



Guangzhou Rural Commercial Bank Co., Ltd.

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

Stock Code : 1551



2019
INTERIM
REPORT

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COMPANY PROFILE

(I) Official Name

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

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

(III) Legal Representative: Mr. Wang Jikang

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

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

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

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

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

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

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

(XI) Scope of Business: Monetary and financial services

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

Postal Code: 510623

Website: www.grcbank.com

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

(XIV) Auditor: PricewaterhouseCoopers

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

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

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

(XVIII) Domestic Shares Depository: China Securities Depository and Clearing Corporation Limited

(XIX) Other Relevant Information of the Company

Date of Registration: December 9, 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: +8695313

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

Email Address: ir@grcbank.com

MAJOR HONORS RECEIVED IN THE FIRST HALF OF 2019

No.	Honors	Awarding/granting authority	Date of Award
1	Top 500 Chinese Enterprises in Credit Standing	China Enterprise Reform and Development Society, China Cooperative Trade Enterprises Association	January 2019
2	Top 10 Retail Banks of Rural Commercial Banks	Retail Bank (《零售銀行》)	January 2019
3	Ranked 62nd in the 2018 Top 100 Global Banking Innovation Patents	IPRdaily jointly with incoPat Innovation Index Research Centre	February 2019
4	Ranked 29th in 2018 China Banking Industry Top 100	China Banking Association	February 2019
5	Top 10 Outstanding Private Enterprises in Financial Service Innovations	The Banker (《銀行家》)	May 2019
6	Ranked 5th in China's Top 100 Financial Brands (Rural Commercial Bank)	Research Association of Ideological and Political Work of China Financial Institution	May 2019
7	Ranked 995th in Forbes Global Enterprises 2000	Forbes	May 2019
8	Excellent Guangdong Enterprises	GuangDong Provincial Enterprise Confederation	May 2019
9	Top Ten Rural FinTech Products Innovation	China Corporation Times, China Finance (《中國金融》)	June 2019
10	Ranked 185th in The Banker's Top 1000 World's Banks 2019	The Banker	July 2019

SUMMARY OF FINANCIAL DATA

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in Amount	Rate of Change (%)
Operating results				
Net interest income	7,737.30	5,589.18	2,148.12	38.43
Net fee and commission income	816.62	965.95	(149.33)	(15.46)
Operating income	10,800.11	8,175.24	2,624.87	32.11
Profit before income tax	4,543.96	4,333.37	210.59	4.86
Net profit	3,672.70	3,391.34	281.36	8.30
Net profit attributable to shareholders of the Bank	3,591.55	3,321.64	269.91	8.13
Basic earnings per share (Expressed in RMB per share)	0.37	0.34	0.03	8.82

Item (Expressed in RMB million, unless otherwise stated)	As of June 30, 2019	As of December 31, 2018	Change in Amount	Rate of Change (%)
Scale indicators				
Total assets	853,345.90	763,289.60	90,056.30	11.80
Among which: loans and advances to customers, net	434,412.07	364,967.97	69,444.10	19.03
Total liabilities	783,685.67	707,708.53	75,977.14	10.74
Among which: customers deposits	618,863.96	542,335.16	76,528.80	14.11
Equity attributable to shareholders of the Bank	64,967.29	52,861.33	12,105.96	22.90
Non-controlling interests	4,692.94	2,719.74	1,973.20	72.55
Total equity	69,660.23	55,581.07	14,079.16	25.33

SUMMARY OF FINANCIAL DATA

Item (Expressed in percentage)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in Amount
Profitability indicators			
Return on average total assets ⁽¹⁾	0.91	0.91	0.00
Return on average equity ⁽²⁾	11.73	13.64	(1.91)
Net interest spread ⁽³⁾	2.43	2.03	0.40
Net interest margin ⁽⁴⁾	2.35	1.84	0.51
Net fee and commission income to operating income ⁽⁵⁾	7.56	11.82	(4.26)
Cost-to-income ratio ⁽⁶⁾	24.33	33.64	(9.31)

Item (Expressed in percentage)	As at June 30, 2019	As at December 31, 2018	Change in Amount
Assets quality indicators			
Non-performing loan ratio ⁽⁷⁾	1.40	1.27	0.13
Provision coverage ratio ⁽⁸⁾	234.34	276.64	(42.30)
Allowance to total loans ⁽⁹⁾	3.27	3.52	(0.25)

Item (Expressed in percentage)	As at June 30, 2019	As at December 31, 2018	Change in Amount
Capital adequacy indicators⁽¹⁰⁾			
Core Tier 1 capital adequacy ratio	9.83	10.50	(0.67)
Tier 1 capital adequacy ratio	11.59	10.53	1.06
Capital adequacy ratio	14.98	14.28	0.70

Item (Expressed in percentage)	As at June 30, 2019	As at December 31, 2018	Change in Amount
Other indicators			
Loan-to-deposit ratio ⁽¹¹⁾	72.49	69.70	2.79

SUMMARY OF FINANCIAL DATA

Notes:

- (1) Representing the net profit for the period (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets as at the beginning and end of the period.
- (2) As calculated by dividing the net profit for the period by the average balance of total equity as at the beginning and end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) As calculated by dividing net interest income by the average daily balance of total interest-earning assets.
- (5) As calculated by dividing net fee and commission income by operating income.
- (6) As calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (7) As calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (8) As calculated by dividing the balance of allowance for loan (including discounted bills) losses by the balance of non-performing loans.
- (9) As calculated by dividing the balance of allowance for loan (including discounted bills) losses by the total loans and advances to customers.
- (10) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.

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

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

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

- (11) Calculated by total loans and advances to customers/total deposits of customers.

FINANCIAL REVIEW FOR THE FIRST HALF OF 2019

I. INCOME STATEMENT ANALYSIS

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30,		Change in amount	Rate of change (%)
	2019	2018		
Interest income	15,751.72	13,839.61	1,912.11	13.82
Interest expense	(8,014.42)	(8,250.43)	236.01	(2.86)
Net interest income	7,737.30	5,589.18	2,148.12	38.43
Fee and commission income	935.23	1,061.17	(125.94)	(11.87)
Fee and commission expense	(118.61)	(95.22)	(23.39)	24.56
Net fee and commission income	816.62	965.95	(149.33)	(15.46)
Net trading gains	2,000.07	2,570.85	(570.78)	(22.20)
Net gains/(losses) on financial investments	211.53	(1,041.12)	1,252.65	(120.32)
Other income, gains or losses	34.59	90.38	(55.79)	(61.73)
Operating income	10,800.11	8,175.24	2,624.87	32.11
Operating expenses	(2,701.05)	(2,841.51)	140.46	(4.94)
Credit impairment losses, net	(3,554.66)	(989.45)	(2,565.21)	259.26
Impairment losses on repossessed assets	(0.44)	(10.91)	10.47	(95.97)
Profit before income tax	4,543.96	4,333.37	210.59	4.86
Income tax expense	(871.26)	(942.03)	70.77	(7.51)
Net profit for the period	3,672.70	3,391.34	281.36	8.30

In the first half of 2019, the Group recorded a profit before income tax of RMB4,544 million, representing a year-on-year increase of 4.86%, and a net profit of RMB3,673 million, representing a year-on-year increase of 8.30%. Profit before income tax and net profit increased stably, which was mainly attributable to growth in net interest income.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) **Net Interest Income**

In the first half of 2019, the net interest income of the Group amounted to RMB7,737 million, representing a year-on-year increase of RMB2,148 million, or 38.43%, and accounting for 71.64% of our total operating income. It was primarily due to, firstly, our adjustment to the structure of interest-earning assets, which led to a rise in both the amount and price of loan business that drove up the interest income on a year-on-year basis; and secondly, a decrease in overall payout ratio, resulting in a decrease in interest expense year-on-year.

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Interest income	15,751.72	13,839.61	1,912.11	13.82
Interest expense	(8,014.42)	(8,250.43)	236.01	(2.86)
Net interest income	7,737.30	5,589.18	2,148.12	38.43

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Average balance	Interest income/expense	Average yield/cost rate (%)	Average balance	Interest income/expense	Average yield/cost rate (%)
Loans and advances to customers	397,236.27	11,821.76	5.95	313,414.03	9,089.81	5.80
Financial investments	132,397.77	2,439.65	3.69	143,132.26	2,844.29	3.97
Placements and deposits with banks and other financial institutions	36,081.61	690.37	3.83	24,617.62	404.41	3.29
Financial assets held under resale agreements	24,246.78	298.92	2.47	52,806.82	950.33	3.60
Deposits with central bank	67,814.22	501.02	1.48	72,283.64	550.77	1.52
Total interest-earning assets	657,776.65	15,751.72	4.79	606,254.37	13,839.61	4.57
Due to customers	540,696.27	5,410.09	2.00	469,237.06	4,434.39	1.89
Placements and deposits from banks and other financial institutions	47,765.82	967.88	4.05	61,341.60	1,219.01	3.97
Financial assets sold under repurchase agreements	8,703.27	99.86	2.29	20,300.81	290.71	2.86
Debt securities issued	78,451.82	1,487.76	3.79	98,728.76	2,291.48	4.64
Borrowings from central bank	3,238.83	48.83	3.02	1,310.46	14.84	2.26
Total interest-bearing liabilities	678,856.01	8,014.42	2.36	650,918.69	8,250.43	2.54
Net interest income		7,737.30			5,589.18	
Net interest spread			2.43			2.03
Net interest margin			2.35			1.84

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, compared with the corresponding period of last year, the overall average yield of interest-earning assets increased by 22 basis points to 4.79%, the overall average cost rate of interest-bearing liabilities decreased by 18 basis points to 2.36%, net interest spread increased by 40 basis points to 2.43%, and net interest margin increased by 51 basis points to 2.35%.

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

Item (Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	2,431.10	300.90	2,732.00
Financial investments	(213.30)	(191.30)	(404.60)
Placements and deposits with banks and other financial institutions	188.31	97.60	285.91
Financial assets held under resale agreements	(514.00)	(137.40)	(651.40)
Deposits with central bank	(34.10)	(15.70)	(49.80)
Changes in interest income	1,858.01	54.10	1,912.11
Liabilities			
Due to customers	675.30	300.40	975.70
Placements and deposits from banks and other financial institutions	(269.80)	18.69	(251.11)
Financial assets sold under repurchase agreements	(166.10)	(24.80)	(190.90)
Debt securities issued	(470.60)	(333.10)	(803.70)
Borrowings from central bank	21.80	12.20	34.00
Changes in interest expense	(209.40)	(26.61)	(236.01)

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income

In the first half of 2019, interest income of the Group amounted to RMB15,752 million, representing an increase of RMB1,912 million or 13.82% as compared to the corresponding period of last year.

(1) INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Average balance	Interest income	Annualized	Average balance	Interest income	Annualized
			average yield (%)			average yield (%)
Corporate loans	276,758.89	8,711.26	6.30	207,614.59	6,269.89	6.04
Personal loans	109,014.85	2,939.71	5.39	97,533.31	2,615.78	5.36
Discounted bills	11,462.53	170.79	2.98	8,266.13	204.14	4.94
Total loans to customers	397,236.27	11,821.76	5.95	313,414.03	9,089.81	5.80

Interest income from loans and advances to customers amounted to RMB11,822 million, representing a year-on-year increase of RMB2,732 million, or 30.06%, and the average yield increased by 15 basis points to 5.95% as compared with last year, mainly due to increased overall yield on loans driven by the increase in both amount and price of loans to public bodies and individual.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
Placements and deposits with banks and other financial institutions	36,081.61	690.37	3.83	24,617.62	404.41	3.29
Financial assets held under resale agreements	24,246.78	298.92	2.47	52,806.82	950.33	3.60
Total amounts due from banks and other financial institutions	60,328.39	989.29	3.28	77,424.44	1,354.74	3.50

In the first half of 2019, the interest income from financial assets held under resale agreements of the Group amounted to RMB299 million, representing a year-on-year decrease of RMB651 million or 68.55%, primarily due to a change in the interbank asset business structure, resulting in a decrease in the size of financial assets held under resale agreements, while interest income increased by RMB286 million or 70.71% on a year-on-year basis as a result of an increase in the scale of placements and deposits with banks and other financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Interest expense

In the first half of 2019, the Group's interest expense decreased by RMB236 million, or 2.86%, to RMB8,014 million as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Corporate deposits						
Demand	102,859.35	254.02	0.49	96,846.35	224.54	0.46
Time	147,980.15	2,532.17	3.42	105,737.08	1,733.15	3.28
Subtotal	250,839.50	2,786.19	2.22	202,583.43	1,957.69	1.93
Personal deposits						
Demand	96,511.97	154.99	0.32	91,653.18	143.61	0.31
Time	151,749.71	2,159.19	2.85	119,217.59	1,416.69	2.38
Subtotal	248,261.68	2,314.18	1.86	210,870.77	1,560.30	1.48
Other deposits	41,595.09	309.72	1.49	55,782.86	916.40	3.29
Due to customers	540,696.27	5,410.09	2.00	469,237.06	4,434.39	1.89

In the first half of 2019, the Group's interest expense on amounts due to customers amounted to RMB5,410 million, representing a year-on-year increase of RMB976 million or 22.00%. In the first half of 2019, the cost rate of deposits was 2.00%, which increased by 11 basis points as compared to the corresponding period of last year, mainly due to an increase in interest costs on time deposits, which represents a higher proportion, as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019			For the six months ended June 30, 2018		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Placements and deposits from banks and other financial institutions	47,765.82	967.88	4.05	61,341.60	1,219.01	3.97
Financial assets sold under repurchase agreements	8,703.27	99.86	2.29	20,300.81	290.71	2.86
Total amounts due to banks and other financial institutions	56,469.09	1,067.74	3.78	81,642.41	1,509.72	3.70

In the first half of 2019, the Group's interest expense on placements and deposits from banks and other financial institutions amounted to RMB968 million, representing a year-on-year decrease of RMB251 million or 20.6%, while the interest expense of financial assets sold under repurchase agreements amounted to RMB100 million, representing a year-on-year decrease of RMB191 million or 65.65%, which was primarily due to a change in the interbank liability business structure, resulting in a decrease in the sizes of placements and deposits from banks and other financial institutions and financial assets sold under repurchase agreements as compared to the corresponding period of last year.

3. *Net Interest Spread and Net Interest Margin*

In the first half of 2019, net interest spread increased by 0.4 percentage point to 2.43% as compared to the corresponding period of last year, and net interest margin increased by 0.51 percentage point to 2.35% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Non-interest Income

1. Fee and commission income

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Fee and commission income				
Fee income from bank card business	329.29	296.66	32.63	11.00
Fee income from agency and custodian business	157.83	205.79	(47.96)	(23.31)
Fee income from advisory and consulting business	82.40	263.80	(181.40)	(68.76)
Financial leasing fee income	77.45	53.93	23.52	43.61
Fee income from settlement and electronic channel business	76.34	60.85	15.49	25.46
Fee income from wealth management products	60.42	82.58	(22.16)	(26.83)
Fee income from foreign exchange business	28.26	48.68	(20.42)	(41.95)
Others	123.24	48.88	74.36	152.13
Subtotal	935.23	1,061.17	(125.94)	(11.87)
Fee and commission expense				
Fee expense on settlement and electronic channel business	(6.68)	(10.49)	3.81	(36.32)
Fee expense on bank card business	(13.77)	(15.99)	2.22	(13.88)
Others	(98.16)	(68.74)	(29.42)	42.80
Subtotal	(118.61)	(95.22)	(23.39)	24.56
Net fee and commission income	816.62	965.95	(149.33)	(15.46)

In the first half of 2019, net fee and commission income of the Group amounted to RMB817 million, representing a year-on-year decrease of RMB149 million or 15.46%, which was mainly due to a decrease in fee income from advisory and consulting business. Net fee and commission income accounted for 7.56% of the total operating income, which was mainly fee income from bank card business and agency and custodian business.

2. Net trading gains

In the first half of 2019, the net trading gains of the Group amounted to RMB2,000 million, which were mainly interest income on financial investments at fair value through profit or loss.

3. Net gains/(losses) on financial investments

In the first half of 2019, the net gains on financial investments of the Group amounted to RMB212 million, which were mainly bid-ask spread from financial assets at fair value through other comprehensive income.

4. Other income, gains or losses

In the first half of 2019, "other income, gains or losses" of the Group amounted to RMB35 million, which was mainly foreign exchange gains.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Operating Expenses

In the first half of 2019, the operating expenses of the Group decreased by RMB140 million, or 4.94%, to RMB2,701 million as compared to the corresponding period of last year.

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Staff costs	1,649.09	1,810.23	(161.14)	(8.90)
Tax and surcharges	73.61	91.71	(18.10)	(19.74)
Depreciation and amortization	412.83	265.45	147.38	55.52
Others	565.52	674.12	(108.60)	(16.11)
Total operating expenses	2,701.05	2,841.51	(140.46)	(4.94)

1. Staff costs

Staff costs represent the largest component of operating expenses of the Group, accounting for 61.05% and 63.71% of our operating expenses for the first half of 2019 and 2018, respectively.

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

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Salaries, bonuses and allowances	1,192.90	1,326.31	(133.41)	(10.06)
Benefits, social insurance, housing fund and other insurances	389.00	387.08	1.92	0.50
Early and supplemental retirement benefits	26.85	62.75	(35.90)	(57.21)
Gross amount of labour union expenditure, education costs and other staff costs	40.34	34.09	6.25	18.33
Total staff costs	1,649.09	1,810.23	(161.14)	(8.90)

In the first half of 2019, staff costs of the Group amounted to RMB1,649 million, representing a year-on-year decrease of RMB161 million or 8.90%.

2. Tax and surcharges

In the first half of 2019, the tax and surcharges incurred amounted to RMB74 million, representing a year-on-year decrease of RMB18 million or 19.74%.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Depreciation and amortization

In the first half of 2019, depreciation and amortization of the Group was RMB413 million, representing a year-on-year increase of RMB147 million, or 55.52%, mainly due to the addition of the depreciation of right-of-use assets in the depreciation for the year.

4. Others

In the first half of 2019, other expenses amounted to RMB566 million, representing a year-on-year decrease of RMB109 million, or 16.11%.

(IV) Impairment Losses

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

1. Credit impairment losses, net

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Loans and advances to customers	2,152.86	987.21	1,165.65	118.08
Loans and advances at fair value through other comprehensive income	366.30	23.29	343.01	1,472.78
Others	1,035.50	(21.05)	1,056.55	5,019.24
Total	3,554.66	989.45	2,565.21	259.26

2. Impairment losses on repossessed assets

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change in amount	Rate of change (%)
Repossessed assets	0.44	10.91	(10.47)	(95.97)

As of June 2019, all scale of loans and the balance of non-performing loans increased as compared to the corresponding period of last year and the end of last year, and impairment losses to be accrued correspondingly increased. Meanwhile, facing the changing external environment, the expected probability of default for certain financial investments increased, and sufficient impairment allowances are provided accordingly.

(V) Income Tax Expense

In the first half of 2019, income tax expense amounted to RMB871 million, representing a year-on-year decrease of RMB71 million, mainly due to an increase in tax incentives. The effective income tax rate was 19.17%.

II. ANALYSIS ON STATEMENT OF FINANCIAL POSITION

(I) Assets

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total loans and advances to customers	448,600.25	52.57	377,988.91	49.52
Allowances for impairment losses	(14,188.18)	(1.66)	(13,020.94)	(1.71)
Loans and advances to customers, net	434,412.07	50.91	364,967.97	47.82
Financial investments	253,189.62	29.67	227,853.14	29.85
Cash and deposits with the central bank	88,787.21	10.40	101,589.71	13.31
Deposits with banks and other financial institutions	24,161.83	2.83	10,866.56	1.42
Placements with banks and other financial institutions	30,039.75	3.52	15,299.11	2.00
Financial assets held under resale agreements	9,297.40	1.09	29,338.95	3.84
Other assets	13,458.02	1.58	13,374.16	1.75
Total assets	853,345.90	100.00	763,289.60	100.00

Notes:

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

As at June 30, 2019, the Group's total assets amounted to RMB853,346 million, representing an increase of RMB90,056 million or 11.80% as compared to the end of last year. Among which, total loans and advances to customers increased by RMB70,611 million or 18.68% as compared to the end of last year. This was primarily due to the rapid growth in the scale of loans to public bodies and discounted bills business.

Financial investments increased by RMB25,336 million or 11.12% as compared to the end of last year, primarily due to an increase in investments in interbank negotiable certificates of deposit, bonds issued by policy banks and local government bonds.

Cash and deposits with the central bank decreased by RMB12,803 million or 12.60%, primarily due to two rates cut by the central bank in the first half of the year decreasing the statutory deposit reserve ratio by 1.0 percentage points as compared to the end of last year.

