>	<u>52,298,960</u>	<u>100,000</u>	<u>416,549,295</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

Notes:

- (i) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost. The “indefinite” period amount represents the balance being credit-impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not credit-impaired is included in “repayable on demand”.
- (ii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in “repayable on demand”.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

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

	30 June 2019					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(30,698,117)	(23,055,575)	(5,131,542)	(2,511,000)	-	-
Deposits from banks and other financial institutions	(96,720,546)	(33,425,429)	(29,123,267)	(34,171,850)	-	-
Placements from banks and other financial institutions	(24,203,496)	(12,215,507)	(9,548,859)	(2,439,130)	-	-
Financial assets sold under repurchase agreements	(50,864,914)	(48,127,317)	(2,351,004)	(386,593)	-	-
Deposits from customers	(592,410,899)	(227,996,028)	(22,323,875)	(127,283,859)	(214,711,331)	(95,806)
Debt securities issued	(152,202,730)	(19,796,904)	(33,366,330)	(49,045,496)	(31,904,000)	(18,090,000)
Other financial liabilities	<u>(32,733,304)</u>	<u>(4,187,872)</u>	<u>(2,360,883)</u>	<u>(25,605,621)</u>	<u>(407,827)</u>	<u>(171,101)</u>
Total non-derivative financial liabilities	<u>(979,834,006)</u>	<u>(368,804,632)</u>	<u>(104,205,760)</u>	<u>(241,443,549)</u>	<u>(247,023,158)</u>	<u>(18,356,907)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

	31 December 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from						
central bank	(41,857,903)	(36,690,611)	-	(5,167,292)	-	-
Deposits from banks and other financial institutions	(82,395,638)	(14,893,380)	(19,887,405)	(47,614,853)	-	-
Placements from banks and other financial institutions	(42,951,285)	(34,342,188)	(5,332,531)	(3,276,566)	-	-
Financial assets sold under repurchase agreements	(33,796,942)	(33,796,942)	-	-	-	-
Deposits from customers	(525,755,526)	(229,359,511)	(29,794,093)	(138,283,919)	(128,317,993)	(10)
Debt securities issued	(198,466,732)	(23,777,508)	(27,207,437)	(94,607,987)	(32,447,840)	(20,425,960)
Other financial liabilities	<u>(18,802,145)</u>	<u>(1,640,363)</u>	<u>(1,266,319)</u>	<u>(14,765,692)</u>	<u>-</u>	<u>(1,129,771)</u>
Total non-derivative financial liabilities	<u>(944,026,171)</u>	<u>(374,500,503)</u>	<u>(83,487,785)</u>	<u>(303,716,309)</u>	<u>(160,765,833)</u>	<u>(21,555,741)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

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

(iii) Analysis on contractual undiscounted cash flows of derivatives

The Group's derivatives that will be settled on a net basis include:

- Interest rate swaps

The Group's derivatives that will be settled on a gross basis include:

- Currency swaps
- Foreign exchange forwards
- Precious metal derivatives

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

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

	30 June 2019					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	44,369	(22,853)	(1,927)	19,129	50,020	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(107,754,392)	(21,590,000)	(22,540,846)	(63,623,546)	-	-
- cash inflow	107,810,939	21,813,754	22,457,318	63,539,867	-	-
Precious metal derivatives						
- cash outflow	(27,057,341)	-	-	(27,057,341)	-	-
- cash inflow	25,503,010	-	-	25,503,010	-	-

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

	31 December 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	(24,035)	(1,898)	(9,473)	(9,735)	(2,929)	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(165,587,874)	(64,023,658)	(16,472,747)	(83,030,817)	(2,060,652)	-
- cash inflow	164,852,020	62,670,923	16,502,932	83,619,205	2,058,960	-
Precious metal derivatives						
- cash outflow	(15,918,789)	-	-	(15,918,789)	-	-
- cash inflow	14,608,390	-	-	14,608,390	-	-