Gross amount of deposits with banks and other financial institutions and placements with banks and other financial institutions increased by RMB28,036 million or 107.15% as compared to the end of last year, primarily due to the increased interbank borrowings, proceeds from preference shares issued and placements with overseas financial institutions.

Financial assets held under resale agreements decreased by RMB20,042 million or 68.31% as compared to the end of last year. This was mainly due to properly decreased financial assets held under resale agreements in accordance with capital arrangement.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate loans	303,198.15	67.59	266,039.08	70.38
Personal loans	114,990.03	25.63	108,354.08	28.67
Discounted bills	30,412.07	6.78	3,595.75	0.95
Total loans to customers	448,600.25	100.00	377,988.91	100.00

As at June 30, 2019, the gross amount of loans and advances to customers of the Group increased by RMB70,611 million or 18.68% to RMB448,600 million as compared to the end of last year.

As compared to the end of last year, the gross amount of corporate loans increased by RMB37,159 million or 13.97% to RMB303,198 million; gross amount of personal loans increased by RMB6,636 million or 6.12% to RMB114,990 million; and gross amount of discounted bills increased by RMB26,816 million or 745.78% to RMB30,412 million.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total corporate loans	303,198.15	67.59	266,039.08	70.38
Working capital loans	144,156.64	32.14	132,322.51	35.01
Fixed asset loans	144,549.65	32.22	121,125.14	32.04
Finance lease receivables	14,266.58	3.18	12,408.70	3.28
Others	225.28	0.05	182.73	0.05
Total personal loans	114,990.03	25.63	108,354.08	28.67
Personal mortgage loans	57,896.46	12.90	54,297.18	14.36
Personal business loans	35,780.94	7.98	31,890.38	8.44
Personal consumption loans	12,256.62	2.73	13,294.06	3.52
Balance of credit cards	9,056.01	2.02	8,872.46	2.35
Total discounted bills	30,412.07	6.78	3,595.75	0.95
Bank acceptance bills	27,149.90	6.05	599.71	0.16
Commercial acceptance bills	3,262.17	0.73	2,996.04	0.79
Total loans to customers	448,600.25	100.00	377,988.91	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2019, the Group's balance of working capital loans, fixed asset loans and finance lease receivables were RMB144,157 million, RMB144,550 million and RMB14,267 million, respectively, representing 47.55%, 47.67% and 4.71% of total corporate loans, respectively. Further, working capital loans and fixed asset loans increased by RMB11,834 million and RMB23,425 million, or 8.94% and 19.34%, as compared to the end of last year, respectively, mainly due to higher demand for loans to customers.

As at June 30, 2019, the Group's personal mortgage loans, personal business loans, personal consumption loans and the balance of credit cards were RMB57,896 million, RMB35,781 million, RMB12,257 million and RMB9,056 million, respectively, representing 50.34%, 31.12%, 10.66% and 7.88% of total personal loans, respectively. Further, the balances of personal mortgage loans and personal business loans increased by RMB3,599 million and RMB3,891 million, or 6.63% and 12.20%, as compared to the end of last year, respectively.

As at June 30, 2019, the Group's discounted bank acceptance bills and discounted commercial acceptance bills were RMB27,150 million and RMB3,262 million respectively. Discounted bank acceptance bills increased by RMB26,550 million and discounted commercial acceptance bills remained stable as compared to the end of last year.

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Collateralized loans	253,407.12	56.49	226,734.97	59.98
Pledged loans	35,039.85	7.81	32,867.87	8.70
Guaranteed loans	104,148.04	23.22	89,552.57	23.69
Credit loans	56,005.24	12.48	28,833.50	7.63
Total loans to customers	448,600.25	100.00	377,988.91	100.00

As at June 30, 2019, the Group's collateralized loans, pledged loans, guaranteed loans and credit loans increased by RMB26,672 million, RMB2,172 million, RMB14,595 million and RMB27,172 million, or 11.76%, 6.61%, 16.30% and 94.24%, respectively, as compared to the end of last year. Overall, the share of collateralized loans and pledged loans in total loans amounted to 64.30%, reflecting the prudent risk management policy of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Financial investments

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial assets at fair value through profit or loss	104,604.40	41.31	89,797.16	39.41
Financial assets at fair value through other comprehensive income	75,672.09	29.89	57,697.75	25.32
Financial assets at amortized cost	72,913.13	28.80	80,358.23	35.27
Total financial investments	253,189.62	100.00	227,853.14	100.00

As at June 30, 2019, total financial investments of the Group increased by RMB25,336 million, or 11.12%, to RMB253,190 million as compared to the end of last year, which mainly comprised of an increase in investments in interbank negotiable certificates of deposit, bonds issued by policy banks and local government bonds.

(II) Liabilities

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Amounts due to customers	618,863.96	78.96	542,335.16	76.63
Deposits from banks and other financial institutions	27,163.61	3.47	63,215.97	8.93
Placements from banks and other financial institutions	935.12	0.12	1,553.57	0.22
Financial assets sold under repurchase agreements	6,531.92	0.83	11,817.78	1.67
Debt securities issued	104,431.97	13.33	65,875.44	9.31
Others ⁽¹⁾	25,759.09	3.29	22,910.61	3.24
Total liabilities	783,685.67	100.00	707,708.53	100.00

Note:

(1) Mainly including tax payable, borrowings from other banks and accrued staff costs.

As at June 30, 2019, the Group's total liabilities amounted to RMB783,686 million, representing an increase of RMB75,977 million or 10.74% as compared to the end of last year. As the most important source of the Group's capital, amounts due to customers increased by RMB76,529 million or 14.11% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Amounts due to customers

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate deposits⁽¹⁾				
Time	174,345.07	28.17	127,713.26	23.55
Demand	114,698.89	18.53	124,035.10	22.87
Subtotal	289,043.96	46.70	251,748.36	46.42
Personal deposits				
Time	186,050.51	30.06	140,860.91	25.97
Demand	101,343.97	16.38	99,200.46	18.29
Subtotal	287,394.48	46.44	240,061.37	44.26
Pledged deposits	13,408.30	2.17	13,216.85	2.44
Other deposits ⁽²⁾	29,017.22	4.69	37,308.58	6.88
Amounts due to customers	618,863.96	100.00	542,335.16	100.00

Notes:

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

As at June 30, 2019, amounts due to customers increased by RMB76,529 million or 14.11% to RMB618,864 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 46.44% of the total amount of deposits from customers, and the balance of personal deposits increased by RMB47,333 million or 19.72% as compared to the end of last year; corporate deposits accounted for 46.70% of the total amount of deposits from customers, and the balance of corporate deposits increased by RMB37,296 million or 14.81% as compared to the end of last year. With respect to the maturity structure, demand deposits accounted for 34.91% of the total amount of deposits from customers, representing a 6.25 percentage points decrease over the end of last year, while time deposits accounted for 58.23%, representing a 8.71 percentage points increase over the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Composition of Shareholders' Equity

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	9,808.27	14.08	9,808.27	17.65
Preference share	9,820.73	14.10	–	–
Capital reserve	10,861.00	15.59	10,861.00	19.54
Surplus reserve	4,398.57	6.31	4,398.57	7.91
General risk reserve	9,448.54	13.56	9,448.54	17.00
Investment revaluation reserve	1,734.14	2.49	1,082.03	1.95
Remeasurement gains on defined benefit plans	(11.66)	(0.01)	(14.88)	(0.03)
Retained earnings	18,907.70	27.14	17,277.80	31.09
Non-controlling interests	4,692.94	6.74	2,719.74	4.89
Total shareholders' equity	69,660.23	100.00	55,581.07	100.00

As at June 30, 2019, the Group recorded a paid-in capital of RMB9,808 million, and capital reserve reached RMB10,861 million, both remained stable as compared to the end of last year. Please refer to the notes to condensed consolidated financial statements for further details.

III. LOAN QUALITY ANALYSIS

(I) Five-Category Classification of Loans

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	429,326.77	95.71	363,429.72	96.15
Special mention	13,014.25	2.90	9,754.11	2.58
Substandard	2,875.46	0.64	1,906.80	0.50
Doubtful	2,869.62	0.64	2,343.21	0.62
Loss	514.15	0.11	555.07	0.15
Total loans to customers	448,600.25	100.00	377,988.91	100.00
Non-performing loan ratio⁽¹⁾	-	1.40	-	1.27

Note:

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

Due to the effect of consolidation of Chaozhou Rural Commercial Bank Co., Ltd. into the Bank's financial statements and acquisition of non-performing assets, as at June 30, 2019, the overall non-performing loan ratio of the Group was 1.40%, representing an increase of 0.13 percentage point as compared to the end of last year. In the second half of this year, the Group will continue to make greater efforts to collect non-performing loans, carry out specific collection of such loans and go to all lengths to mitigate non-performing loans. Meanwhile, the Group will strengthen asset quality control, increase the efforts made in relation to risk investigation on credit assets as well as address and resolve risks in advance to strictly prevent new non-performing loans.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019			As at December 31, 2018		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Wholesale and retail	645.53	17.01	1.19	391.61	13.02	0.87
Real estate	379.88	10.01	0.60	196.87	6.55	0.35
Leasing and commercial services	817.40	21.54	1.48	963.23	32.04	1.97
Manufacturing	769.94	20.29	2.35	249.44	8.30	0.84
Construction	90.64	2.39	0.38	74.28	2.47	0.42
Water conservation, environment and public utilities management	3.31	0.09	0.05	6.99	0.23	0.14
Accommodation and catering	35.48	0.94	0.25	143.76	4.78	1.38
Transportation, storage and postal services	824.53	21.73	6.90	101.53	3.38	0.77
Agriculture, forestry, animal husbandry and fishery	139.73	3.68	1.46	102.15	3.40	1.17
Information transmission, software and information technology services	9.70	0.26	0.22	13.97	0.46	0.28
Education	-	-	-	1.42	0.05	0.03
Health and social services	-	-	-	-	-	-
Household, repair and other services	15.35	0.40	0.36	7.53	0.25	0.17
Production and supply of electricity, heat, gas and water	7.34	0.19	0.26	-	-	-
Others	55.44	1.47	0.59	753.9	25.07	6.76
Total non-performing corporate loans	3,794.27	100.00	1.25	3,006.68	100.00	1.13

Note:

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

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

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019			As at December 31, 2018		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Corporate loans	3,794.27	100.00	1.25	3,006.68	100.00	1.13
Personal loans	1,622.90	100.00	1.41	1,434.85	100.00	1.32
Personal mortgage loans	196.67	12.12	0.34	132.58	9.24	0.24
Personal business loans	1,012.84	62.41	2.83	921.91	64.25	2.89
Personal consumption loans	171.56	10.57	1.40	127.50	8.89	0.96
Balance of credit cards	241.83	14.90	2.67	252.86	17.62	2.85
Discounted bills	842.06	100.00	2.77	363.55	100.00	10.11
Total non-performing loans	6,259.23	100.00	1.40	4,805.08	100.00	1.27

Note:

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

As at June 30, 2019, the non-performing ratio of corporate loans increased by 0.12 percentage point to 1.25% as compared to the end of last year, whereas the non-performing ratio of personal loans increased by 0.09 percentage point to 1.41% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) *Overdue Loans to Customers*

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that were not past due	438,919.37	97.84	369,537.80	97.76
Loans that were past due	9,680.88	2.16	8,451.11	2.24
Within three months	3,548.62	0.79	3,987.43	1.06
More than three months and within one year	3,918.45	0.87	2,464.21	0.65
More than one year and within three years	1,193.55	0.27	934.77	0.25
More than three years	1,020.26	0.23	1,064.70	0.28
Total loans	448,600.25	100.00	377,988.91	100.00
Loans that were past due for more than three months	6,132.26	1.37	4,463.68	1.18

As at June 30, 2019, overdue loans amounted to RMB9,681 million, representing an increase of RMB1,230 million from the end of last year and accounting for 2.16% of the total loans, representing a decrease of 0.08 percentage point from the end of last year.

(V) *Restructuring loans and advances to customers*

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019		As at December 31, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Restructuring loans and advances	8,233.70	1.84	4,608.81	1.22

MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

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

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019	As at December 31, 2018
Core Tier 1 capital adequacy ratio	9.83%	10.50%
Tier 1 capital adequacy ratio	11.59%	10.53%
Capital adequacy ratio	14.98%	14.28%
Core Tier 1 capital		
Portion of paid-in capital that may be included	9,808.27	9,808.27
Portion of capital reserve that may be included	10,861.00	10,860.99
Surplus reserve	4,398.57	4,398.57
General risk reserve	9,448.54	9,448.54
Retained earnings	18,907.70	17,277.80
Portion of minority interests that may be included	1,695.03	1,121.43
Others	1,722.48	1,067.15
Total core Tier 1 capital	56,841.59	53,982.75
Regulatory deductions for core Tier 1 capital		
Goodwill and other intangible assets (excluding land use rights)	(890.37)	(442.15)
Core Tier 1 capital, net	55,951.22	53,540.60
Other Tier 1 capital		
Other Tier 1 capital instruments and their premium	9,820.73	0.00
Portion of minority interests that may be included	217.45	140.34
Net Tier 1 capital	65,989.40	53,680.94
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	14,096.94	14,096.66
Excessive loan loss allowances	4,739.92	4,741.12
Portion of minority interests that may be included	430.51	288.22
Net capital	85,256.77	72,806.95
Total risk-weighted assets	569,290.08	509,836.94

As at June 30, 2019, the capital adequacy ratio of the Group was 14.98%, representing an increase of 0.70 percentage point over the end of last year, mainly due to the increase of net capital exceeded that of risk-weighted assets compared with the end of last year. Net capital amounted to RMB85,257 million, representing an increase of RMB12,450 million or 17.10% over the end of last year, mainly because the Bank issued preference shares to replenish capital of RMB9,821 million in June 2019, and the retained profit replenished capital in the first half year. Risk-weighted assets amounted to RMB569,290 million, representing an increase of RMB59,453 million or 11.66% over the end of last year, mainly attributable to the increase in credit risk-weighted assets as result of the increases in the scale of loan business and placements with non-bank institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

V. ANALYSIS OF LEVERAGE RATIO

As of June 30, 2019, the Group measured and disclosed the leverage ratio in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》).

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2019
Net Tier 1 capital	65,989.40
The balance of assets on and off balance sheet after adjustments	908,202.86
Leverage ratio (%)	7.27

VI. SEGMENT INFORMATION

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

Summary of business distribution

Operating income

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2019		For the six months ended June 30, 2018	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate banking business	5,810.04	53.80	4,409.79	53.94
Personal banking business	3,747.99	34.70	3,209.43	39.26
Financial market business	1,241.08	11.49	539.99	6.60
Other businesses	1.00	0.01	16.03	0.20
Total operating income	10,800.11	100.00	8,175.24	100.00

VII. OFF-BALANCE-SHEET ITEMS

The Group's off-balance-sheet items include acceptance bills, issuance of letters of credit, issuance of letters of guarantee, receivables under export letters of credit, collection of foreign exchange funds receivables, collection of foreign exchange funds and foreign letters of credit. Acceptance bills, issuance of letters of guarantee and issuance of letters of credit were deemed as key business segments. As at June 30, 2019, the balances of acceptance bills, issuance of letters of guarantee and issuance of letters of credit were RMB26,491 million, RMB26,618 million and RMB1,150 million, respectively.

VIII. CONTINGENT LIABILITIES AND ASSETS PLEDGE AS SECURITY

For details on the Group's contingent liabilities and assets pledge as security as at June 30, 2019, please refer to notes 41 and 43 of the condensed consolidated financial statements.

BUSINESS OPERATION

I. Corporate Banking Business

(I) Corporate Deposits and Loans

Amounts due to customers are major capital sources of the Bank. In the first half of 2019, the Bank took combined measures to endeavour to expand the corporate deposit business. The Bank promoted and implemented large projects and utilized various deposit products, driving a steady growth in corporate deposits.

In terms of corporate loans, the Bank proactively implemented the national policies of macro-control, product and environmental protection, adhered to the strategic positioning for supporting the development of agriculture or SMEs and insisted on returning to original sources for supporting the development of the real economy. Focusing on supporting the development of private economy, small, medium-sized and micro enterprises, rural revitalization, Sannong and green credit business, the Bank imposed strict restrictions on the businesses in industries with high energy consumption, high pollution or over-capacity, effectively prevented environmental protection and production safety risks, geographical and systematic risks and strived to improve the quality and efficiency in serving the real economy.

(II) International Business

The international business of the Bank achieved a stable development. On the one hand, by keeping a foothold of local market and encouraging innovation, the Bank launched the flexible deposits denominated in foreign currencies with fixed interest rates and “International Tax Transfer” (國際匯稅通) and strived to meet the needs for extended financial services in relation to capital appreciation and payment convenience of corporate customers. On the other hand, leveraging on the favorable policies of Guangdong-Hong Kong-Macao Greater Bay to further strengthen the collaboration with Hong Kong and Macao banks, the Bank continued to expand overseas clearing channels, optimize internal management and improve the effectiveness of internal control, so as to ensure the sustainability of international business under regulated operation. In the first half of 2019, the Bank won the Comprehensive and Outstanding Member Award for the Self-Regulatory Mechanism of Guangdong Provincial Bank’s Foreign Exchange and Cross-border RMB Business Exhibition (廣東省銀行外匯和跨境人民幣業務展業自律機制綜合優秀成員獎) and the Outstanding Member Award in Guangzhou’s Interbank Foreign Exchange Market under the China Foreign Exchange Trading System (中國外匯交易中心廣州轄區銀行間外匯市場優秀會員獎), which continuously improved the brand influence of the Bank’s international business.

(III) Trading Bank Business

By adhering to the market-oriented and customer-centred principle, the Bank kept intensifying efforts for product innovation with a view to serving the real economy. In the first half of 2019, the Bank launched the first product of “Hui Trade” (慧交易) among banks, providing more comprehensive and safer supply chain and payment settlement services for Internet customers of the industry chain. The Bank also launched the product of “Bidding Easy” (招標易) that included the characteristics of rural collective asset transactions, to provide comprehensive financial services for village customers and collective asset trading centers. In the first half of the year, the Bank built new corporate Internet banking, comprehensive financial service platform for corporate customers, Sun e-financing chain and other basic platform projects for trading banks, to fully prepare for rapid response to corporate business and online development trend in the future.

II. Personal Banking Business

(I) *Personal Deposits and Loans*

The Bank improved product innovation and business promotion, launched various deposit products such as “Dream Deposits” (夢想存款), “Happiness Deposits” (幸福存款) and “Monthly Profits” (月得利), and recorded sound sales of large-denomination certificates of deposit in the first half of 2019. The Bank also launched customer promotion and rewards activities, such as “Golden Pigs for Blessing, New Year’s Gifts” (金豬送福·新年好禮) and lucky draws for withdrawing deposits through WeChat and Alipay, to facilitate its performance growth.

To enhance customer experience, the Bank, while ensuring risk being manageable, continued to expand its customer base by updating its online consumption loan businesses. Through enlarging the Bank’s prioritized customer group, establishing channels to source for high quality customers and organizing bulk processing of credit pre-approval, the Bank strived to enhance user experience for customers, and provide them with efficient and convenient financial services, and thereby satisfying the gradual increase of consumer demand arising from the enlarging customer base.

(II) *Personal Wealth Management*

The Bank complied with new regulations, promoted the optimization of personal wealth management products, enriched the categories of open wealth management products, and increased the number of issuance tranches. The proportion of open wealth management products to balance of personal wealth management products increased to 32.11%. As at the end of June 2019, the Bank’s balance of personal wealth management products with expected yield was RMB64,864 million, representing an increase of RMB3,393 million as compared to the beginning of the year, while the sales reached RMB95,749 million in the first half of the year.

(III) *Bank Cards*

The Bank strengthened product innovation, committed to special cards innovation in the areas of inclusiveness and livelihood and segmented customer groups, vigorously promoting the issuance of “Social Security Card” (社保卡), “Sun • Leading Yue Card” (太陽•領粵卡), “Sun • Homeland Card” (太陽•家園卡), and “Sun • Military Personnel Preferential Card (太陽•擁軍優撫卡)”. Centering on business travel, health services, food and beverage, culture and entertainment, the Bank created the brand of “Sun • Flower City Card” (太陽•花城卡), rolled out marketing and promotion activities for debit cards and set up the right and interest system for debit cards customers, so as to enrich the customer interests. As of June 30, 2019, the Bank issued an accumulation of 509,800 new personal debit cards, and had 6,996,700 existing personal debit cards. The cumulative deposit balance of personal debit cards amounted to RMB109,421 million, representing a year-on-year increase of RMB29,476 million. The cumulative spending related to the debit cards of the Bank amounted to RMB38,598 million, and the various fee income arising from personal debit cards reached RMB16 million.

The Bank’s corporate settlement card has the functions of account inquiry, transfer & remittance, cash deposit and withdrawal, POS consumption, product signing, etc. Corporate customers can make money transfers and withdrawals at Union Pay ATMs, swipe cards on Union Pay POS machines, make transfers, pre-applications and authorizations through mobile banking, and sign for products at self-service equipment. As of June 30, 2019, the number of the Bank’s corporate settlement card users exceeded 16,000. For the six months ended June 30, 2019, corporate settlement card made 0.2322 million financial transactions with the transaction amount of RMB863 million.

With respect to the credit card business, the Bank enhanced product innovation and developed the “Sun • Colourful Card” (太陽 • 繽紛卡) for Sannong customer groups, coupled with the urban renewal projects of Guangzhou, and developed the “Sun • Car Owner Card” (太陽 • 車主卡) for the car owner groups. Moreover, the Bank strengthened the promotion and support for mobile payment, such as UnionPay cloud flash payment and all kinds of mobile phone PAY, launched various online and offline marketing and promotion activities, resulting in continuous increase in the frequency of consumption and amount of consumption. Meanwhile, the Bank proactively promoted the brand building of credit cards, consolidated cross-sector alliance, and constantly upgraded product interests, which enhanced customers’ loyalty. Closely keeping up with the pace of consumption upgrades, the Bank maintained sound operation based on the customer groups and interest rates of different products for existing customers, improved the professionalism, scientificity and systematicness of data application, while strengthening the prevention of risks, deepening groups operation, with an aim to provide suitable financial services for customers. As of June 30, 2019, the total number of credit cards in issue reached 1.4928 million, and the operating income generated from the credit card reached RMB415 million, representing a year-on-year increase of 20.62% with a stable and healthy growth rate.

III. Financial Market Business

In the first half of 2019, with the stable domestic economy in general, increased external uncertainties and intensified market volatility, the pressure to prevent systemic financial risks of the Bank continued to grow, bringing challenges to the development of financial market business. Facing the complicated and severe external environment, the Bank aimed to maintain steady operation, proactively promote the transformation innovation of financial market business and comprehensively enhance risk management, to continuously improve internal management and raise the level of profitability.

(I) Continuously Improving Investment Capacity and Actively Capturing Transaction Opportunities

The Bank continued to improve its investment research capability and market research and judgment ability, and adjusted its investment direction in a timely manner to improve its profitability. Meanwhile, the Bank strengthened the research and judgment on the macroeconomic situation and regulatory policies to seize transaction opportunities during fluctuations and realize profit in time.

(II) Vigorously Promoting the Transformation of Wealth Management Business to Enhance the Scale of Net-value Products

On the one hand, the Bank revised the wealth management business portfolio proactively to diminish the portion of interbank wealth management and boost the retail wealth management business. On the other hand, the Bank launched a series of open net-value wealth management products named “Sun Great Wealth” (太陽嘉富) and “Enjoy Wealth” (私享嘉富). As of June 30, 2019, the balance of net-value wealth management products was RMB6,456 million, representing a significant increase as compared to the beginning of the year.

The Bank’s wealth management investment focused on money market instruments, debt securities and enhanced bond funds. As of the end of June 2019, the investment balance of debt securities and money market instruments amounted to RMB67,377 million, accounting for 68.61% of the total; the investment balance of enhanced bond funds amounted to RMB4,763 million, accounting for 4.85% of the total; and the rest of the investment amounted to RMB26,063 million, accounting for 26.54%.

In the national wealth management capability ranking report for the first quarter of 2019 issued by PY Standard, the Bank ranked 1st in terms of comprehensive wealth management capabilities, profitability, risk management capabilities and diversification of wealth management products among rural financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Others

The Bank continued to promote the construction of Zhujiang financial institutions cooperation platform, actively expand the platform cooperation institutions, and strengthen the breadth and depth of business cooperation with the small and medium banks.

The Bank proactively carried out debt securities undertaking and distribution business. The Bank was awarded “Outstanding Institution for the First Stage of Financial Bond Underwriting Performance in 2019 (2019年度第一階段金融債券承銷表現突出機構)” by the Export-Import Bank of China.

The Bank promoted the steady development of the asset custody business and provided customers with efficient and quality services on settlement, accounting and investment supervision, etc. In the first half of 2019, the average daily size of asset custody of the Bank was RMB421,734 million.

IV. Financial Business for SMEs

In the first half of 2019, the inclusive and SME businesses of the Bank grew steadily. As of June 30, 2019, according to the basis of CBRC, the number of SME loan customers of the Bank was 17,144, an increase of 2,793 over the beginning of 2019. The balance of SME loans of the Bank amounted to RMB125,629 million, an increase of RMB15,036 million, or 13.60%, over the beginning of the year.

(I) Team Building

With a vertically integrated management model established, the Bank continued to cultivate efficient and orderly marketing teams. The inclusive and SME business management department in the head office manages 12 inclusive and SME business head offices through a centralized system, and the regional inclusive and SME business head offices manage 33 SME marketing teams, while attaching importance to the cultivation of employees’ professional quality and business skills and building professional and high-performance teams.

(II) Promoting Businesses

Under the organizational structure of setting up regional inclusive and SME businesses head offices and the professional marketing teams in Guangzhou, the Bank further implemented the mechanism of regional offices where inclusive teams are stationed in an effort to penetrate into the communities in the regions and villages through the support of community banks, serving the customers within 1 km radius of community banks with in-depth and thorough customer services, thereby improving the accuracy and coverage of customer services. The Bank launched the “Sunshine Cooperation and Growth Plan” (太陽光合 • 成長計劃), and for customers with increased comprehensive contribution, appropriately reduced loan costs and encouraged customers to grow together with the “Sun Inclusive” brand.

(III) Product Innovation

The Bank launched the “Sun Inclusive” (太陽普惠) brand series based on the categories of villagers and non-villagers and online and offline, with financial products of inclusive and SME businesses such as “Sun • SME Loans (太陽 • 小微貸), Sun • Micro E-loan (太陽 • 微E貸), Sun • Business Loans for Villagers (太陽 • 村民致富貸), Sun • Villager E-loan (太陽 • 村民E貸)” being the focus of development.

(IV) Technological Support

In line with the new online and offline retail formats for the synchronous development of SMEs and individual proprietors, and on the premise of strictly implementing compliance requirements, the Bank actively promoted cooperation with well-known third-party e-commerce platforms and big data institutions in China so as to gradually achieve transformation of SME and inclusive businesses in batches based on scenarios.

V. Sannong Financial Business

In order to thoroughly carry out the major decisions and arrangements in relation to the implementation of the rural revitalization strategy, the Bank has always adhered to the business objective of serving Sannong and provided diversified financial support for the healthy development of Sannong in localities and the implementation of the rural revitalization strategy by creating new financial service models for Sannong such as the “Realizing Hopes of Thousand Villages and Supporting the Village Community” project.

(I) Adhering to the Positioning of Serving Sannong and Promoting the Growth of Agriculture-related Businesses

The Bank has always adhered to its business orientation of serving Sannong, continuously optimized its financial system for serving to rural revitalization, further increased agricultural loans, and offered preferential policies in staffing, resource allocation, internal capital transfer pricing, cost arrangement and appraisal incentives to promote the growth of agriculture-related businesses. As of the end of June 2019, the balance of the Bank’s agricultural loans amounted to RMB36,394 million, up RMB5,593 million or 18.16% from the beginning of the year.

(II) Comprehensive Review of Policies and Formulation of a Three-Year Action Plan for Rural Revitalization

In order to actively implement and promote the Three-Year Action Plan for Guangzhou to Implement the Rural Revitalization Strategy (2018-2020) (廣州市實施鄉村振興戰略三年行動計劃(2018-2020年)) and relevant guiding policies, the Bank formulated the Three-year Action Plan for Guangzhou Rural Commercial Bank to Promote the Rural Revitalization Strategy (2018-2020) (2019 Revision) (廣州農村商業銀行推進鄉村振興戰略三年行動計劃(2018-2020年)(2019年修訂)) by comprehensively reviewing the policy documents of leading units at all levels on rural revitalization in line with the actual business situation of the Bank, which will promote financial support for the implementation of rural revitalization.

(III) Specifying Sannong Policy Orientation and Bolstering Growth of Credits for Rural Revitalization

At the beginning of 2019, the Bank formulated the basic credit policy for the year, which clearly specifies the important positioning of serving Sannong and the rural revitalization from the policy perspective. The first one is to offer certain preferential policies to urban renovation and reconstruction projects on the premise of regulatory compliance. The second is the simultaneous introduction of segment policies in relation to Sannong for boosting rural revitalization. The third is to expand the leading industry chain business centering on the agricultural supply side structural reform and agricultural modernization, and smooth out the risks related to industrial cycle through long-term cooperation. The fourth is to implement regulatory requirements in line with financial and civil affairs to ensure successful distribution of microfinance for poverty alleviation.

(IV) Establishment of Special Approval Channel for Sannong and Serving Rural Revitalization

In response to the requirements of regulatory agencies, the Bank established an approval channel for financial services for Sannong in early 2019 in order to further ensure success in serving rural revitalization. Also, the Bank set up an express approval channel for inclusive business, simplified the business approval process and improved service efficiency under the premise of keeping risks under control. At present, there are two professional investigation and approval teams under the approval channel for financial services for Sannong, equipped with one level-I and one level-II person responsible for approval and four dedicated persons responsible for investigation to provide professional and efficient investigation and approval services for inclusive Sannong.

(V) *Enhancing Innovations in Saving Products to Meet Needs of Village Customers*

In the first half of 2019, the Bank simplified the approval of preferential interest rates, improved product pricing, and increased service channels. The Bank also enriched the special products for village communities and village customers based on the characteristics of their needs. For example, the Bank reduced the minimum deposit amount to RMB10,000 for the “Happy Deposit” festival theme series deposit products, thereby improving the promotion of deposit products. As of the end of June 2019, the Bank issued 25 wealth management products exclusively for village communities, raising RMB3,582 million.

(VI) *In-depth Implementation of “Thousand Enterprises Help Thousand Villages” (千企幫千村) and Achieving Win-Win Results in Pairing Assistance*

Proactively responding to the call of the Guangzhou Municipal Party Committee and Municipal Government for the implementation of rural revitalization strategy in the “Thousand Enterprises Help Thousand Villages” campaign, the Bank established pairing assistance relationship with Gaoping Village, Aotou Town, Conghua District. In the first half of 2019, the Bank planned to make substantial contributions to poverty alleviation through industrial assistance by means of deployment research, investigation led by bank leaders, and formulation of plans. The Bank also organized leading enterprises to visit Gaoping Village for field research to investigate the feasibility of poverty alleviation through industrial assistance and discuss the details of relevant projects.

(VII) *Deepening Targeted Poverty Alleviation and Effectively Promoting Rural Revitalization*

In 2019, the Bank actively promoted the “Yuewang Model” (粵旺模式) for poverty alleviation through industrial assistance, coordinated leading agricultural enterprises to bring in high-quality entities for poverty alleviation through industrial assistance. By means of a variety of industrial assistance models and through the introduction of entities including Yuewang Group (粵旺集團), Tiansheng Weikang Group (天生衛康集團), and Hengxing Fishery Group (恒興水產集團), the Bank explored new ways of poverty alleviation through industrial assistance.

On the other hand, by relying on the e-commerce platform “Sun Market” (太陽集市), the Bank has successfully introduced a professional poverty alleviation cooperative enterprise, Qingyuan Qingpin E-Commerce Co., Ltd. (清遠市清貧電子商務有限公司) so as to showcase and sell agricultural products from poverty-stricken areas for impoverished households through the establishment of a linking mechanism for the production and marketing of such products. The Bank established an integrated trading system for online and offline Internet transactions to ensure the smooth flow of sales channels for agricultural products in rural areas.

(VIII) *Continuous Efforts to Thoroughly Carry out the Special Task of “Realizing Hopes of Thousand Villages and Supporting the Village Community”*

In 2019, the Bank continued to carry out the special task of “Realizing Hopes of Thousand Villages and Supporting the Village Community”. The task of “Realizing Hopes of Thousand Villages and Supporting the Village Community” is a long-term rural financial special task carried out by the Bank to implement the relevant spirits of the provincial and municipal initiatives. Through the “Six Goods” project of village community business (including conducting good on-site inspection of village community, delegating good personnel to provide rural financial services, organizing good football matches, publishing a good journal, delivering good performance in social welfare and providing good Internet services), the Bank promoted inclusive finance so as to assist in the revitalization of the village community.

VI. Distribution Channels

(I) Physical Outlets

As of June 30, 2019, the Bank had 632 operating outlets, of which 619 were located in the Guangzhou region and 13 were non-local outlets in the province. The number of outlets of the Bank in the Guangzhou region accounted for approximately 23% of the total number of outlets of banks in the Guangzhou region, ranking first. The Bank operated five non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai, seven sub-branches (of which one sub-branch was newly established in 2019) and one sub-office.

(II) Self-service Banking

As of June 30, 2019, the Bank has established 163 24-hour self-service banking facilities and the number of ATMs and self-service inquiry terminals amounted to 2,859, among which the number of ATMs in operation was 2,058, while the number of self-service inquiry terminals in operation was 801.

(III) Smart Banking

As of June 30, 2019, the Bank had a total of 56 smart banking outlets and smart facilities included VTM and STM. Transactions worth RMB4,100 million have been settled.

(IV) Internet Finance

The Bank has always adhered to the concept of “opening up innovation and cooperation for a win-win situation”. With this in mind, it constantly explored new modes of Internet finance development, and strived to build an “Internet + Inclusive” integrated financial platform. Through the core platforms and functions such as direct banking, mobile banking, Internet banking, new-type payment and online mall, the Bank provided online and offline integrated financial services to more customers.

1. Direct banking

The Bank has been constantly improving the product and service system for its direct banking service and kept on innovating in user-centric scenarios-integration. It has injected the power of fintech into inclusive finance, and embedded an “online ID” function into its direct banking service, through which an “online ID” can be used in government affairs, transportation, hotels, Internet cafes and other scenarios instead of physical ID cards, which is an easier way to prove who you are. Through the quick accesses to living consumption, transportation and other convenient living scenes, the Bank has launched a series of value-added services such as smart parking, online movie tickets and others. It has innovatively launched an application model of Internet deposit-guaranteed consumption scenario – “online deposit for free mobile phone” business. As of June 30, 2019, the number of the Bank’s direct banking customers was approximately 876,900. The amount of financial product transactions was RMB11,315 million.

2. Online mall (Sun Market (太陽集市))

The Sun Market strived to integrate the advantageous agricultural service resources to implement the disintermediation of the agricultural industry chain, thereby establishing a new golden age for the transformation and upgrade of modern agricultural enterprises and farmers. A new mode of poverty alleviation through the industry of “Internet + Agriculture Industry Leader + Base + Farmer” was explored proactively, by which Sun Market could fully exert its new leading function of helping to alleviate poverty. By establishing an integrated online and offline Internet trading system, the Bank has launched a new “retailing” model of dual-channel shopping in both physical stores and online malls and achieved the provision of one-stop service for the display and sales of poverty alleviation products, which facilitated the purchase of agricultural and sideline products for customers, and at the same time, contributed in the truly going out of poverty alleviation commodities and a quick well-off realization of the poor farmer households. As of June 30, 2019, the number of Sun Market’s customers was approximately 350,000. The Bank received approximately 203,700 orders, an increase of 292% year-on-year, while the total transaction amount amounted to RMB27,596,200, an increase of 182% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Mobile banking*

Through effectively integrating traditional financial services and life value-added services and improving the intelligence of inclusive finance, the Bank has been constantly upgrading the functions of its mobile banking service to enhance customer experience. As of June 30, 2019, the numbers of the Bank's mobile banking individual customers and corporate customers were 4,035,000 and 14,800, respectively. The Bank's mobile banking made 6.4415 million financial transactions with the monetary amount of RMB167,700 million. For the six months ended June 30, 2019, the Bank's corporate customers made 0.1721 million financial transactions with the monetary amount of RMB8,368 million.

4. *Internet banking*

The Bank continued to improve the financial products and value-added services for its Internet banking service. As a traditional online platform, Internet banking has the characteristics of security, reliability, powerful function, abundant information and etc. Complementary with mobile banking, Internet banking continues to provide the Bank's customers with high-quality and convenient electronic financial services. The Bank has launched the mobile phone number payment function, through which a bank account number is not needed to be input when making payment, and customers can easily complete their inter-bank payments by binding his/her mobile phone number to the bank accounts. The Bank has also launched the appointment for payroll service function, by which it continued to assume the mission of being the main channel for enterprises' electronic settlement, and continuously improved its business functions so as to enhance customer experience. As of June 30, 2019, the number of the Bank's personal Internet banking customers was 2,121,000, while the number of corporate Internet banking customers reached 24,600. The Bank's personal Internet banking customers made 3.2789 million financial transactions with the transaction amount of RMB132,996 million. For the six months ended June 30, 2019, corporate Internet banking customers made 0.8014 million financial transactions with the transaction amount of RMB391,451 million.

5. *New-type payment*

The new-type payment has built up a comprehensive C-segment payment system, and created a characteristic B-segment acquiring product. The Bank has intensified the construction and development of convenient scenes in depth and breadth, focusing on the development of convenient scenarios such as medical treatment, education, public transportation, agricultural villages, culture and sports. The Bank has built a demonstration business circle for the convenience project of mobile payment in Conghua Xitang Village (從化西塘村), Lianma Village (蓮麻村) and Panyu Shawan Ancient Town (番禺沙灣古鎮), and contributed itself in the rural revitalization strategy. To support the development of light capital operation of small and micro businesses, the Bank launched an acquiring product under "Sun Intelligent Pay * Zhujiang Cashier (太陽智付*珠江收銀)", which integrated the functions of front-end cashier, fund settlement and back-end reconciliation at the merchants side and the online examination and approval of merchants' incoming documents at the bank side. As of June 30, 2019, the trading volume of the Bank's new-type payment was 201 million amounting to RMB150,112 million.

VII. Principal Subsidiaries

Zhujiang County Bank is a general name for the village and township banks established by the Bank as a major promoter. The establishment of village and township banks is of great significance for performing social responsibility by the Bank, promoting the development strategies of “rural revitalization” and inclusive finance, increasing the breadth and depth of the service to new rural construction, expanding the space of business growth and establishing a sustainable model for the growth of profit of the Bank. During the Reporting Period, the Bank put more efforts in the management of the village and township banks and steadily improved the operations of the village and township banks. As of June 30, 2019, the Bank established 25 Zhujiang County Banks in 9 provinces and cities of China.

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

As holding subsidiaries of the Bank, Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. and Chaozhou Rural Commercial Bank Co., Ltd. (潮州農村商業銀行股份有限公司) were incorporated and commenced operation in December 2017 and June 2019, respectively, with registered capital of RMB600 million and RMB2,630 million, respectively. They are mainly engaged in monetary financial business.

VIII. Information Technology

In the first half of 2019, the Bank proactively propelled the establishment of information system and continuously intensified the supporting role of information technology in the development of banking business. In the first half of 2019, all important information systems of the Bank maintained a stable operation, and no unplanned system outages occurred. The networks operated stably.

(I) Technology Governance

The Bank focused on enhancing the ability of science and technology governance and the improvement in the capabilities of technology management. The Innovation and Technology Construction Committee under the senior management of the Bank organized and convened multiple meetings, at which important proposals were considered, including the Technology Construction Plan Report for 2019, Information Technology External Auditing Report for 2018 and Information Technology Regulatory Rating Report for 2018. The bank implemented the market-oriented competition reform for performance of the research and development team, improved the software research and development management system, strengthened IT infrastructure management and enhanced the technology outsourcing management, which effectively improved the capacity of science and technology in terms of independent research and development and business support. In the regulatory rating results published by the regulatory authorities in the first half of the year, the Bank’s information technology regulatory rating has been upgraded by one level, achieving level improvement for consecutive two years.

(II) Information Security Guarantee

In the first half of 2019, the Bank continuously constructed and improved the information security management and protection system, supplemented and formulated two parts of the information security management system and carried out information security trainings twice. The Bank also implemented the campaign of “Network Protection 2019”, adopting the measures including the deployment of application protection walls and third-party penetration testing to comprehensively strengthen network security, business security and data security.

(III) Business Continuity Management

The Bank formulated and carried out the annual key work implementation plan for business continuity management, covering important business emergency plan revisions, important business continuity drills, important information system disaster recovery backup switch drills and emergency drills for important business premises etc., which has further enhanced important business emergency plan operability and emergency response capabilities. In the first half of 2019, the Bank completed the local availability switch drills of five batches of 68 business systems. By the implementation of storage of local projects with high availability, the core, integrated front-bank, ATMP and other important system data were placed in the local dual-storage groups with high availability, achieving real-time and dual data writing, which has effectively reduced the risks of single storage failure affecting application system accesses and has enhanced the infrastructure support capability of the Bank’s important system business continuity, with an aim of meeting the expected goal of improving the local high-availability guarantee capability.