(d) Operational risk

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

The Group has built “Three Lines of Defense for Risk Management” mainly involving business departments, the Compliance Department and the Internal Audit Department in risk management, and established a reporting mechanism between the Compliance Department and business departments, as well as between the head office and branches.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining “on-site and off-site”, “regular and special”, “self and external” examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. Return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 30 June 2019 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	Note	30 June 2019	31 December 2018
Total core tier-one capital			
– Share capital		5,796,680	5,796,680
– Qualifying portion of capital reserve		11,855,505	11,855,505
– Surplus reserve		6,622,797	6,110,162
– General reserve		13,398,535	12,571,882
– Fair value reserve		407,881	1,122,587
– Provision reserve		10,299	5,311
– Retained earnings		20,130,787	19,009,618
– Qualifying portions of non-controlling interests		79,302	33,468
– Others		(13,884)	(13,877)
Core tier-one capital		58,287,902	56,491,336
Core tier-one capital deductions		(133,701)	(118,219)
Net core tier-one capital		58,154,201	56,373,117
Other tier-one capital		–	–
Net tier-one capital		58,154,201	56,373,117

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

	<i>Note</i>	30 June 2019	31 December 2018
Tier-two capital			
– Qualifying portions of tier-two capital – instruments issued		16,000,000	18,200,000
– Surplus provision for loan impairment		<u>5,172,173</u>	<u>3,917,068</u>
Net tier-two capital		<u>21,172,173</u>	<u>22,117,068</u>
Net capital base		<u>79,326,374</u>	<u>78,490,185</u>
Total risk weighted assets	36(e)(i)	<u>676,440,483</u>	<u>661,889,166</u>
Core tier-one capital adequacy ratio		8.60%	8.52%
Tier-one capital adequacy ratio		8.60%	8.52%
Capital adequacy ratio		<u>11.73%</u>	<u>11.86%</u>

Notes:

- (i) Both the on-balance and off-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the former CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.5%, 8.5% and 7.5% at 31 December 2018.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

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

(i) *Debt securities investments*

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

(ii) *Receivables and other non-derivative financial assets*

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

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

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

Fair values of debt securities issued are based on their quoted market prices or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value

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

	30 June 2019			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	368,687	–	368,687
– interest rate swaps	–	427,442	–	427,442
– precious metal derivatives	–	2,682,180	–	2,682,180
Financial assets at fair value through profit or loss				
– debt instruments	–	59,763	–	59,763
– investment funds	27,362,717	–	–	27,362,717
– others	–	–	140,914,983	140,914,983
Financial assets at fair value through other comprehensive income				
– debt instruments	–	43,183,939	–	43,183,939
– equity instruments	–	–	2,072,175	2,072,175
Total	<u>27,362,717</u>	<u>46,722,011</u>	<u>142,987,158</u>	<u>217,071,886</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
– debt instruments	–	(25,477,066)	–	(25,477,066)
Derivative financial liabilities				
– currency derivatives	–	(305,326)	–	(305,326)
– interest rate swaps	–	(383,074)	–	(383,074)
– precious metal derivatives	–	(36,091)	–	(36,091)
Total	<u>–</u>	<u>(26,201,557)</u>	<u>–</u>	<u>(26,201,557)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

During the period ended 30 June 2019, there were no significant transfers between instruments in Level 1 and Level 2.

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	1,247,873	–	1,247,873
– interest rate swaps	–	433,617	–	433,617
– precious metal derivatives	–	489,588	–	489,588
Financial assets at fair value through profit or loss				
– debt instruments	–	1,434,344	–	1,434,344
– investment funds	34,480,163	–	–	34,480,163
– others	–	–	115,776,178	115,776,178
Financial assets at fair value through other comprehensive income				
– debt instruments	–	57,852,925	–	57,852,925
– equity instruments	–	–	2,072,175	2,072,175
Total	34,480,163	61,458,347	117,848,353	213,786,863
Liabilities				
Financial liabilities at fair value through profit or loss				
– debt instruments	–	(14,601,560)	–	(14,601,560)
Derivative financial liabilities				
– currency derivatives	–	(282,226)	–	(282,226)
– interest rate swaps	–	(476,400)	–	(476,400)
Total	–	(15,360,186)	–	(15,360,186)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

During the year ended 31 December 2018, there were no significant transfers between instruments in Level 1 and Level 2.

(c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters. Financial liabilities at fair value through profit or loss mainly includes the financial liabilities related to precious metals, of which the fair value is determined based on the closing price provided by Shanghai Gold Exchange.

(d) Fair value of financial assets and liabilities not carried at fair value

(i) *Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from central bank and financial investments measured as amortised cost.*

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) **Loans and advances to customers**

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

(iii) Financial assets measured at amortised cost

The fair values of financial assets measured at amortised cost are estimated on the basis of pricing models or discounted cash flows in the absence of any other relevant observable market data if the market value is not available.