(IV) Development of Information Technology

The Bank fully promoted system establishment in respect of the Internet finance and retail business system, corporate and interbank market business system, big data innovative application, credit card system activation, internal operation management system, with 15 system projects, including the SMS platform transformation, customer service intelligent voice and semantic analysis and data mining, merchant full-channel cashier system, credit card collection and approval, integrated corporate financial platform, value-added tax on wealth management, smart CPC organization development system, retail anti-fraud system and data laboratories, etc., commencing operation in the first half of 2019.

The Bank strived to research and implement the exploration and practice of big-data technology, so as to further optimize the data service structure and demonstrate the value of data application through the construction of big-data platform and data laboratories and the BI tool for self-service inquiry of dynamic financial statements. Converging online and offline data, the Bank initially formed a “Data Lake” to promote the continuous and steady improvement of data quality.

IX. Human Resources Management

(1) *Human Resources Management*

As of June 30, 2019, the Bank had 11,302 regular employees, of which 7,178 employees entered into labor contracts with the Bank, representing a decrease of 43 as compared to the beginning of the year, and 4,807 employees held bachelor's degrees or above, accounting for 66.97% of all the Bank's regular employees.

(2) *Training*

The Bank stayed committed to the improvement of the occupational quality of staff. The Bank went on perfecting our internal corporate university "Zhujiang Business School". By adhering to the learning philosophy of the "unity of knowledge and action" and based on the working requirements for 2019, the Bank continued to strengthen business drive, highlight its leading role in management and market-oriented function, link the front, middle and back office departments, innovate online and offline learning methods, integrate resources inside and outside the Bank, and promote staff education and training throughout the Bank in a planned way. In the first half of 2019, more than 230 training programs were organized and launched, which covered a total of over 20,000 attendees across all levels of employees. Meanwhile, by fully leveraging the mobile learning system platform, 190 courses were provided for all employees in the system and 22 hours of online learning per individual was recorded.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK MANAGEMENT

In the first half of 2019, the Group strictly complied with the requirements of regulatory policies, endeavoured to thoroughly implement the concept of comprehensive risk management and adopted the risk management strategy for the conversion period by taking a series of measures, such as risk prevention activities and absolute collection activities, with the risk prevention project as the core, thereby reinforcing our business process management and human behaviour control and enhancing the capabilities and levels to prevent and control risks and support the stable business development.

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

I. Credit Risk Management

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

With a view to enhancing the capabilities and levels of credit risk management and control, the Group earnestly implemented the state's regulatory policies, and continued to improve the management structure, mechanism and process, personnel management, system, tool, etc. First of all, it reinforced vertical management of risks by providing a risk control team from operating agencies to implement the risk management policies, systems and processes formulated by the head office to strengthen the whole process for the management of the credit business. Secondly, it optimized the credit policy and investment policy by further tightening the access to the industries, customers and products that were deeply affected by the conversion period to improve the effectiveness of risk filtering. Thirdly, it improved the approval authority and process arrangement at all levels of the credit business according to the needs of the structural adjustment. Fourthly, it promoted the optimization of the credit business structure by strictly controlling businesses in other regions and formulating the satisfaction management plan for the credit business to improve the satisfaction of business development. Fifthly, it boosted the establishment of project group for the risk management system, by introducing new cutting-edge technologies and tools to improve the risk management capabilities and levels. Sixthly, it strengthened the performance assessments and skill trainings for the resident compliance and risk directors, risk control team and review and approval personnel to enhance the enthusiasm and professional skills. Seventhly, it improved the accountability management system by introducing the concept of key personnel in charge of operation and establishing an examination and accountability mechanism with equal responsibilities, powers and interests to improve accuracy of the accountability.

II. Liquidity Risk Management

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

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

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

In the first half of 2019, the Group continued to implement liquidity risk policies and various measures for liquidity risk management, and enhanced the uniform and centralized management of liquidity risk. The specific management measures included: Firstly, the Group ensured the management of daily capital positions to conduct centralized management of funds of the Bank, and conducted timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Group included the requirements for liquidity risk management into its business plan to ensure limiting the existing quality liquidity assets within a safe range. Thirdly, based on the risk preference in liquidity risk approved by the Board of Directors, the Group formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure liquidity risk is under control. Fourthly, the Group monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Group carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability, and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis.

In the first half of 2019, the overall liquidity risks of the Group were under control, without any significant liquidity risk incidents. All key liquidity risk indicators of each month were able to meet the standards, and results of the stress test showed that the Bank had adequate risk mitigating capability to deal with crises under pressure.

III. Market Risk Management

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

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

In China, as interest rates become more market-oriented, changes in interest rate risk became more complex and interest rate risks become more closely correlated with other risks of banks. The Group remained concerned about changes in currency policies and market prices, and took a number of measures to enhance the capability to manage market risk. Firstly, it strictly abided by regulatory requirements by strictly regulating new business management in accordance with new regulatory regulations and regulatory inspections. Secondly, it formulated the annual basic investment policy and took measures including admission, concentration, leverage, duration, warning and stop-loss according to various risk characteristics portfolios to enhance market risk management, and monitored regularly the implementation of the policy at the same time and made dynamic adjustment to such policy based on internal and external changes. Thirdly, it implemented the market risk monitoring mechanism by monitoring the profit or loss of the bond on a daily basis, following the market value and profitability of the bond business of the Bank to make a report on market risk analysis on a monthly basis and then conduct monitoring analysis on investment scale, limit execution, investment profit or loss, etc. Fourthly, it strengthened the cultivation of market risk management talents by increasing internal trainings, conducting trainings on regulatory and investment policies to enrich the theoretical knowledge of all office personnel and strengthen the awareness of risk control.

IV. Operational Risk Management

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

In the first half of 2019, the Bank continued to strengthen the standardization and management of business procedures and prevent operational risks. Firstly, the Bank steadily carried out business continuity management and enhanced the important business continuity plan, to further improve the important business emergency plan revisions and strengthen the personnel management of emergency organization system. Secondly, the Bank reconstructed the quantitative index system for monitoring the information technology risk, and carried out the development and testing of information technology and the risk assessment for information security. Thirdly, the Bank conducted on-site inspection for the important information technology outsourcing service providers.

V. Implementation of the New Basel Capital Accord

To comply with regulatory requirements, the Group moved ahead with the new Basel capital accord and progressively set up a risk measurement model laboratory to develop various risk measurement and monitoring models. The total number of models developed has been increasing and the significance and representation of the model continued to expand. Besides, the Bank built a comprehensive risk measurement system that satisfied functional requirements in connection with the Bank's risk preference, risk limit, capital assessment and stress test. In the first half of 2019, the criteria of the Bank's capital measurement standard approach were satisfied, and the basic conditions of the advanced capital measurement approach (the foundation internal rating-based approach) were basically in place. The continuous optimization and improvement of project framework system laid a solid foundation for the Bank to realize the digital transformation of risk management.

In the first half of 2019, the Bank issued the 2019 risk preference statement and index system. Comprehensive stress testing in risk management, risk identification assessment in the second pillar of New Basel Capital Accord, and Internal Capital Adequacy Assessment Process (ICAAP) were carried out. The Bank proceeded with the work to meet the requirements of IFRS 9 concerning impairment disclosure and impairment measurement systems, while a risk early warning model for corporate customers was developed through researches and studies. At the same time, relevant research work on the third pillar of the New Basel Capital Accord was carried out according to the requirements of regulatory authorities.

VI. Anti-money Laundering Conditions

In the first half of 2019, the Group fulfilled its anti-money laundering responsibilities and obligations, comprehensively benchmarked internal efforts against the Guidelines for the Management of Money Laundering and Terrorist Financing Risks of Corporate Financial Institutions (for Trial Implementation), and improved our anti-money laundering work and system. Effective management and control measures were taken in areas with significant risk exposures. The management practice for anti-money laundering has been improving and the ability to guard against money laundering risks has been enhanced.

In the first half of 2019, staff training programs and publicity works were carried out through on-site and off-site training, production of online advocacy soft-text on WeChat, publicity messages on outlet electronic display panel, and through visiting villages and cooperatives, etc., to continuously improve the professional quality of employees and enhance the public's anti-money laundering awareness. More than 1,600 employees participated in these on-site and off-site training programs.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit management system. The Bank has an audit committee under the Board of Directors. The audit committee guides, assesses and evaluates the internal audit work of the Bank based on the authorization of the Board of Directors while the audit and supervision committee under the Board of Supervisors supervises and gives guidance for the internal audit work. The internal audit department reports the audit work to the Board of Directors or its audit committee, the Board of Supervisors or its audit and supervision committee regularly, submits audit report on a timely basis and circulates it to the senior management. The internal audit department fully performed the audit supervisory function known as the third line of defence of risk management. Through audit and evaluation, the internal audit department continued to improve the Bank's corporate governance, risk management and internal control, and facilitate the Bank to strengthen its operation management, enhance level of internal control management, curb irregularities of staff members, eliminate hidden risks and hazards as well as safeguard the steady development of business.

During the Reporting Period, adhering to the audit objectives of promoting and strengthening internal control, improving internal management and enhancing economic efficiency, the internal audit department fully implemented the work arrangements of the party committee, the Board of Directors, the Board of Supervisors and the Bank's leaders. Systematic and standardized audit methods were utilized to conduct special audits on business areas such as performance appraisal, information technology, comprehensive risk management, business continuity management and recovery of non-performing assets. Also, the internal audit department conducted internal control evaluation audits on the whole Bank, successfully enhanced the overall improvement of the Bank's internal control, and facilitated the sustainable and stable development of various business segments. By utilizing innovating management methods and improving functions of the audit system, whole process management was achieved regarding the audit function. The internal audit department also rotated the tasks among audit personnel within the department through two-way selection, thereby making the best use of human resources by putting them in the right positions, and achieving the optimal allocation of audit resources. Moreover, the internal audit department made it a norm for promoting the professionalism in auditing. Through rationalising business procedures, formulating audit guidelines and training, the internal audit department achieved the sharing of audit information and experience, and improved the professional quality of audit staff members.

OUTLOOK

During the first half of 2019, China's economic growth was challenged by complicated internal and external environments. The major developed countries such as the United States, Japan and those in Europe saw their economies slowing down together with many developing countries, and the deterioration of the external environment has exacerbated the downward pressure on the domestic economy. Trade frictions intensified and became a drag on exports. Investment in fixed assets continued to weaken which hampered economic growth. Factors such as sluggish automobile sales fettered the expansion of domestic demand. The impact of the Baoshang Bank incident continued to ferment with risk appetite of the market declining sharply. Looking ahead to the second half of the year, economic growth will still face substantial downside risk although there remain some positive factors. The Sino-US trade negotiation is a winding path that comes with high uncertainty. Exports will continue to be under pressure which does not favor the restoration of investment confidence. With the emerging effect of policies to stimulate consumption in areas such as automobiles and home appliances, domestic demand may be able to achieve a certain extent of growth. The special purpose debt policy is being gradually implemented while infrastructure construction may be sped up, supporting overall economic growth.

In the face of unfavorable internal and external environment, the Bank maintained sound operations in the first half of 2019 with total assets growing steadily, profit growth and asset quality together with other performance indicators keeping at a satisfying level. In the second half of the year, the Bank will flexibly adjust its business strategies according to changes in the macro environment, strengthen its business innovation capabilities, better serve enterprises in the real economy.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Unit: Share, %

	December 31, 2018		Change during the Reporting Period	June 30, 2019	
	Quantity	Proportion	Amount of change	Quantity	Proportion
Total share capital	9,808,268,539	100	-	9,808,268,539	100
Non-overseas listed shares held by legal persons	5,584,950,888	56.94	-82,800,000	5,502,150,888	56.10
Including: Shares held by state-owned legal person shareholders	1,796,589,712	18.32	-	1,796,589,712	18.32
Non-overseas listed shares held by natural persons	2,402,982,651	24.50	82,800,000	2,485,782,651	25.34
Including: Shares held by internal staff members	370,778,208	3.78	-	370,778,208	3.78
Overseas listed foreign shares	1,820,335,000	18.56	-	1,820,335,000	18.56

Notes:

- As of the end of the Reporting Period, the total number of domestic shareholders of the Bank was 29,155, and the total number of shareholders of H Shares was 96 (of which HKSCC Nominees Limited, as a nominee, acted on behalf of several shareholders).
- The shares held by state-owned legal persons represent the non-overseas listed shares of the Bank held by 14 state-owned legal person shareholders, including Guangzhou Finance Holdings Group Co., Ltd., Guangzhou Pearl River Enterprises Group Co., Ltd., etc.

II. SHAREHOLDINGS OF SHAREHOLDERS

(I) Total Number of Shareholders

As of June 30, 2019, the Bank had a total share capital of 9,808 million shares, comprising 7,988 million non-overseas listed shares and 1,820 million overseas listed shares. There were 716 legal person shareholders in possession of 5,502 million non-overseas listed shares, accounting for 56.10% of the total share capital. Among which, 14 were state-owned shareholders in possession of 1,797 million shares, accounting for 18.32% of the total share capital, while 28,439 were natural person shareholders in possession of 2,486 million non-overseas listed shares, accounting for 25.34% of the total share capital.

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

As of the end of the Reporting Period, the top ten shareholders of GRCB together held 41.56% of the Bank's total share capital, with no single holder of domestic shares having control of more than 5% of the total share capital, marking a dispersed shareholding structure. Among the top ten shareholders, the largest domestic shareholder was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of the total share capital. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of the total share capital, and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of the total share capital. These top three domestic shareholders are all enterprises solely-owned by the state.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

As at June 30, 2019, the top ten shareholders are as follows:

No.	Name	Class of shareholder	Nature of shareholder	Number of shares	Shareholding proportion (%)
1	HKSCC Nominees Limited	H Shares	Other	1,819,973,950	18.56
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Domestic Shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Domestic Shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Domestic Shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Domestic Shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Domestic Shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司)	Domestic Shares	State-owned legal person	191,749,019	1.95
8	Nanjing Gaoke Co., Ltd. (南京高科股份有限公司)	Domestic Shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司)	Domestic Shares	Non-state-owned legal person	160,020,000	1.63
10	Shenzhen Weilu Investment Holding Co., Ltd. (深圳市偉祿投資控股有限公司)	Domestic Shares	Non-state-owned legal person	140,010,000	1.43
Total				4,076,646,834	41.56

Note:

1. HKSCC Nominees Limited, as a nominee, held 1,819,973,950 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.56% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for clients.
2. The above proportions are calculated on the basis of the total share capital of the Bank of 9,808,268,539 shares.
3. As of the end of the Reporting Period, 0 non-overseas listed share of the Bank was involved in judicial freezing, representing 0% of the total share capital of the Bank.

(III) Internal Staff Members' Shareholdings

As of June 30, 2019, the Bank had a total of 5,688 internal staff member shareholders, holding 370 million shares, which accounted for 3.78% of the total share capital of the Bank.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

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

Based on the knowledge of the directors or chief executives of the Bank, as at June 30, 2019, the following persons (other than the directors, supervisors or chief executive of the Bank) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO with details as follows:

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) These 1,786,589,712 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 9,152,261 shares directly held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司).

By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司), which are controlled by Guangzhou Municipal People's Government.

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

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(V) Major Shareholders

As at the end of the Reporting Period, there were no legal person shareholders holding 5% or more of the total share capital of the Bank, nor were there any other natural persons (employees or non-employees) holding 5% or more of the total share capital of the Bank. Guangzhou Municipal People's Government indirectly held 18.22% of shares of the Bank through 13 legal person shareholders which are under its control, representing 1,786,589,712 shares;

As of the Latest Practicable Date, Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司), Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司) and Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) delegated Li Fangjin, Su Zhigang, Zhang Yongming, Liu Guojie and Zhu Kelin as directors of the Bank, respectively; and Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司) delegated Huang Yong and Zhang Dalin as supervisors of the Bank, respectively. The above companies are major shareholders of the Bank.

As of June 30, 2019, the pledge proportion of Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司) as the Bank's major shareholders was more than 50%, respectively.

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

1. Issuance and listing of offshore preference shares

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

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

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. *Number of offshore preference shareholders and shareholdings*

As of the end of the Reporting Period, the total number of offshore preference shareholders of the Bank was 1.

Top 10 offshore preference shareholders (or their nominees) of the Bank are as follows (the following data are based on the register of offshore preference shareholders as at June 30, 2019):

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

Notes:

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

3. *Profit distribution of the Offshore Preference Shares*

Dividends of preference shares would be paid in cash by the Bank to preference shareholders. Each dividend will be payable annually in arrears on the dividend payment date. The first dividend payment date will be June 20, 2020. During the Reporting Period, the Offshore Preference Shares issued by the Bank were not yet due for dividend distribution, and no dividends on Offshore Preference Shares have been distributed. An announcement on payment of dividends for the Offshore Preference Shares will be published by the Bank separately as and when appropriate.

4. *Other information on the Offshore Preference Shares*

During the Reporting Period, no Offshore Preference Shares have been repurchased, converted into ordinary shares or had their voting rights restored. And there was no experience of any trigger event in which the Offshore Preference Shares need to be coercively converted into H Shares.

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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. DIRECTORS OF THE BANK

As of June 30, 2019, the Board of Directors of the Bank comprised a total of 13 directors, including two executive directors, namely Mr. Wang Jikang (Secretary of the Party Committee and Chairman) and Mr. Yi Xuefei (Deputy Secretary of the Party Committee, Vice Chairman and President); six non-executive directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Shao Jianming, Mr. Zhang Yongming, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond.

Mr. Wang Jikang and Mr. Shao Jianming resigned as directors of the Bank on July 19, 2019 and August 14, 2019, respectively. Please refer to relevant announcements of the Bank for details.

II. SUPERVISORS OF THE BANK

As of June 30, 2019, the Board of Supervisors of the Bank comprised a total of eight supervisors, including three employee representative supervisors, namely Ms. Wang Xigui, Ms. He Heng, and Mr. Lai Jiaxiong; three external supervisors, namely Mr. Mao Yunshi, Mr. Chen Dan, and Mr. Shao Baohua; and two shareholder representative supervisors, namely Mr. Huang Yong and Mr. Zhang Dalin.

III. SENIOR MANAGEMENT OF THE BANK

As of June 30, 2019, the senior management of the Bank comprised a total of 10 members: Mr. Yi Xuefei (Deputy Secretary of the Party Committee, Vice Chairman and President), Mr. Zuo Yi (Deputy Secretary of the Party Committee, Secretary to Commission for Discipline Inspection); three Vice Presidents, namely Mr. Chen Jianming, Mr. Zhang Dong and Mr. Peng Zhijun; three business directors, namely Ms. Chen Linjun, Mr. Chen Qianhong and Ms. Yang Xuan; Mr. Cai Huiran (Chief Information Officer); and Ms. Zheng Ying (Secretary of the Board of Directors).

IV. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted a code of conduct regarding securities transactions by the directors, supervisors and relevant employees no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors and supervisors, all directors and supervisors of the Bank confirmed that they have complied with the aforesaid code throughout the six months from January 1, 2019 to June 30, 2019.

MAJOR EVENTS

CORPORATE GOVERNANCE

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

From the date of the listing of the Bank on the Hong Kong Stock Exchange to June 30, 2019, the Bank has observed and complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank has complied with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon the approval of the 2018 AGM of the Bank, the Bank distributed cash dividends for 2018 on June 21, 2019 of RMB0.20 per share (tax inclusive) and RMB1,962 million (tax inclusive) in aggregate to holders of domestic shares and holders of H-shares whose names appeared on the register of members of the Bank on June 4, 2019. The Bank did not declare any interim dividend for 2019 (2018: nil).

REPURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

MATERIAL RELATED PARTY TRANSACTIONS

As of the end of the Reporting Period, the loan balance of material related party transactions between the Bank and related parties amounted to RMB3,897 million, accounting for 0.98% of the total loans of the Bank. Loans under the material related party transactions between the Bank and related parties had no negative impact on the operating results and financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the Reporting Period, there were no material legal proceedings or arbitration which had substantial impact on the operation activities of the Bank.

As of the end of the Reporting Period, pending legal proceedings in which the Bank was a defendant or third party involved an amount of RMB41.337 million. In the opinion of the Bank, it will not have any material effect on our operating activities.

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

As of June 30, 2019, based on the information available to the Bank and as far as the directors are aware, the interests or short positions of the directors, supervisors and chief executives of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors', supervisors' and chief executives' interests in the Bank							
Name	Capacity	Nature of interest	Class of shares	Long position/ Short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interests in the Bank	Approximate percentage of the relevant class of shares of the Bank
Wang Jikang	Director	Beneficial owner	Domestic Shares	Long position	500,000	0.005%	0.006%
Yi Xuefei	Director	Beneficial owner	Domestic Shares	Long position	500,000	0.005%	0.006%
Su Zhigang	Director	Interest of a controlled corporation ⁽¹⁾	Domestic Shares	Long position	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Domestic Shares	Long position	1,201,000	0.012%	0.015%
Shao Jianming	Director	Beneficial owner/	Domestic Shares	Long position	405,800	0.004%	0.005%
		Interest of a controlled corporation ⁽²⁾	Domestic Shares	Long position	14,060,000	0.143%	0.176%
Zhang Yongming	Director	Beneficial owner/	Domestic Shares	Long position	11,067,400	0.113%	0.139%
		Interest of a controlled corporation ⁽³⁾	Domestic Shares	Long position	49,010,000	0.500%	0.689%
Liu Guojie	Director	Interest of a controlled corporation ⁽⁴⁾	Domestic Shares	Long position	20,000,000	0.204%	0.250%
Zhang Dalin	Supervisor	Beneficial owner/	Domestic Shares	Long position	1,201,000	0.012%	0.015%
		Interest of a controlled corporation ⁽⁵⁾	Domestic Shares	Long position	5,000,000	0.051%	0.063%
Mao Yunshi	Supervisor	Interest of spouse	Domestic Shares	Long position	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/	Domestic Shares	Long position	1,201,000	0.012%	0.015%
		Interest of spouse/	Domestic Shares	Long position	2,407,000	0.025%	0.030%
		Interest of a controlled corporation ⁽⁶⁾	Domestic Shares	Long position	42,010,000	0.428%	0.526%
Lai Jiaxiong	Supervisor	Beneficial owner	Domestic Shares	Long position	452,224	0.005%	0.006%

MAJOR EVENTS

Notes:

- (1) These shares were held by Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司), which was owned as to 87.14% by Su Zhigang. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司).
- (2) These shares were held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (3) These shares were held by Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), which was owned as to 50% by Zhang Yongming. Therefore, by virtue of the SFO, Zhang Yongming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司).
- (4) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司), which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司).
- (5) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).
- (6) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at June 30, 2019, none of the directors, supervisors and chief executives of the Bank had any interests or short positions in any shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank pursuant to Section 352 of the Hong Kong SFO, or required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

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

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

MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, Chaozhou Rural Commercial Bank (潮州農商銀行), in which the Bank holds 57.72% of the equity interests, officially started operations on June 29, 2019.

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank successfully issued USD1,430 million 5.90% non-cumulative perpetual Offshore Preference Shares in Hong Kong on June 20, 2019. The Offshore Preference Shares had a par value of RMB100 each and were issued as fully paid-up capital in U.S. dollars so that the total issuance price of the Offshore Preference Shares was USD20 each and the total number of shares issued was 71,500,000 shares. Based on the middle price of RMB exchange rate announced by the People's Bank of China on June 20, 2019, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB9,839 million. The proceeds raised from the Offshore Preference Shares issuance, after deduction of the expenses relating to the issuance, were used to replenish the Bank's additional tier 1 capital.

SUBSEQUENT EVENTS

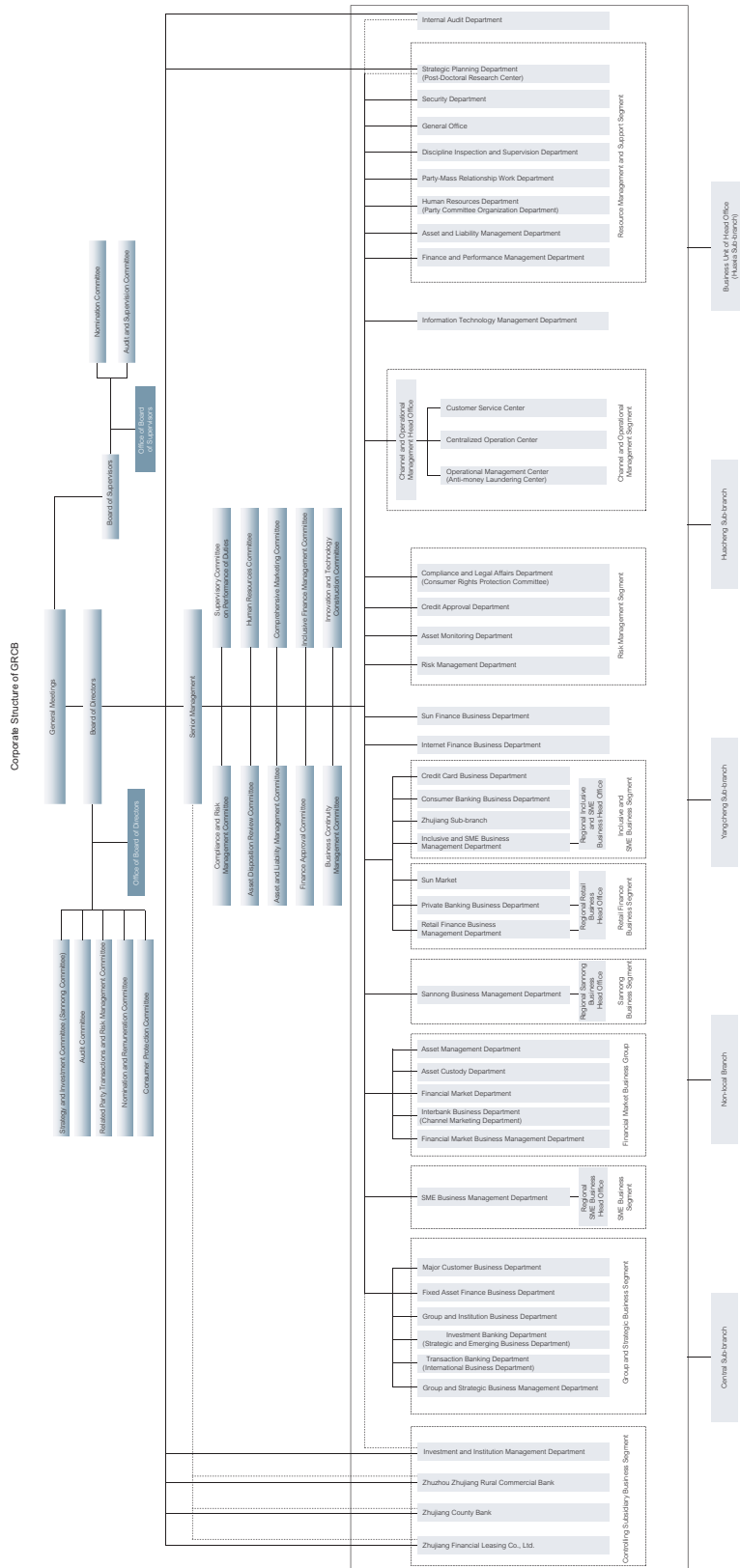
The Bank will continue to promote the restructuring of Shaoguan Rural Credit Union and Nanxiong Rural Credit Union as a strategic investor. As of the Latest Practicable Date, Nanxiong Rural Commercial Bank has formally commenced business operation (please refer to the announcement dated July 17, 2019 of the Bank for details). Shaoguan Rural Commercial Bank is under orderly preparation.

REVIEW OF INTERIM RESULTS

The Bank's interim condensed consolidated financial data for the six months ended June 30, 2019 prepared in accordance with the IFRS has been reviewed by PricewaterhouseCoopers, which has issued an unqualified review report.

The Bank's interim report for the six months ended June 30, 2019 has been reviewed by the audit committee under the Board of Directors of the Bank and the Board of Directors.

CORPORATE STRUCTURE



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

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

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 58 to 150, which comprises the interim condensed consolidated statement of financial position of Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	Six months ended 30 June	
		2019	2018
Interest income	5	15,751,717	13,839,611
Interest expense	5	(8,014,414)	(8,250,428)
Net interest income		7,737,303	5,589,183
Fee and commission income	6	935,229	1,061,170
Fee and commission expense	6	(118,607)	(95,225)
Net fee and commission income		816,622	965,945
Net trading gains	7	2,000,070	2,570,849
Net gains/(losses) on financial investments	8	211,525	(1,041,123)
Other income, gains or losses	9	34,590	90,385
Operating income		10,800,110	8,175,239
Operating expenses	10	(2,701,050)	(2,841,512)
Credit impairment losses, net	11	(3,554,664)	(989,452)
Impairment losses on repossessed assets	11	(436)	(10,908)
Profit before income tax		4,543,960	4,333,367
Income tax expense	12	(871,259)	(942,030)
Net Profit for the period		3,672,701	3,391,337
Attributable to:			
Shareholders of the Bank		3,591,552	3,321,637
Non-controlling interests		81,149	69,700
		3,672,701	3,391,337
Earnings per share for profit attributable to the shareholders of the Bank (RMB yuan) – basic and diluted	14	0.37	0.34

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Six months ended 30 June	
		2019	2018
Net Profit for the period		3,672,701	3,391,337
Other comprehensive income (after tax, net):	36		
Other comprehensive income to be reclassified to profit or loss in subsequent years:			
Fair value changes on financial assets at fair value through other comprehensive income		(110,496)	1,516,101
Expected credit losses of financial assets at fair value through other comprehensive income		762,671	(16,189)
Other comprehensive income not to be reclassified to profit or loss in subsequent years:			
Remeasurement gains/(losses) on defined benefit plans		3,224	(21,186)
Subtotal of other comprehensive income for the period		655,399	1,478,726
Total comprehensive income for the period		4,328,100	4,870,063
Total comprehensive income attributable to:			
Shareholders of the Bank		4,246,886	4,800,363
Non-controlling interests		81,214	69,700
		4,328,100	4,870,063

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	As at 30 June 2019	As at 31 December 2018
ASSETS			
Cash and deposits with central bank	15	88,787,210	101,589,714
Deposits with banks and other financial institutions	16	24,161,827	10,866,562
Placements with banks and other financial institutions	17	30,039,745	15,299,113
Financial assets held under resale agreements	18	9,297,396	29,338,950
Loans and advances to customers	19	434,412,069	364,967,971
Financial investments			
– Financial assets at fair value through profit or loss	20	104,604,396	89,797,155
– Financial assets at fair value through other comprehensive income	21	75,672,087	57,697,751
– Financial assets at amortized cost	22	72,913,135	80,358,225
Property and equipment	23	2,901,043	2,381,741
Goodwill	24	734,237	258,056
Deferred tax assets	25	3,893,073	3,542,727
Other assets	26	5,929,681	7,191,632
Total assets		853,345,899	763,289,597
LIABILITIES			
Borrowings from central bank		4,934,626	2,702,904
Deposits from banks and other financial institutions	27	27,163,614	63,215,965
Placements from banks and other financial institutions	28	935,120	1,553,583
Financial assets sold under repurchase agreements	29	6,531,915	11,817,776
Customer deposits	30	618,863,963	542,335,162
Income tax payable		1,008,379	1,448,438
Debt securities issued	31	104,431,970	65,875,435
Other liabilities	32	19,816,079	18,759,266
Total liabilities		783,685,666	707,708,529

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Note	As at 30 June 2019	As at 31 December 2018
EQUITY			
Share capital	33	9,808,269	9,808,269
Preference shares	34	9,820,734	–
Reserves	35	26,430,595	25,775,261
Retained earnings		18,907,695	17,277,797
Equity attributable to shareholders of the Bank		64,967,293	52,861,327
Non-controlling interests		4,692,940	2,719,741
Total equity		69,660,233	55,581,068
Total liabilities and equity		853,345,899	763,289,597

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

The interim condensed consolidated financial information was approved by the Board of Directors on 28 August 2019 and were signed on its behalf by:

Yi Xuefei
Vice Chairman

Peng Zhijun
Chief Financial Officer

Ding Bin
Head of Financial Department

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to shareholders of the Bank										Non-Controlling interests	Total
	Reserves					Remeasurement						
	Share capital	Preference shares	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	gains/(losses) on defined benefit plans	Retained earnings	Subtotal	Total		
	Note 33	Note 34								Note 35		
Balance at 1 January 2019	9,808,269	-	10,860,995	4,398,573	9,448,545	1,082,026	(14,878)	25,775,261	17,277,797	52,861,327	2,719,741	55,581,068
Net profit for the period	-	-	-	-	-	-	-	-	3,591,552	3,591,552	81,149	3,672,701
Other comprehensive income for the period	-	-	-	-	-	652,110	3,224	655,334	-	655,334	65	655,399
Total comprehensive income	-	-	-	-	-	652,110	3,224	655,334	3,591,552	4,246,886	81,214	4,328,100
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	26,000	26,000
Issuance of preference shares	-	9,820,734	-	-	-	-	-	-	-	9,820,734	-	9,820,734
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	1,907,675	1,907,675
Dividends declared and paid	-	-	-	-	-	-	-	-	(1,961,654)	(1,961,654)	(41,690)	(2,003,344)
Balance at 30 June 2019	9,808,269	9,820,734	10,860,995	4,398,573	9,448,545	1,734,136	(11,654)	26,430,595	18,907,695	64,967,293	4,692,940	69,660,233

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to shareholders of the Bank							Non-Controlling interests	Total		
	Share capital	Reserves				Retained earnings	Total				
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve					Remeasurement gains on defined benefit plans	Subtotal
	Note 33						Note 35				
Restated balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,324,582)	68,167	21,820,974	14,064,582	45,693,825	2,337,272	48,031,097
Net profit for the year	-	-	-	-	-	-	-	3,321,637	3,321,637	69,700	3,391,337
Other comprehensive income for the year	-	-	-	-	1,499,912	(21,186)	1,478,726	-	1,478,726	-	1,478,726
Total comprehensive income	-	-	-	-	1,499,912	(21,186)	1,478,726	3,321,637	4,800,363	69,700	4,870,063
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	-	130,000	130,000
Shareholders' donation	-	10,233	-	-	-	-	10,233	-	10,233	-	10,233
Dividends declared and paid	-	-	-	-	-	-	-	(1,961,654)	(1,961,654)	(74,147)	(2,035,801)
Appropriation to general reserve	-	-	-	10,240	-	-	10,240	(10,240)	-	-	-
Balance at 30 June 2018	9,808,269	10,591,972	3,777,432	8,728,458	175,330	46,981	23,320,173	15,414,325	48,542,767	2,462,825	51,005,592

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to shareholders of the Bank							Non-Controlling interests	Total		
	Reserves										
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal				
	Note 33						Note 35				
Restated balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,324,582)	68,167	21,820,974	14,064,582	45,693,825	2,337,272	48,031,097
Net profit for the year	-	-	-	-	-	-	-	6,526,337	6,526,337	305,826	6,832,163
Other comprehensive income for the year	-	-	-	-	2,406,608	(83,045)	2,323,563	-	2,323,563	(3,023)	2,320,540
Total comprehensive income	-	-	-	-	2,406,608	(83,045)	2,323,563	6,526,337	8,849,900	302,803	9,152,703
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	-	130,000	130,000
Shareholders' donation	-	279,256	-	-	-	-	279,256	-	279,256	23,813	303,069
Appropriation to surplus reserve	-	-	621,141	-	-	-	621,141	(621,141)	-	-	-
Dividends declared and paid	-	-	-	-	-	-	-	(1,961,654)	(1,961,654)	(74,147)	(2,035,801)
Appropriation to general reserve	-	-	-	730,327	-	-	730,327	(730,327)	-	-	-
Balance at 31 December 2018	9,808,269	10,860,995	4,398,573	9,448,545	1,082,026	(14,878)	25,775,261	17,277,797	52,861,327	2,719,741	55,581,068

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Six months ended 30 June	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,543,960	4,333,367
Adjustments for			
Depreciation and amortisation of property and equipment, intangible assets, long-term deferred expenses and right-of-use assets	10	412,830	265,446
Depreciation of investment properties		11,401	11,233
Non-operating trading gains		(918,326)	(2,570,849)
Interest income on financial investments		(2,439,646)	(2,844,287)
Impairment losses	11	3,555,100	1,000,360
Foreign exchange gains		(23,070)	(116,247)
Interest expense on debt securities	5	1,487,756	2,291,479
Interest income accrued on impaired financial assets		(35,046)	(84,305)
Net (gains)/losses on financial investments	8	(211,525)	1,041,123
Net losses/(gains) on disposal of property and equipment		1,440	(2,372)
		6,384,874	3,324,948
Net decrease/(increase) in operating assets			
Deposits with central bank		(3,919,196)	7,751,548
Deposits with banks and other financial institutions		1,666,977	(1,282,343)
Placements with banks and other financial institutions		(7,305,185)	(4,859,060)
Financial assets held under resale agreements		798,384	(598,052)
Loans and advances to customers		(58,570,302)	(51,355,303)
Financial assets at fair value through profit or loss		(13,182,822)	–
Other assets		(565,537)	(989,599)
		(81,077,681)	(51,332,809)
Net increase/(decrease) in operating liabilities			
Borrowings from central bank		2,231,722	916,382
Deposits from banks and other financial institutions		(36,052,351)	18,637,714
Placements from banks and other financial institutions		(618,463)	(168,010)
Financial assets sold under repurchase agreements		(5,285,861)	(9,501,223)
Customer deposits		46,848,840	4,721,270
Other liabilities		(215,847)	2,641,960
		6,908,040	17,248,093
Net cash flows used in operating activities before tax		(67,784,767)	(30,759,768)
Income tax paid		(1,961,333)	(1,237,209)
Net cash flows used in operating activities		(69,746,100)	(31,996,977)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

		Six months ended 30 June	
	Note	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(139,748)	(1,881,217)
Cash paid for investments		(52,073,178)	(86,555,234)
Proceeds from disposal of property and equipment and other long-term assets		2,204	4,690
Dividends received		586	–
Proceeds from sale and redemption of investments		48,361,452	78,853,042
Acquisition of a subsidiary, net of cash acquired	40(b)	2,049,590	–
Return on investments		3,664,114	5,032,545
Net cash flows from/(used in) investing activities		1,865,020	(4,546,174)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of preference shares	34	9,839,115	–
Cash payments for transaction cost of preference shares issued	34	(18,381)	–
Capital contributed by non-controlling shareholders		26,000	130,000
Shareholders' donation		42,633	82,844
Proceeds from issuance of debt securities		77,896,282	37,050,071
Repayment of debt securities issued		(39,168,197)	(41,566,668)
Interest paid on debt securities		(1,659,303)	(1,976,220)
Dividends paid to ordinary shares		(1,961,654)	–
Payment for lease contracts		(111,882)	–
Dividends paid to non-controlling shareholders		(41,690)	(11,262)
Net cash flows from/(used in) financing activities		44,842,923	(6,291,235)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(23,038,157)	(42,834,386)
Cash and cash equivalents at the beginning of the period		77,319,617	109,247,230
Effect of exchange rate changes on cash and cash equivalents		18,070	19,990
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	37	54,299,530	66,432,834
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		12,769,332	9,828,347
Interest paid		(6,788,240)	(5,618,768)

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

1 CORPORATE INFORMATION AND STRUCTURE

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

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

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

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

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

As at 30 June 2019, the Bank had a total of 28 subsidiaries, including 25 county banks, a financial leasing company and 2 rural commercial banks across China.