(iv) Financial assets at fair value through other comprehensive income equity instruments

Financial assets at fair value through other comprehensive income equity instruments are unlisted shares. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

(v) Deposits from customers

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(vi) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

(vi) Debt securities issued (Continued)

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of financial assets measured at amortised cost and debt securities issued:

	30 June 2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	264,912,689	263,332,376	–	154,190,678	109,141,698
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	51,354,634	51,265,755	–	51,265,755	–
– certificates of interbank deposit	92,431,183	91,187,013	–	91,187,013	–
Total	143,785,817	142,452,768	–	142,452,768	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

(vi) Debt securities issued (Continued)

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured					
at amortised cost	<u>263,149,991</u>	<u>265,209,228</u>	<u>–</u>	<u>154,190,678</u>	<u>111,018,550</u>
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	52,244,737	52,206,828	–	52,206,828	–
– certificates of interbank deposit	<u>134,322,488</u>	<u>133,220,023</u>	<u>–</u>	<u>133,220,023</u>	<u>–</u>
Total	<u>186,567,225</u>	<u>185,426,851</u>	<u>–</u>	<u>185,426,851</u>	<u>–</u>

38 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of guarantees.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(a) Credit commitments (Continued)

	30 June 2019	31 December 2018
Bank acceptances	175,781,521	153,887,487
Letters of guarantees	7,294,475	5,760,968
Letters of credit	9,674,433	8,365,078
Unused credit card commitments	<u>6,817,247</u>	<u>3,450,469</u>
Total	<u><u>199,567,676</u></u>	<u><u>171,464,002</u></u>

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount

	30 June 2019	31 December 2018
Credit risk-weighted amount of contingent liabilities and commitments	<u><u>68,780,054</u></u>	<u><u>76,399,414</u></u>

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Operating lease commitments

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

	31 December 2018
Within one year (inclusive)	111,613
After one year but within five years (inclusive)	432,763
After five years	<u>140,561</u>
Total	<u><u>684,937</u></u>

(d) Capital commitments

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

	30 June 2019	31 December 2018
Contracted but not paid for	432,774	468,077
Approved but not contracted for	<u>30,699</u>	<u>10,567</u>
Total	<u><u>463,473</u></u>	<u><u>478,644</u></u>

(e) Outstanding litigations and disputes

As at 30 June 2019 and 31 December 2018, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(f) Pledged assets

	30 June 2019	31 December 2018
Investment securities	144,436,733	146,158,436
Discounted bills	576,510	395,972
Total	<u>145,013,243</u>	<u>146,554,408</u>

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2019 and 31 December 2018, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

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

	30 June 2019		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	160,787,465	160,787,465	160,787,465
Investment management products under trust scheme	91,786,377	91,786,377	91,786,377
Wealth management products issued by financial institutions	1,047,943	1,047,943	1,047,943
Total	253,621,785	253,621,785	253,621,785

	31 December 2018		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	131,211,637	131,211,637	131,211,637
Investment management products under trust scheme	87,960,574	87,960,574	87,960,574
Wealth management products issued by financial institutions	10,485,410	10,485,410	10,485,410
Total	229,657,621	229,657,621	229,657,621

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

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

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

During the six months ended 30 June 2019, the amount of fee and commission income received from the above mentioned structured entities by the Group is RMB203.08 million (six months ended 30 June 2018: RMB160.49 million).

As at 30 June 2019, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB57,186 million (31 December 2018: RMB52,286 million).

During the six months ended 30 June 2019, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2019, but matured before 30 June 2019, is RMB8,141 million (six months ended 30 June 2018: RMB13,104 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

As at 30 June 2019, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB4,038 million (31 December 2018: RMB4,766 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management product on the Group's financial performance is not significant.

41 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 30 June 2019, the entrusted loans balance of the Group is RMB2,426 million (31 December 2018: RMB3,251 million).

42 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Group has no other significant non-adjusted events subsequent to the end of the reporting period as at the date of approval to the financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

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

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(a) Liquidity coverage ratio

	As at 30 June 2019	Average for the six months ended 30 June 2019	As at 31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	<u>182.76%</u>	<u>159.93%</u>	<u>137.10%</u>	<u>133.49%</u>

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Banking and Insurance Regulatory Commission (the former “CBIRC”) and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (“MOF”).