The interim condensed consolidated financial information was authorized for issue by the Board of Directors of the Bank on 28 August 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

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

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

The Bank and its subsidiaries are collectively referred to as the “Group”. As at 30 June 2019, the Bank had a total of 28 subsidiaries, including 25 county banks, a financial leasing company and 2 rural commercial banks, which are located in Guangdong, Shandong, Jiangsu, Hunan, Henan, Sichuan, Liaoning, Jiangxi and Beijing. The details of the Bank’s subsidiaries as at 30 June 2019 are as follows:

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		2019-6-30	2018-12-31	2019-6-30	2018-12-31	2019-6-30	2018-12-31	
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	60,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Xuyi Zhujiang County Bank	Xuyi, Jiangsu Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	80,000	51.00%	51.00%	56.00%	51.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	70,000	51.00%	51.00%	51.00%	51.00%	Banking
Huixian Zhujiang County Bank (i)	Huixian, Henan Province	100,000	60,000	35.00%	35.00%	52.57%	51.00%	Banking
Pengshan Zhujiang County Bank (i)	Meishan, Sichuan Province	50,000	50,000	35.00%	35.00%	51.00%	51.00%	Banking
Xinjin Zhujiang County Bank (i)	Xinjin, Sichuan Province	100,000	100,000	35.00%	35.00%	53.00%	53.00%	Banking
Guanghan Zhujiang County Bank (i)	Guanghan, Sichuan Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank (i)	Dalian Bonded Area, Liaoning Province	100,000	100,000	35.00%	35.00%	56.00%	56.00%	Banking
Jizhou Zhujiang County Bank (i)	Jian, Jiangxi Province	87,820	87,820	33.79%	33.79%	57.19%	57.19%	Banking
Heshan Zhujiang County Bank (i)	Heshan, Guangdong Province	150,000	150,000	34.00%	34.00%	71.00%	71.00%	Banking
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank (i)	Xinyang, Henan Province	414,200	414,200	39.60%	39.60%	54.13%	54.13%	Banking

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		2019-6-30	2018-12-31	2019-6-30	2018-12-31	2019-6-30	2018-12-31	
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	100,000	93.00%	93.00%	100.00%	100.00%	Banking
Anyang Zhujiang County Bank (i)	Anyang, Henan Province	60,000	60,000	35.00%	35.00%	55.50%	55.50%	Banking
Qingdao Chengyang Zhujiang County Bank (i)	Qingdao, Shandong Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Suzhou Wuzhong Zhujiang County Bank	Suzhou, Jiangsu Province	150,000	150,000	51.00%	51.00%	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank (i)	Foshan, Guangdong Province	200,000	200,000	33.40%	33.40%	50.50%	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank (i)	Dongfeng, Guangdong Province	150,000	150,000	35.00%	35.00%	55.00%	55.00%	Banking
Xingning Zhujiang County Bank (i)	Meizhou, Guangdong Province	50,000	50,000	34.00%	34.00%	100.00%	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank (i)	Shenzhen, Guangdong Province	300,000	300,000	35.00%	35.00%	83.00%	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank (i)	Dongguan, Guangdong Province	150,000	150,000	35.00%	35.00%	100.00%	100.00%	Banking
Zhengzhou Zhujiang County Bank (i)	Zhengzhou, Henan Province	200,000	200,000	35.00%	35.00%	90.00%	90.00%	Banking
Zhuzhou Zhujiang Rural Commercial Bank (the "ZZRCB")	Zhuzhou, Hunan Province	600,000	600,000	51.00%	51.00%	61.00%	61.00%	Banking
Chaozhou Rural Commercial Bank (the "CZRCB")	Chaozhou, Guangdong Province	2,633,342	N/A	57.72%	N/A	74.38%	N/A	Banking
Zhujiang Financial Leasing Co., Ltd. (the "ZJFL")	Guangzhou, Guangdong Province	1,000,000	1,000,000	100.00%	100.00%	100.00%	100.00%	Financial leasing

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

This condensed consolidated interim financial information of the Group should be read in conjunction with the 2018 annual consolidated financial statements.

Except as described below, the Group’s accounting policies applied in preparing this condensed consolidated interim financial information are consistent with those policies applied in preparing the 2018 annual consolidated financial statements.

2.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015-2017 cycle

IFRS 16

For the lessee, under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of profit or loss, and also classify cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Standards, amendments and interpretations effective in 2019 (continued)

IFRS 16 (continued)

The Group has adopted the standard for annual periods beginning on or after 1 January 2019 and used the simplified transition method stated in the standard without restating the comparative amount for the year before the first adoption. On the first day of implementation, the Group measured the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets for the leases using the new standard as from the beginning of the lease period. For short-term and low-value leases, the Group is subject to the recognition exemptions.

The major impacts of adopting the new standard and application guidance on the financial information are as follows:

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.90%.

The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019
	RMB
Operating lease commitments disclosed as at 31 December 2018	1,055,063
Discounted using the lessee's incremental borrowing rate of	
at the date of initial application	4.90%
Lease liability recognised as at 1 January 2019	<u>955,999</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Standards, amendments and interpretations effective in 2019 (continued)

IFRS 16 (continued)

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	As at 1 January 2019
Other assets (land use rights)	(954,412)
Other assets (right-of-use assets)	1,935,907
Other assets (receivables and payments)	(15,750)
Other assets (long-term deferred expenses)	<u>(9,746)</u>
Other liabilities (lease liabilities)	<u>955,999</u>

There is no impact on retained earnings on 1 January 2019.

IFRIC 23

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Standards, amendments and interpretations effective in 2019 (continued)

Amendments to IFRS 9

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

Amendments to IAS 19

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

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
IFRS 17	Insurance Contracts	1 January 2021

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (continued)

Amendments to IFRS 10 and IAS 28

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

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

IFRS 17

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the “variable fee approach” for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of CSM for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4 OPERATING SEGMENT INFORMATION

4.1 Operating segments

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

Corporate banking

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

Retail banking

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

Financial market business

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

Others

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Six months ended 30 June 2019 (Unaudited)					
Interest income	7,939,713	3,010,448	4,801,556	–	15,751,717
Interest expense	(2,203,913)	(1,735,385)	(4,075,116)	–	(8,014,414)
Inter-segments Interest (expense)/income	(290,795)	2,026,477	(1,735,682)	–	–
Net interest income	5,445,005	3,301,540	(1,009,242)	–	7,737,303
Fee and commission income	405,415	467,921	61,893	–	935,229
Fee and commission expense	(63,110)	(32,384)	(23,113)	–	(118,607)
Net fee and commission income	342,305	435,537	38,780	–	816,622
Net trading gains	–	–	2,000,070	–	2,000,070
Net gains on financial investments	–	–	211,525	–	211,525
Other income, gains or losses	22,732	10,914	(56)	1,000	34,590
Operating income	5,810,042	3,747,991	1,241,077	1,000	10,800,110
Operating expenses	(810,534)	(1,565,517)	(305,965)	(19,034)	(2,701,050)
Credit impairment (losses)/reversed	(2,668,391)	(434,780)	(451,558)	65	(3,554,664)
Impairment losses on repossessed assets	(327)	(53)	(55)	(1)	(436)
Profit/(losses) before tax	2,330,790	1,747,641	483,499	(17,970)	4,543,960
Income tax expense					(871,259)
Net profit for the period					3,672,701
Other segment information					
Depreciation and amortisation	129,052	271,567	7,101	16,511	424,231
Capital expenditure	42,512	89,458	2,339	5,439	139,748
As at 30 June 2019 (Unaudited)					
Segment assets	288,162,339	136,985,476	422,142,891	6,055,193	853,345,899
Segment liabilities	(329,409,915)	(300,780,842)	(153,467,409)	(27,500)	(783,685,666)
Other segment information:					
Credit commitments	124,375,696	20,794,929	–	–	145,170,625

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Six months ended 30 June 2018					
(Unaudited)					
Interest income	6,231,357	2,574,490	5,033,764	–	13,839,611
Interest expense	(2,477,368)	(1,841,292)	(3,931,768)	–	(8,250,428)
Inter-segments Interest (expense)/income	90,959	2,080,733	(2,171,692)	–	–
Net interest income	3,844,948	2,813,931	(1,069,696)	–	5,589,183
Fee and commission income	552,609	422,685	85,876	–	1,061,170
Fee and commission expense	(63,119)	(26,211)	(5,895)	–	(95,225)
Net fee and commission income	489,490	396,474	79,981	–	965,945
Net trading gains	–	–	2,570,849	–	2,570,849
Net losses on financial investments	–	–	(1,041,123)	–	(1,041,123)
Other income, gains or losses	75,355	(978)	(24)	16,032	90,385
Operating income	4,409,793	3,209,427	539,987	16,032	8,175,239
Operating expenses	(889,140)	(1,672,506)	(246,988)	(32,878)	(2,841,512)
Credit impairment (losses)/reversed	(856,148)	(316,361)	183,945	(888)	(989,452)
Impairment (losses)/reversed on repossessed assets	(9,438)	(3,488)	2,028	(10)	(10,908)
Profit/(losses) before tax	2,655,067	1,217,072	478,972	(17,744)	4,333,367
Income tax expense					(942,030)
Net profit for the period					3,391,337
Other segment information:					
Depreciation and amortisation	83,377	172,965	5,389	14,948	276,679
Capital expenditure	590,890	1,225,801	38,189	26,337	1,881,217
As at 31 December 2018					
Segment assets	263,382,440	111,363,326	382,038,522	6,505,309	763,289,597
Segment liabilities	(294,902,741)	(258,069,510)	(154,696,800)	(39,478)	(707,708,529)
Other segment information:					
Credit commitments	127,036,959	13,685,268	–	–	140,722,227

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

4 OPERATING SEGMENT INFORMATION (CONTINUED)

4.2 Geographical information

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

5 NET INTEREST INCOME

	Six months ended 30 June	
	2019	2018
Interest income		
Loans and advances to customers	11,821,760	9,089,811
Financial investments		
– Financial assets at amortized cost	1,082,804	1,788,530
– Financial assets at fair value through other comprehensive income	1,356,842	1,055,757
Financial assets held under resale agreements	298,922	950,327
Due from central bank	501,022	550,773
Deposits with banks and other financial institutions	690,367	404,413
Subtotal	15,751,717	13,839,611
Interest expense		
Customer deposits	(5,410,087)	(4,434,388)
Debt securities issued	(1,487,756)	(2,291,479)
Deposits from banks and other financial institutions	(704,164)	(981,184)
Financial assets sold under repurchase agreements	(99,862)	(290,708)
Borrowings from other banks (i)	(263,714)	(237,825)
Borrowings from central bank	(48,831)	(14,844)
Subtotal	(8,014,414)	(8,250,428)
Net interest income	7,737,303	5,589,183
Including		
Interest income accrued on impaired financial assets	35,046	84,305

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2019	2018
Fee and commission income		
Bank card fees	329,293	296,663
Agency and custodian service fees	157,825	205,792
Advisory and consultancy fees	82,400	263,802
Financial lease business fees	77,448	53,928
Settlement and electronic channel business fees	76,340	60,853
Wealth management product related fee income	60,424	82,576
Foreign exchange business fees	28,262	48,680
Others	123,237	48,876
Subtotal	935,229	1,061,170
Fee and commission expense		
Settlement and electronic channel business fees	(6,683)	(10,490)
Bank card fees	(13,764)	(15,994)
Others	(98,160)	(68,741)
Subtotal	(118,607)	(95,225)
Net fee and commission income	816,622	965,945

7 NET TRADING GAINS

	Six months ended 30 June	
	2019	2018
Debt securities		
Unrealised (losses)/gains from debt securities	(556,663)	226,025
Realised gains from debt securities	2,151,526	2,058,145
Subtotal	1,594,863	2,284,170
Funds		
Unrealised gains from funds	43,574	13,821
Realised gains from funds	361,047	272,858
Subtotal	404,621	286,679
Others	586	–
Total	2,000,070	2,570,849

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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8 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2019	2018
Net gains/(losses) of financial assets	211,525	(1,043,391)
Other	–	2,268
Total	211,525	(1,041,123)

9 OTHER INCOME, GAINS OR LOSSES

	Six months ended 30 June	
	2019	2018
Government grants and subsidies	14,835	14,828
Net foreign exchange gains	21,731	73,860
Net (losses)/gains on disposal of property and equipment	(1,440)	2,372
Net gains/(losses) on sale of repossessed assets	1,366	(3,672)
Donations	(2,099)	(1,123)
Others	197	4,120
Total	34,590	90,385

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For the six months ended 30 June 2019
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10 OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
Staff costs (a)	1,649,093	1,810,231
Depreciation and amortisation	412,830	265,446
Rental expenses	N/A	142,914
Tax and surcharges	73,613	91,709
Labor dispatch fee	98,293	99,800
Consulting fees	3,639	5,074
Professional service fees	8,091	2,903
Others	455,491	423,435
Total	2,701,050	2,841,512

(a) Staff costs

	Six months ended 30 June	
	2019	2018
Salaries, bonuses and allowances	1,192,901	1,326,307
Benefits, social insurance, housing fund and other insurances	388,999	387,075
Benefits for early retirement and supplemental retirement	26,845	62,753
Labour union expenditure, education costs and others	40,348	34,096
Total	1,649,093	1,810,231

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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11 IMPAIRMENT LOSSES

(a) Credit impairment losses, net

	Six months ended 30 June	
	2019	2018
Loans and advances to customers	2,152,864	987,210
Placements with banks and other financial institutions	1,523	1,651
Loans and advances at fair value through other comprehensive income	366,302	23,293
Financial investments	842,744	(139,708)
Others	191,231	117,006
Total	3,554,664	989,452

(b) Impairment losses on repossessed assets

	Six months ended 30 June	
	2019	2018
Repossessed assets	436	10,908
Total	436	10,908

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
Current income tax	1,521,249	1,039,804
Deferred income tax	(649,990)	(97,774)
Total	871,259	942,030

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

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

12 INCOME TAX EXPENSE (CONTINUED)

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

	Six months ended 30 June	
	2019	2018
Profit before income tax	4,543,960	4,333,367
Tax calculated at a tax rate of 25%	1,135,990	1,083,342
Tax effect arising from income not subject to tax (i)	(268,976)	(166,007)
Tax effect of expenses that are not deductible for tax purposes (ii)	6,166	26,728
Adjustments on income tax for prior years which affect current period profit or loss	(1,921)	(2,033)
Income tax expense	871,259	942,030

(i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses, which are not deductible for tax purposes according to PRC tax regulations.

13 DIVIDENDS

	Six months ended 30 June	
	2019	2018
Dividends on ordinary shares declared		
Final dividend	1,961,654	1,961,654
Dividend per share (in RMB yuan)	0.20	0.20

The resolution on the Bank's distribution of cash dividends of RMB20 cents per share in respect of the year ended 31 December 2018, with the total dividends expected to be RMB1,961,654 thousands was approved in the 2018 annual general meeting on 24 May 2019.

A dividend of RMB20 cents per share in respect of the year ended 31 December 2017, with a total of RMB1,961,654 thousands was approved in the 2017 annual general meeting on 31 May 2018.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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14 EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
Net profit for the period attributable to ordinary equity holders of the Bank	3,591,552	3,321,637
Divided: Weighted average number of ordinary shares in issue	9,808,269	9,808,269
Basic and diluted earnings per share (in RMB yuan)	0.37	0.34

For the six months ended 30 June 2019, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on 20 June 2019 and the terms and conditions are detailed in Note 34. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the period ended 30 June 2019, and therefore the conversion feature of preference shares has no effect on the basic earnings per share calculation.

15 CASH AND DEPOSITS WITH CENTRAL BANK

	As at 30 June 2019	As at 31 December 2018
Cash on hand	3,342,842	2,532,087
Mandatory reserves with central bank (a)	64,102,039	59,797,236
Surplus reserves with central bank (b)	20,173,952	37,455,968
Fiscal deposits with central bank	1,176,972	1,813,106
Subtotal	88,795,805	101,598,397
Less:		
Expected credit losses (ECL) allowance	(8,595)	(8,683)
Total	88,787,210	101,589,714

(a) The Group is required to place mandatory reserves with the PBOC, and these mandatory reserves with central bank are not available for use in the Group's daily operations. As at 30 June 2019, the ratio of the Bank for RMB deposits mandatory reserves was 11% (31 December 2018: 12%), and different ratios are applicable to the subsidiaries based on their locations. The ratio for foreign currency deposits was 5% at 30 June 2019 (31 December 2018: 5%). The reserves for RMB and foreign currencies are interest bearing based on the requirement of the PBOC.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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16 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Deposits with banks and other financial institutions:		
Deposits with banks operating in Mainland China	15,190,482	8,019,099
Deposits with other financial institutions operating in Mainland China	1,320,276	561,029
Deposits with banks operating outside Mainland China	7,555,313	2,222,805
Interest receivable	116,387	64,603
Less:		
ECL allowance	(20,631)	(974)
Total	24,161,827	10,866,562

17 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Placements:		
Banks operating in Mainland China	5,862,632	4,959,246
Other financial institutions operating in Mainland China	22,750,350	10,215,000
Banks operating outside Mainland China	1,264,794	-
Interest receivable	164,830	126,205
Less:		
ECL allowance	(2,861)	(1,338)
Total	30,039,745	15,299,113

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2019	As at 31 December 2018
Financial assets held under resale agreements:		
Notes purchased under resale agreements	1,129,690	2,043,170
Securities purchased under resale agreements	8,160,536	27,260,350
Interest receivable	8,139	38,002
Less:		
ECL allowance	(969)	(2,572)
Total	9,297,396	29,338,950

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	As at 30 June 2019	As at 31 December 2018
Loans and advances at amortised cost		
Corporate loans and advances		
– Corporate loans	303,198,145	266,039,075
– Discounted bills	9,253,901	155,312
	312,452,046	266,194,387
Personal loans and advances		
– Personal residential mortgages	57,896,458	54,297,183
– Personal business loans	35,780,940	31,890,383
– Personal consumption loans	12,256,620	13,294,058
– Credit cards overdraft	9,056,015	8,872,460
	114,990,033	108,354,084
Gross amount of loans and advances at amortised cost	427,442,079	374,548,471
Less: ECL allowance of loans and advances at amortised cost	(14,188,177)	(13,020,939)
Including: Stage I	(4,338,088)	(3,821,786)
Stage II	(5,002,534)	(5,370,044)
Stage III	(4,847,555)	(3,829,109)
Purchased credit-impaired	–	–
Net amount of loans and advances at amortised cost	413,253,902	361,527,532
Loans and advances at fair value through other comprehensive income		
Corporate loans		
Discounted bills	21,158,167	3,440,439
Net amount of loans and advance to customers	434,412,069	364,967,971

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Loans listed by assessment method for allowance

	Stage I	Stage II	Stage III	Purchased credit-impaired (i)	Total
As at 30 June 2019					
Corporate loans	284,769,691	39,325,943	8,573,910	940,669	333,610,213
Personal loans	111,974,807	1,326,042	1,584,094	105,090	114,990,033
Gross amount of loans and advances to customers	396,744,498	40,651,985	10,158,004	1,045,759	448,600,246
Less:					
ECL allowance	(4,338,088)	(5,002,534)	(4,847,555)	-	(14,188,177)
Net amount of loans and advances to customers	392,406,410	35,649,451	5,310,449	1,045,759	434,412,069
	Stage I	Stage II	Stage III	Total	
As at 31 December 2018					
Corporate loans	223,374,416	41,041,254	5,219,156		269,634,826
Personal loans	105,920,352	962,141	1,471,591		108,354,084
Gross amount of loans and advances to customers	329,294,768	42,003,395	6,690,747		377,988,910
Less:					
ECL allowance	(3,821,786)	(5,370,044)	(3,829,109)		(13,020,939)
Net amount of loans and advances to customers	325,472,982	36,633,351	2,861,638		364,967,971

- (i) Before the incorporation of the CZRCB, the Bank has acquired credit-impaired loans of RMB1,045,759 (being the fair value as of 30 June 2019, based on independent valuation report) from Chaozhou Urban Rural Credit Cooperative Union, Chaozhou Chaoan District Rural Credit Cooperative Union and Raoping County Rural Credit Cooperative Union. For business combination, please refer to note 40 for more details.

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance

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

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Purchased credit- impaired	Total
ECL allowance as at 1 January 2019	1,161,864	4,935,028	2,540,606	–	8,637,498
New financial assets originated or purchased	559,832	907,591	94,870	–	1,562,293
Derecognition or settlements	(227,412)	(809,956)	(136,937)	–	(1,174,305)
Remeasurement					
– Changes in PDs/LGDs/EADs (i)	22,512	(404,002)	331,588	–	(49,902)
– Stage transfer	(107,941)	(138,854)	1,821,015	–	1,574,220
Write-offs	–	–	(938,187)	–	(938,187)
Transfers	92,890	74,212	(167,102)	–	–
Others	–	–	(35,056)	–	(35,056)
ECL allowance as at 30 June 2019	1,501,745	4,564,019	3,510,797	–	9,576,561

(i) For the definition of PDs/LGDs/EADs, please refer to Note 45 (a).