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

The Hong Kong Banking (Disclosure) Rules (the “Rules”) took effect on 1 January 2007. It requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. The Group prepares the liquidity coverage ratio on a semi-annual basis and the disclosed average liquidity coverage ratio is the arithmetic mean of two consecutive liquidity coverage ratio as at 30 June and 31 December.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO (CONTINUED)

(b) Leverage ratio

	30 June 2019	31 December 2018
Leverage ratio	4.62%	4.81%

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

The above liquidity coverage ratio and leverage ratio is calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF.

2 CURRENCY CONCENTRATIONS

	30 June 2019			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	6,690,000	2,432,062	723,710	9,845,772
Spot liabilities	<u>(19,771,150)</u>	<u>(2,434,549)</u>	<u>(721,085)</u>	<u>(22,926,784)</u>
Net long position	<u>(13,081,150)</u>	<u>(2,487)</u>	<u>2,625</u>	<u>(13,081,012)</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 CURRENCY CONCENTRATIONS (CONTINUED)

	31 December 2018			
	US Dollars	HK Dollars	Others	Total
	<i>(RMB Equivalent)</i>	<i>(RMB Equivalent)</i>	<i>(RMB Equivalent)</i>	<i>(RMB Equivalent)</i>
Spot assets	5,446,871	2,734,011	977,158	9,158,040
Spot liabilities	<u>(31,205,784)</u>	<u>(2,711,111)</u>	<u>(974,486)</u>	<u>(34,891,381)</u>
Net long position	<u><u>(25,758,913)</u></u>	<u><u>22,900</u></u>	<u><u>2,672</u></u>	<u><u>(25,733,341)</u></u>

3 INTERNATIONAL CLAIMS

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 INTERNATIONAL CLAIMS (CONTINUED)

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

	As at 30 June 2019			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	475,147	301,770	2,852,910	3,629,827
North and South America	–	2,830,336	–	2,830,336
Europe	–	144,379	–	144,379
Total	475,147	3,276,485	2,852,910	6,604,542

	As at 31 December 2018			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	427,620	563,739	4,926,932	5,918,291
North and South America	–	1,072,166	–	1,072,166
Europe	–	13,514	–	13,514
Total	427,620	1,649,419	4,926,932	7,003,971

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	30 June 2019	31 December 2018
Northeast China	14,711,540	18,157,038
North China	10,316,238	11,072,813
Others	1,311,093	2,190,130
Total	<u>26,338,871</u>	<u>31,419,981</u>

5 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES FOR MORE THAN 90 DAYS

	30 June 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
- between 3 and 6 months (inclusive)	1,229,712	7,605,560
- between 6 months and 1 year (inclusive)	9,609,936	12,141,398
- over 1 year	7,843,407	1,384,087
Total	<u>18,683,055</u>	<u>21,131,045</u>
As a percentage of total gross loans and advances		
- between 3 and 6 months (inclusive)	0.29%	2.02%
- between 6 months and 1 year (inclusive)	2.23%	3.22%
- over 1 year	1.82%	0.37%
Total	<u>4.34%</u>	<u>5.61%</u>

DEFINITION

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “Board of Directors”	the board of Directors of the Bank
“Board of Supervisors”	the board of Supervisors of the Bank
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBIRC Liaoning Bureau”	China Banking and Insurance Regulatory Commission Liaoning Bureau
“Class Meeting”	Domestic Share Class Meeting and H Share Class Meeting
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“EGM”	an extraordinary general meeting of the Bank convened at Room 604, 6/F, No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, PRC at 9:30 a.m. on Friday, 16 August 2019 to consider and, if thought fit, to approve, among other things, the Proposed Subscriptions and Issuance, the Share Subscription Agreements, the Specific Mandates and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the Hong Kong Securities and Futures Commission from time to time and any delegate of such Executive Director

DEFINITION (CONTINUED)

“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	22 August 2019, being the latest practicable date prior to the publication of this report for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC “PBOC” or
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Proposed Subscription and Issuance of Domestic Shares”	the proposed subscription of 2,200,000,000 Domestic Shares by Evergrande Nan Chang pursuant to the Domestic Share Subscription Agreement
“Proposed Subscriptions and Issuance of H Shares”	the proposed subscription of 400,000,000 H Shares by Zhengbo Holdings Limited and Future Capital Group Limited pursuant to the H Share Subscription Agreements, respectively
“Reporting Period”	the six months ended 30 June 2019

DEFINITION (CONTINUED)

“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Supervisor(s)”	the supervisor(s) of the Bank
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	percentage



☎ (024)95337 / 400-699-6666

🌐 www.shengjingbank.com.cn



Official Website



Mobile Banking