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	1,028,290	1,429,426	1,817,727	4,275,443
New financial assets originated or purchased	758,913	1,881,821	44,091	2,684,825
Derecognition or settlements	(441,870)	(300,478)	(238,927)	(981,275)
Remeasurement				
– Update on the model	(74,622)	84,716	475,969	486,063
– Stage transfer	(180,978)	2,092,339	1,443,664	3,355,025
Write-offs	–	–	(1,135,106)	(1,135,106)
Transfers	72,131	(252,796)	180,665	–
Others	–	–	(47,477)	(47,477)
ECL allowance as at 31 December 2018	1,161,864	4,935,028	2,540,606	8,637,498

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

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

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	2,659,922	435,016	1,288,503	4,383,441
New financial assets originated or purchased	1,028,923	30,664	8,758	1,068,345
Derecognition or settlements	(704,435)	(67,646)	(86,441)	(858,522)
Remeasurement				
– Changes in PDs/LGDs/EADs	(119,494)	(14,979)	8,402	(126,071)
– Stage transfer	(82,089)	236,224	301,801	455,936
Write-offs	–	–	(311,523)	(311,523)
Transfers	53,516	(180,764)	127,248	–
Others	–	–	10	10
ECL allowance as at 30 June 2019	2,836,343	438,515	1,336,758	4,611,616

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	2,232,506	411,894	1,618,705	4,263,105
New financial assets originated or purchased	1,683,579	73,692	29,357	1,786,628
Derecognition or settlements	(1,293,982)	(161,357)	(508,230)	(1,963,569)
Remeasurement				
– Update on the model	68,314	13,686	364,611	446,611
– Stage transfer	(72,501)	220,149	446,579	594,227
Write-offs	–	–	(734,605)	(734,605)
Transfers	42,006	(123,048)	81,042	–
Others	–	–	(8,956)	(8,956)
ECL allowance as at 31 December 2018	2,659,922	435,016	1,288,503	4,383,441

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19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

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

Discounted bills	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	12,059	95,488	164,182	271,729
New financial assets originated or purchased	11,070	–	–	11,070
Derecognition or settlements	(4,228)	(21,995)	(131,850)	(158,073)
Remeasurement				
– Changes in PDs/LGDs/EADs	188	–	3,019	3,207
– Stage transfer	–	–	352,025	352,025
Transfers	(2,602)	(73,493)	76,095	–
ECL allowance as at 30 June 2019	16,487	–	463,471	479,958
Discounted bills	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	35,564	–	–	35,564
New financial assets originated or purchased	12,059	95,488	164,182	271,729
Derecognition or settlements	(35,564)	–	–	(35,564)
ECL allowance as at 31 December 2018	12,059	95,488	164,182	271,729

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20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2019	As at 31 December 2018
Government bonds	4,912,802	4,224,785
Bonds issued by policy banks	7,764,957	4,500,108
Bonds issued by financial institutions	2,261,731	1,700,527
Deposit certificates issued by other financial institutions	23,998,199	894,013
Asset-backed securities	164,017	93,099
Corporate bonds	867,577	1,701,589
Fund and other investments	63,022,330	75,070,674
Interest receivable	1,612,783	1,612,360
Total	104,604,396	89,797,155

Financial assets at fair value through profit or loss analysed by categories of the issuer are as follows:

	As at 30 June 2019	As at 31 December 2018
By issuer:		
– Government	4,912,802	4,224,785
– Policy banks	7,764,957	4,500,108
– Other banks and other financial institutions	26,423,947	2,687,639
– Corporates	867,577	1,701,589
– Funds and others issued by non-bank financial institutions	63,022,330	75,070,674
Interest receivable	1,612,783	1,612,360
Total	104,604,396	89,797,155

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21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2019	As at 31 December 2018
Government bonds	21,040,407	13,540,436
Bonds issued by policy banks	29,339,382	23,959,694
Bonds issued by financial institutions	4,687,341	3,796,764
Asset-backed securities	174,000	109,335
Corporate bonds	2,601,806	4,075,007
Interbank negotiable certificates of deposit	444,393	592,792
Trust and asset management plans	15,539,374	10,654,695
Interest receivable	1,845,384	969,028
Total	75,672,087	57,697,751

(a) Financial assets at fair value through other comprehensive income analysed by issuer are as follows:

	As at 30 June 2019	As at 31 December 2018
By issuer:		
– Government	21,040,407	13,540,436
– Policy banks	29,339,382	23,959,694
– Other banks and other financial institutions	5,305,734	4,498,891
– Corporates	2,601,806	4,075,007
– Trust plans and asset management plans issued by non-bank financial institutions	15,539,374	10,654,695
Interest receivable	1,845,384	969,028
Total	75,672,087	57,697,751

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

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

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	148,361	329,802	292,843	771,006
New financial assets originated or purchased	60,272	–	236,212	296,484
Derecognition or settlements	(23,853)	(4,644)	(10,060)	(38,557)
Remeasurement				
– Changes in PDs/LGDs	(32,214)	(27,835)	126,067	66,018
– Stage transfer	–	–	484,721	484,721
Transfers	–	(201,950)	201,950	–
ECL allowance as at 30 June 2019	152,566	95,373	1,331,733	1,579,672

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	253,071	95,094	156,440	504,605
New financial assets originated or purchased	76,985	296,123	90,740	463,848
Derecognition or settlements	(170,700)	(26,083)	(143,458)	(340,241)
Remeasurement				
– Update on the model	(9,112)	(24,701)	(5,958)	(39,771)
– Stage transfer	(17,229)	33,472	166,322	182,565
Transfers	15,346	(44,103)	28,757	–
ECL allowance as at 31 December 2018	148,361	329,802	292,843	771,006

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22 FINANCIAL ASSETS AT AMORTIZED COST

	As at 30 June 2019	As at 31 December 2018
Government bonds	26,273,929	23,217,555
Bonds issued by policy banks	27,119,315	30,728,159
Bonds issued by financial institutions	1,014,604	818,469
Deposit certificates issued by other financial institutions	4,382,669	1,177,465
Assets backed securities	482,716	282,326
Corporate bonds	2,455,817	2,498,933
Trust and asset management plans	10,309,101	20,335,180
Subtotal	72,038,151	79,058,087
Interest receivable	1,171,992	1,601,625
Less:		
ECL allowance	(297,008)	(301,487)
Total	72,913,135	80,358,225

(a) Financial assets measured at amortised cost analysed by issuer are as follows:

	As at 30 June 2019	As at 31 December 2018
By issuer:		
– Government	26,273,929	23,217,555
– Policy banks	27,119,315	30,728,159
– Other banks and other financial institutions	5,879,989	2,278,260
– Corporates	2,455,817	2,498,933
– Trust plans and asset management plans issued by non-bank financial institutions	10,309,101	20,335,180
Interest receivable	1,171,992	1,601,625
Subtotal	73,210,143	80,659,712
Less:		
ECL allowance	(297,008)	(301,487)
Total	72,913,135	80,358,225

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22 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

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

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2019	228,647	72,840	–	301,487
New financial assets originated or purchased	3,028	–	–	3,028
Derecognition or settlements	(102,552)	(72,840)	–	(175,392)
Remeasurement				
– Changes in PDs/LGDs	(12,607)	–	–	(12,607)
– Stage transfer	–	–	180,492	180,492
Transfers	(20,297)	–	20,297	–
ECL allowance as at 30 June 2019	96,219	–	200,789	297,008

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	428,572	–	68,481	497,053
New financial assets originated or purchased	3,327	–	–	3,327
Derecognition or settlements	(179,674)	–	(24,349)	(204,023)
Remeasurement				
– Update on the model	(20,385)	–	–	(20,385)
– Stage transfer	(41,820)	67,335	–	25,515
Transfers	38,627	5,505	(44,132)	–
ECL allowance as at 31 December 2018	228,647	72,840	–	301,487

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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23 PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
As at 1 January 2019	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Additions	11,872	47,199	21,202	11,069	11	91,353
Transfer from construction in progress	100,045	(160,480)	1,595	58,840	-	-
Acquisition of a subsidiary	574,913	17,051	-	7,901	1,404	601,269
Other transfer-in	-	-	-	42,560	-	42,560
Disposals	-	-	(3,049)	(4,059)	-	(7,108)
Other transfer-out	-	(18,442)	-	-	-	(18,442)
As at 30 June 2019	5,662,016	89,621	576,831	1,366,275	69,253	7,763,996
Accumulated depreciation						
As at 1 January 2019	3,187,342	-	456,209	967,522	61,550	4,672,623
Charge for the period	108,724	-	20,389	56,105	884	186,102
Other transfer-in	-	-	-	9,430	-	9,430
Disposals	-	-	(1,845)	(3,357)	-	(5,202)
As at 30 June 2019	3,296,066	-	474,753	1,029,700	62,434	4,862,953
Net book value						
As at 30 June 2019	2,365,950	89,621	102,078	336,575	6,819	2,901,043
As at 1 January 2019	1,787,844	204,293	100,874	282,442	6,288	2,381,741

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For the six months ended 30 June 2019
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23 PROPERTY AND EQUIPMENT (CONTINUED)

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2018	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Additions	569,200	217,787	10,614	76,214	6	873,821
Transfer from construction in progress	174,827	(186,211)	11,228	156	–	–
Other transfer-in	22,088	–	–	–	–	22,088
Disposals	(6,736)	–	(14,428)	(95,099)	(4,879)	(121,142)
Other transfer-out	(13,656)	(58,448)	–	–	–	(72,104)
At 31 December 2018	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Accumulated depreciation						
At 1 January 2018	2,971,902	–	378,197	925,166	63,934	4,339,199
Charge for the year	234,177	–	82,963	130,208	1,018	448,366
Other transfer-in	880	–	–	–	–	880
Disposals	(6,111)	–	(4,951)	(87,852)	(3,402)	(102,316)
Other transfer-out	(13,506)	–	–	–	–	(13,506)
At 31 December 2018	3,187,342	–	456,209	967,522	61,550	4,672,623
Net book value						
At 31 December 2018	1,787,844	204,293	100,874	282,442	6,288	2,381,741
At 1 January 2018	1,257,561	231,165	171,472	343,527	8,777	2,012,502

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

	As at 30 June 2019	As at 31 December 2018
Original value	1,458,014	823,274
Net value	757,617	129,386

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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24 GOODWILL

	As at 1 January 2019	Additions	As at 30 June 2019
The ZZRCB	382,216	–	382,216
The CZRCB (note 40)	–	476,181	476,181
Impairment allowance (i)	(124,160)	–	(124,160)
	258,056	476,181	734,237

	As at 1 January 2018	Additions	As at 31 December 2018
The ZZRCB	382,216	–	382,216
Impairment allowance (i)	–	(124,160)	(124,160)
	382,216	(124,160)	258,056

(i) Impairment

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

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

	As at 30 June 2019	As at 31 December 2018
Growth rate	3%	3%
Discount rate	15%	15%

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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25 DEFERRED INCOME TAXES

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

	30 June 2019		31 December 2018	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	3,498,251	13,993,005	3,351,320	13,405,283
Provisions	150,590	602,359	98,254	393,017
Financial assets at fair value through other comprehensive income – expected credit losses	394,918	1,579,672	192,752	771,006
Loans and advances to customers at fair value through other comprehensive income – expected credit losses	119,990	479,958	67,932	271,729
Loans and advances to customers at fair value through other comprehensive income – fair value changes	–	–	5,506	22,023
Financial assets at fair value through profit or loss – fair value changes	–	–	440	1,759
Staff salary and welfare payable	505,713	2,022,852	435,791	1,743,165
Others	–	–	43,305	173,216
Subtotal	4,669,462	18,677,846	4,195,300	16,781,198
Deferred income tax liabilities:				
Unrealized gains of foreclosed assets	(162)	(646)	(162)	(646)
Financial assets at fair value through profit or loss – fair value changes	(164,834)	(659,338)	(287,237)	(1,148,946)
Financial assets at fair value through other comprehensive income – expected credit losses	(394,918)	(1,579,672)	(192,752)	(771,006)
Financial assets at fair value through other comprehensive income – fair value changes	(61,043)	(244,173)	(104,490)	(417,959)
Loans and advances to customers at fair value through other comprehensive income – fair value changes	(1,109)	(4,436)	–	–
Loans and advances to customers at fair value through other comprehensive income – expected credit losses	(119,990)	(479,958)	(67,932)	(271,729)
Others	(34,333)	(137,330)	–	–
Subtotal	(776,389)	(3,105,553)	(652,573)	(2,610,286)
Net deferred income tax	3,893,073	15,572,293	3,542,727	14,170,912

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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25 DEFERRED INCOME TAXES (CONTINUED)

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

	As at 30 June 2019	As at 31 December 2018
Restated balance at the beginning of the period/year	3,542,727	3,783,619
Charged to profit or loss	649,990	560,303
Charged to other comprehensive income	(217,392)	(801,195)
Acquisition of a subsidiary	(82,252)	–
At the end of the period/year	3,893,073	3,542,727

26 OTHER ASSETS

	As at 30 June 2019	As at 31 December 2018
Receivables and payments (a)	2,059,369	4,698,721
Intangible assets (b)	156,133	1,119,567
Right-of-use assets (c)	1,870,008	N/A
Repossessed assets (d)	591,319	242,475
Prepayment of properties and buildings	567,555	567,555
Settlement and clearing accounts	366,283	423,285
Assets to be settled	297,366	297,366
Interest receivable	275,825	143,902
Investment properties	138,108	149,013
Long-term deferred expenses	121,735	137,785
Others	98,744	41,890
Total	6,542,445	7,821,559
Less: Allowance for impairment losses	(612,764)	(629,927)
Total	5,929,681	7,191,632

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

26 OTHER ASSETS (CONTINUED)

(a) Receivables and payments

In December 2018, pursuant to the approval of the Board of Directors, the Bank signed sponsorship and related agreements (the "Agreements") for three rural commercial banks to be restructured from rural credit cooperatives (the "Restructure"). According to the Agreements, as of 30 June 2019, the Bank made a total payment of investment, credit-impaired loans and repossessed assets of RMB6,032,060 thousands. According to the terms of the Agreements, the above payments can be refunded if the Restructure cannot be completed. Pursuant to the approval notice of "Approval Regarding the Opening of Chaozhou Rural Commercial Bank Co., Ltd. (Yue Yinbaojianfu No. [2019]497)" issued by the CBIRC Guangdong Bureau, Chaozhou Rural Commercial Bank obtained its finance permit from the CBIRC and its business license from the Administration for Market Regulation of Chaozhou Municipality on 21 June 2019, so a total of RMB4,560,056 thousands was transferred out from other assets. As at 30 June 2019, the Restructure of the other two rural commercial banks was not yet completed and the Bank accounted for the remaining amount of RMB1,472,004 thousands in other assets.

(b) Intangible assets

	Land use rights	Software	Total
Cost			
As at 1 January 2019	N/A	494,517	494,517
Additions	N/A	21,887	21,887
Transfer from construction in progress	N/A	9,645	9,645
Acquisition of a subsidiary	N/A	–	–
Disposals	N/A	(83)	(83)
As at 30 June 2019	N/A	525,966	525,966
Accumulated amortisation			
As at 1 January 2019	N/A	310,421	310,421
Amortisation for the period	N/A	59,417	59,417
Disposals	N/A	(5)	(5)
As at 30 June 2019	N/A	369,833	369,833
Net book value			
As at 30 June 2019	N/A	156,133	156,133
As at 1 January 2019	N/A	184,096	184,096

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For the six months ended 30 June 2019
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26 OTHER ASSETS (CONTINUED)

(b) Intangible assets (continued)

	Land use rights	Software	Total
Cost			
As at 1 January 2018	197,889	414,259	612,148
Additions	759,675	81,783	841,458
Transfer from construction in progress	–	4,896	4,896
Disposals	(175)	(6,421)	(6,596)
As at 31 December 2018	957,389	494,517	1,451,906
Accumulated amortisation			
As at 1 January 2018	16,518	206,188	222,706
Amortisation for the year	5,488	104,394	109,882
Disposals	(88)	(161)	(249)
As at 31 December 2018	21,918	310,421	332,339
Net book value			
As at 31 December 2018	935,471	184,096	1,119,567
As at 1 January 2018	181,371	208,071	389,442

(c) Right-of-use assets

	Properties and equipments	Land use rights	Total
Cost			
As at 31 December 2018	N/A	N/A	N/A
Remeasurement	981,495	976,330	1,957,825
As at 1 January 2019	981,495	976,330	1,957,825
Additions	81,834	–	81,834
Acquisition of a subsidiary	–	8,510	8,510
Disposals	–	(5,001)	(5,001)
As at 30 June 2019	1,063,329	979,839	2,043,168
Accumulated depreciation			
As at 31 December 2018	N/A	N/A	N/A
Remeasurement	–	21,918	21,918
As at 1 January 2019	–	21,918	21,918
Charge for the period	142,369	8,873	151,242
As at 30 June 2019	142,369	30,791	173,160
Net book value			
As at 30 June 2019	920,960	949,048	1,870,008
As at 1 January 2019	981,495	954,412	1,935,907

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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26 OTHER ASSETS (CONTINUED)

(d) Repossessed assets

	As at 30 June 2019	As at 31 December 2018
Houses and buildings	589,919	222,134
Land use rights	N/A	18,941
Others	1,400	1,400
Subtotal	591,319	242,475
Less: Allowance for impairment losses	(66,075)	(65,639)
Total	525,244	176,836

- (i) Before the incorporation of the CZRCB, the Bank has acquired repossessed assets of RMB356,579 (being the fair value as of 30 June 2019, based on independent valuation report) from Chaozhou Urban Rural Credit Cooperative Union, Chaozhou Chaoan District Rural Credit Cooperative Union and Raoping County Rural Credit Cooperative Union.

Movements of allowance for repossessed assets are as follows:

As at 31 December 2018	65,639
Charge for the period	436
As at 30 June 2019	66,075

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27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Deposits:		
Banks operating in Mainland China	5,704,740	29,547,621
Other financial institutions operating in Mainland China	21,359,503	33,059,511
Interest payable	99,371	608,833
Total	27,163,614	63,215,965

As at 30 June 2019, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB1,400,000 thousands (2018: RMB1,513,750 thousands).

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2019	As at 31 December 2018
Placements:		
Banks operating in Mainland China	926,957	480,817
Banks operating outside Mainland China	–	1,046,659
Interest payable	8,163	26,107
Total	935,120	1,553,583

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2019	As at 31 December 2018
Financial assets sold under repurchase agreements analysed by counterparty		
Banks operating in Mainland China	6,529,950	11,807,250
Interest payable	1,965	10,526
Total	6,531,915	11,817,776
Financial assets sold under repurchase agreements analysed by collateral		
Securities	6,529,950	11,807,250
Interest payable	1,965	10,526
Total	6,531,915	11,817,776

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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30 CUSTOMER DEPOSITS

	As at 30 June 2019	As at 31 December 2018
Demand deposits		
Corporate customers	114,698,893	124,035,104
Personal customers	101,343,967	99,200,462
	216,042,860	223,235,566
Time deposits		
Corporate customers	174,345,072	127,713,259
Personal customers	186,050,510	140,860,909
	360,395,582	268,574,168
Pledged deposits	13,408,299	13,216,853
Other deposits (i)	29,017,222	37,308,575
Total	618,863,963	542,335,162

- (i) As at 30 June 2019, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB20,100,660 thousands (31 December 2018: RMB27,392,510 thousands).

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31 DEBT SECURITIES ISSUED

	As at 30 June 2019	As at 31 December 2018
2014 tier two capital bonds (a)	4,098,264	4,098,047
2018 tier two capital bonds (a)	9,998,677	9,998,617
Interbank negotiable certificates of deposit ("NCD") (b)	88,987,119	51,326,856
Financial bonds (c)	1,000,000	–
Interest payable	347,910	451,915
Total	104,431,970	65,875,435

(a) Tier two capital bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier two capital bonds in an amount of RMB4.1 billions in the domestic interbank bond market on 11 September 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 6.26% and annual interest payment on 15 September. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

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

(b) Interbank negotiable certificates of deposit

As at 30 June 2019 and 31 December 2018, the outstanding balance was RMB89 billions and RMB51 billions, with the interest rate ranging from 2.40% to 4.50% and from 3.20% to 5.12% respectively, and the amount would mature in 2020 and 2019 respectively.

(c) Financial bonds

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

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32 OTHER LIABILITIES

	As at 30 June 2019	As at 31 December 2018
Borrowings from other banks (a)	9,174,106	9,435,006
Settlement and clearing accounts	3,906,212	3,502,534
Salaries, bonuses, allowances and subsidies payable (b)	2,142,669	2,621,980
Guarantee deposits from lessees (c)	1,426,346	1,340,906
Lease liabilities	923,741	N/A
Provisions	602,359	393,017
Sundry tax payables	601,090	554,660
Deferred revenue	208,244	242,437
Non-performing assets collection (d)	43,272	639
Others	788,040	668,087
Total	19,816,079	18,759,266

(a) Borrowings from other banks

As at 30 June 2019, the wholly-owned subsidiary of the Bank, the ZJFL, borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 3 to 60 months (31 December 2018: from 2 to 60 months) and fixed interest rates ranging from 3.50% to 5.65% (31 December 2018: from 3.61% to 6.05%).

(b) Salaries, bonuses, allowances and subsidies payable

	As at 30 June 2019	As at 31 December 2018
Salaries, bonuses and allowances	1,329,199	1,823,668
Social insurance	4,803	4,122
Housing fund	620	447
Employee benefits	10,840	2,440
Labor union expenditure, education costs and others	133,760	121,826
Defined contribution plans	1,570	470
Defined benefit plans		
– Supplemental retirement benefits (i)	537,905	554,531
Early retirement benefits	123,972	114,476
Total	2,142,669	2,621,980

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32 OTHER LIABILITIES (CONTINUED)

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

(i) Supplemental retirement benefits

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

	As at 30 June 2019	As at 31 December 2018
At the beginning of the period/year	554,531	455,173
Benefits paid during the period/year	(8,411)	(25,215)
Defined benefit cost (reversed)/recognised in profit or loss	(4,991)	41,528
Defined benefit cost (reversed)/recognised in other comprehensive income	(3,224)	83,045
At the end of the period/year	537,905	554,531

The principal actuarial assumptions adopted at the end of 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019	As at 31 December 2018
Discount rate		
– Normal retirees	3.49%	3.46%
– Early retirees	3.58%	3.52%
Expected growth rate of benefits	0-5%	0-5%
Age of retirement		
– Male	60	60
– Female	50/55	50/55

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

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32 OTHER LIABILITIES (CONTINUED)

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

(i) Supplemental retirement benefits (continued)

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

	Discount rate	
	As at 30 June 2019	As at 31 December 2018
Change in basis points		
+50 basis points	(36,807)	(37,929)
-50 basis points	41,545	42,813

	Growth rate	
	As at 30 June 2019	As at 31 December 2018
Change in basis points		
+50 basis points	41,373	44,066
-50 basis points	(37,016)	(39,387)

(c) Guarantee deposits from lessees

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

(d) Non-performing assets collection

The promoters of the Bank acquired certain non-performing assets of the Group during the Group's restructuring, and resolved to donate to the Group net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Group. Up to 30 June 2019, the Bank has received accumulative proceeds of RMB2,443,815 thousands (31 December 2018: RMB2,401,182 thousands) from the non-performing assets. The donation procedures of these proceeds amounting to RMB2,400,543 thousands have been completed (31 December 2018: RMB2,400,543 thousands). After deducting income tax of RMB306,013 thousands (31 December 2018: RMB306,013 thousands), the net accumulative proceeds amounting to RMB2,094,530 thousands as at 30 June 2019 (31 December 2018: RMB2,094,530 thousands) have been recorded as capital reserve, and the remaining proceeds amounting to RMB43,272 thousands were recorded as other liabilities and pending for completion of the donation procedures as at 30 June 2019 (31 December 2018: RMB639 thousands).

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33 SHARE CAPITAL

The Group's number of ordinary shares is as follows:

	30 June 2019		31 December 2018	
	Number of shares '000	Nominal value	Number of shares '000	Nominal value
Opening balance	9,808,269	9,808,269	9,808,269	9,808,269
As at 30 June 2019/ 31 December 2018	9,808,269	9,808,269	9,808,269	9,808,269

As at 30 June 2019 and 31 December 2018, the number of H shares of the Group was 9,808,269 thousands with par value of RMB1 per share.

34 PREFERENCE SHARES

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

Offshore preference share	Issue date	Accounting classification	Dividend rate	Issue price	Amount in shares	In original currency	In RMB	Maturity date	Conversion condition	Conversion
Preference shares in USD	2019-06-20	Equity	5.90%	USD20/share	71,500,000	1,430,000	9,839,115	No maturity date	Mandatory	No conversion during the period
					Total		9,839,115			
					Less:					
					Issuance fees		18,381			
					Book value		9,820,734			

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34 PREFERENCE SHARES (CONTINUED)

(b) Main clauses

Offshore preference shares

(i) *Dividend*

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

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

(ii) *Conditions to distribution of dividends*

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

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

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

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

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

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34 PREFERENCE SHARES (CONTINUED)

(b) Main clauses (continued)

Offshore preference shares (continued)

(iii) *Mandatory conversion trigger events*

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

(iv) *Order of distribution and liquidation method*

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

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

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

(v) *Redemption*

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

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For the six months ended 30 June 2019
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34 PREFERENCE SHARES (CONTINUED)

(c) Movements of preference shares issued

	As at 1 January 2019	Movements		AS at 30 June 2019
		Additions	Reductions	
Offshore reference shares Amount (shares)	–	71,500,000	–	71,500,000
In RMB, after deducting issuance fees	–	9,820,734	–	9,820,734

(d) Interests attributable to holders of preference shares

	As at 30 June 2019	As at 31 December 2018
Total equity attributable to equity holders of the parent company	64,967,293	52,861,327
Equity attributable to ordinary shareholders of the parent company	55,146,559	52,861,327
Equity attributable to preference shareholders of the parent company	9,820,734	–
Total equity attributable to non-controlling interests	4,692,940	2,719,741
Equity attributable to non-controlling interests of ordinary shares	4,692,940	2,719,741
Equity attributable to non-controlling interests of preference shares	–	–

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35 RESERVES

(a) Capital reserve

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

(b) Surplus reserve

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

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

For the six months ended 30 June 2019, no appropriation was made to the statutory surplus reserve (As at 31 December 2018: RMB621,141 thousands).

(c) General reserve

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

For the six months ended 30 June 2019, no appropriation was made to the general reserve (As at 31 December 2018: RMB730,327 thousands) and the reserve has reached 1.5% of the year ended balance of its risk assets as required on 31 December 2018.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes and expected credit losses of financial assets at fair value through other comprehensive income.

(e) Remeasurement gains/losses on defined benefit plans

Remeasurement gains/losses on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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36 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Other comprehensive income in statement of financial position		Other comprehensive income in income statement				
	As at 31 December 2018	Attributable to the shareholders of the Bank after tax	As at 30 June 2019	Amount before tax	Net amount transferred to the income statement	Attributable to the shareholders of the Bank after tax	Attributable to the non-controlling interests after tax
Other comprehensive income to be reclassified to profit or loss in subsequent years:							
Financial assets at fair value through other comprehensive income	1,082,026	652,110	1,734,136	1,277,762	408,195	652,110	65
Other comprehensive income not to be reclassified to profit or loss in subsequent years:							
Remeasurement gains/(losses) on defined benefit plans	(14,878)	3,224	(11,654)	3,224	-	3,224	-
Total	1,067,148	655,334	1,722,482	1,280,986	408,195	655,334	65

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

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

36 COMPONENTS OF OTHER COMPREHENSIVE INCOME (CONTINUED)

	Other comprehensive income in statement of financial position		Other comprehensive income in income statement					
	As at 01 January 2018 (restated)	Attributable to the shareholders of the Bank after tax	As at 31 December 2018	Amount before tax	Net amount transferred to the income statement	Tax expense	Attributable to the shareholders of the Bank after tax	Attributable to the non-controlling interests after tax
Other comprehensive income to be reclassified to profit or loss in subsequent years:								
Financial assets at fair value through other comprehensive income	(1,324,582)	2,406,608	1,082,026	3,525,662	320,882	801,195	2,406,608	(3,023)
Other comprehensive income not to be reclassified to profit or loss in subsequent years:								
Remeasurement gains/(losses) on defined benefit plans	68,167	(83,045)	(14,878)	(83,045)	-	-	(83,045)	-
Total	(1,256,415)	2,323,563	1,067,148	3,442,617	320,882	801,195	2,323,563	(3,023)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019
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37 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

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

	As at 30 June 2019	As at 31 December 2018
Cash on hand	3,342,842	2,532,087
Surplus reserves with central bank	20,173,952	37,455,968
Deposits with banks and other financial institutions	16,124,912	7,598,357
Placements with banks and other financial institutions	6,497,288	2,327,896
Financial assets held under resale agreements	8,160,536	27,405,309
Total	54,299,530	77,319,617

38 TRANSFERS OF FINANCIAL ASSETS

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

(a) Bond lending arrangements

The Group entered into bond lending agreements with securities borrowers to lend out its bond securities classified as financial investments of carrying amount totalling RMB2,009,884 thousands as at 30 June 2019 (2018: RMB1,042,906 thousands). The counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them in the condensed consolidated interim financial information.

(b) Securitisation transactions

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished control over these assets.

As at 30 June 2019, the original amount of the credit assets transferred by the Group to special purpose trust was RMB6,017,962 thousands before transfer (2018: RMB7,054,991 thousands). The Group has derecognised relevant credit assets. The original amount of the Group's share of the above asset-backed securities as at 30 June 2019 was RMB86,128 thousands (2018: RMB102,963 thousands), with a maximum loss exposure similar to the carrying amount.

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For the six months ended 30 June 2019
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38 TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

(c) Transfer of beneficial rights of credit assets

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

As at 30 June 2019, the original amount of the beneficial rights of credit assets transferred by the Group to special purpose trust was RMB3,444,851 thousands before transfer (2018: RMB3,444,851 thousands). The Group has derecognised relevant beneficial rights of credit assets. The original amount of the Group's share of the above beneficial rights of credit assets as at 30 June 2019 was nil (2018: nil).

39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

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

(a) Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. The Group earns commission income by providing management services to the investors of these structured entities, which are not material to the Group. For the six months ended 30 June 2019, the Group's commission income from these wealth management products was RMB60,424 thousands (For the six months ended 30 June 2018: RMB82,576 thousands). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss in such business. The Group did not control these structured entities and therefore, these structured entities were not consolidated.

As at 30 June 2019, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB84,145,579 thousands (2018: RMB77,630,363 thousands).

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39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group

As at 30 June 2019, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

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

As at 30 June 2019	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	43,770,677	43,770,677
Fund investments	18,271,930	18,271,930
Other investments	1,573,258	1,573,258
Subtotal	63,615,865	63,615,865
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	16,306,773	16,306,773
Other investments	174,777	174,777
Subtotal	16,481,550	16,481,550
<u>Financial assets at amortised cost</u>		
Trust plans and asset management plans	10,191,569	10,191,569
Other investments	488,715	488,715
Subtotal	10,680,284	10,680,284

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39 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

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

As at 31 December 2018	Carrying value	Maximum exposure to loss
<u>Financial assets at fair value through profit or loss</u>		
Trust plans and asset management plans	43,363,012	43,363,012
Fund investments	28,769,701	28,769,701
Other investments	1,923,591	1,923,591
Subtotal	74,056,304	74,056,304
<u>Financial assets at fair value through other comprehensive income</u>		
Trust plans and asset management plans	10,654,695	10,654,695
Other investments	109,335	109,335
Subtotal	10,764,030	10,764,030
<u>Financial assets at amortised cost</u>		
Trust plans and asset management plans	20,041,012	20,041,012
Other investments	282,301	282,301
Subtotal	20,323,313	20,323,313

40 BUSINESS COMBINATION

(a) Summary of acquisition

Pursuant to the "Approval Regarding the Opening of Chaozhou Rural Commercial Bank Co., Ltd. (Yue Yinbaojianfu No. [2019]497)" issued by the CBIRC Guangdong Bureau, Chaozhou Rural Commercial Bank obtained its finance permit from the CBIRC and its business license from the Administration for Market Regulation of Chaozhou Municipality on 21 June 2019. The CZRCB was formed as a result of a combination of Chaozhou Urban Rural Credit Cooperative Union, Chaozhou Chaoan District Rural Credit Cooperative Union and Raoping County Rural Credit Cooperative Union with investments of some strategic investors. The Bank was one of these investors and holds 57.72% of the equity interests of the CZRCB. Further to signing of seven acting in concert agreements with certain shareholders of the CZRCB, the Bank is entitled to 74.38% voting rights in the CZRCB. Hence, management of the Bank believes that it has control over the CZRCB from 21 June 2019.

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40 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (continued)

As at 30 June 2019	Fair value	Book value
ASSETS		
Cash and deposits with central bank	3,319,083	3,319,083
Deposits with banks and other financial institutions	6,455,344	6,494,762
Financial investments	8,645,116	8,648,896
Loans and advances to customers	11,854,234	11,868,845
Other assets	311,406	368,428
Placements with banks and other financial institutions	3,267,578	3,267,578
Property and equipment	601,269	159,539
Total assets	34,454,030	34,127,131
LIABILITIES		
Customer deposits	(29,679,962)	(29,679,962)
Deposits from banks and other financial institutions	(1)	(1)
Deferred tax liabilities	(82,252)	–
Income tax payable	(220)	(220)
Other liabilities	(179,592)	(181,700)
Total liabilities	(29,942,027)	(29,861,883)
Net identifiable assets	4,512,003	4,265,248
Less: Non-controlling interests acquired (i)	(1,907,675)	(1,803,347)
Add: goodwill	476,181	N/A
Satisfied by cash	3,080,509	N/A

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

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40 BUSINESS COMBINATION (CONTINUED)

(a) Summary of acquisition (continued)

(i) Accounting policy choice for non-controlling interests

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

(ii) Revenue and profit contribution

Since the acquisition was completed in late June 2019, the CZRCB's contribution to the consolidated profit is not significant for the period ended 30 June 2019.

Had the combination taken place at the beginning of the period, the profit of the Group for the period would have been RMB3,876,400 thousands. This has taken into the profits of Chaozhou Urban Rural Credit Cooperative Union, Chaozhou Chaoan District Rural Credit Cooperative Union and Raoping County Rural Credit Cooperative Union for the period.

(b) Net cash flow for acquisition

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

	30 June 2019
Purchase consideration:	
Cash paid in current year	1,520,019
Cash paid in 2018 as receivables and prepayments	1,560,490
Total cash consideration	3,080,509
Less: cash paid to acquire the CZRCB in current year	(1,520,019)
Add: cash and cash equivalents held by the CZRCB	3,569,609
Net cash inflow from acquisition of the CZRCB	2,049,590

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41 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

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

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

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

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

	As at 30 June 2019	As at 31 December 2018
Bank acceptances	26,490,553	9,968,108
Letters of credit issued	1,149,862	1,238,370
Guarantees issued	26,618,043	23,430,405
Loan commitments (i)	77,165,277	92,400,076
Undrawn credit card limits	13,746,890	13,685,268
Total	145,170,625	140,722,227
Allowance for credit commitments	(602,138)	(392,569)

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

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41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) Capital commitments

	As at 30 June 2019	As at 31 December 2018
Contracted, but not provided for	156,328	137,792

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

	As at 30 June 2019	As at 31 December 2018
Financial guarantees and credit related commitments	24,371,343	22,164,427

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

(d) Legal proceedings

As at 30 June 2019, the total claimed amounts of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB41,337 thousands (2018: RMB114,256 thousands). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Group's business, financial position and performance.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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42 FIDUCIARY ACTIVITIES

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

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

	As at 30 June 2019	As at 31 December 2018
Designated deposits	(9,806,077)	(12,869,093)
Designated loans	9,806,077	12,869,093

Entrusted wealth management refers to service that the Group makes investments and manages principal on behalf of customers within agreed investment plans and methods, and earnings will be paid to customers in accordance with terms of agreements and actual earnings. As at 30 June 2019 and 31 December 2018, entrusted wealth management service of the Group amounted to RMB84,145,579 thousands and RMB77,630,363 thousands respectively.

43 ASSETS PLEDGED AS SECURITY

(a) Financial assets which have been pledged

Some financial assets of the Group have been pledged as security for liabilities or contingent liabilities, mainly arising from financial assets sold under repurchase agreements, time deposits and borrowings from the Central Bank.

As at 30 June 2019 and 31 December 2018, financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from financial assets sold under repurchase agreements, time deposits and borrowings from the Central Bank. As at 30 June 2019 and 31 December 2018, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB14,224,344 thousands and RMB17,679,550 thousands.

(b) Collateral received

The Group did not hold any collaterals that can be resold or reused in connection with the terms of the financial assets held under resale agreements as at 30 June 2019 and 31 December 2018.

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44 RELATED PARTY DISCLOSURES

(a) Related party relationships

As at 30 June 2019 and 31 December 2018, there is no shareholder directly or indirectly holding 5% or above shareholding of the Bank.

(b) Related party transactions

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

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

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

	As at 30 June 2019	As at 31 December 2018
Balances at the end of the period/year		
Financial assets held under resale agreements	400,087	299,540
Loans and advances to customers	5,348,208	4,129,158
Financial assets at fair value through other comprehensive income	1,275,185	911,681
Deposits from banks and other financial institutions	128,160	82,128
Customer deposits	4,776,470	4,918,895
Bank acceptance bills	1,613	49,084
Credit commitments	1,373,450	2,112,450
	Six months ended 30 June	
Transactions during the period	2019	2018
Interest income	135,298	62,055
Interest expense	(45,189)	(909)
Fee and commission income	363	4,114
Fee and commission expense	(3,638)	(2,684)
Interest rate ranges during the period		
Loans and advances to customers	4.41%-7.50%	4.35%-7.87%
Placements with banks and other financial institutions	1.50%-3.38%	5.80%-8.50%
Financial assets held under resale agreements	2.65%	3.00%-4.50%
Customer deposits	0.25%-3.80%	0.30%-3.20%
Deposits from banks and other financial institutions	0.30%-0.72%	0.30%-0.72%
	Six months ended 30 June	
Asset transfer	2019	2018
Transfer price	-	58,063
Book value	-	58,063

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44 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

(ii) Transactions between the Bank and subsidiaries

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

(iii) Other related parties

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

	As at 30 June 2019	As at 31 December 2018
Balances at the end of the period/year		
Financial assets held under resale agreements	294,216	–
Loans and advances to customers	13,073,986	10,551,783
Deposits from banks and other financial institutions	108	860
Customer deposits	5,966,980	4,375,240
Bank acceptance bills	823,199	742,769
Credit commitments	618,659	521,869
	Six months ended 30 June	
Transactions during the period	2019	2018
Interest income	347,810	165,240
Interest expense	(63,408)	(48,144)
Fee and commission income	4,701	4,145
Interest rate ranges during the period		
Loans and advances to customers	4.28%-10.00%	2.74%-10.00%
Financial assets held under resale agreements	1.88%-1.90%	N/A
Customer deposits	0.30%-3.80%	0.01%-4.00%
Deposits from banks and other financial institutions	0.30%	0.39%-0.72%

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44 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

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

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

	Six months ended 30 June	
	2019	2018
Salary, remuneration and benefits	11,138	6,763

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

Balances at the end of the period/year	As at	As at
	30 June	31 December
	2019	2018
Loans and advances to customers	24,851	26,062
Customer deposits	63,408	57,931
Credit commitments	9,200	9,144

Transactions during the period	Six months ended 30 June	
	2019	2018
Interest income	785	649
Interest expense	(875)	(956)
Interest rate ranges during the period		
Loans and advances to customers	3.43%-6.84%	3.25%-9.00%
Customer deposits	0.25%-5.45%	0.01%-5.40%

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45 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

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

(i) Credit Risk Management

Loans

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Credit Risk Management (continued)

Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and based on issuer's credit rating and establishing post lending management standards. Generally, for foreign currency bonds, those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB are invested mainly. Investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above AA assigned by rating agencies recognised by the PBOC.

Other financial assets carrying at amortized cost

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

Inter-bank transactions

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

Credit commitments

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

(ii) Risk limit control and mitigation policies

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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

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

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

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

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment

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

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

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

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

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

Stage division

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

Significant increase in credit risk

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

Quantitative criteria

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Qualitative criteria

For corporate loan and financial investment portfolio, if borrowers are on the warning list or met one or more criteria as follows:

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

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

As at 30 June 2019, the Group did not consider any financial instruments as having low credit risk, so that its credit risk did not need to be evaluated on the reporting date, comparing with its initial recognition date.

Definition of default and credit impairment

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

Quantitative criteria

The borrower is more than 90 days overdue after payment of the contract.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Definition of default and credit impairment (continued)

Qualitative criteria

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

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

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

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

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

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

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Forward-looking information in the ECL models

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

The Group has adopted three economic scenarios (Base, Pessimistic and Optimistic) on the basis of the macroeconomic information analysis and expert judgment. The weightings for the three scenarios are 55%, 40% and 5% respectively. Key macroeconomic assumptions are as follows:

<u>Item</u>	<u>Range</u>
Growth rate of Producer Price Index ("PPI")	-1.92%~-1.52%
Growth rate of Consumer Price Index ("CPI")	1.52%~1.995%
Growth rate of Industrial Value Added ("IVA")	4.56%~5.985%

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

Grouping for ECL allowance

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

The characteristics for grouping are as follows:

Personal loans

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

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage III

Credit risk team monitors and reviews the grouping appropriateness regularly.

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) *Maximum exposure to credit risk*

Financial instruments and commitment and guarantee subject to impairment

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

	As at 30 June 2019	As at 31 December 2018
Financial tools		
Cash and deposits with central bank	85,444,368	99,057,627
Deposits with banks and other financial institutions	24,161,827	10,866,562
Placements with banks and other financial institutions	30,039,745	15,299,113
Financial assets held under resale agreements	9,297,396	29,338,950
Loans and advances to customers		
– at amortized cost	413,253,902	361,527,532
– at fair value through other comprehensive income	21,158,167	3,440,439
Financial assets at amortized cost	72,913,135	80,358,225
Financial assets at fair value through other comprehensive income	75,672,087	57,697,751
Other financial assets	980,036	707,048
Total	732,920,663	658,293,247
Credit commitments	144,568,487	140,329,658

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers

By industry	30 June 2019		31 December 2018	
	Amount	(%)	Amount	(%)
Corporate loans				
Real estate	63,425,394	14.15%	55,549,315	14.69%
Lease and commercial service	55,344,186	12.34%	48,898,164	12.93%
Wholesale and retail	54,346,476	12.11%	45,002,653	11.90%
Manufacturing	32,721,911	7.29%	29,853,350	7.90%
Construction	23,903,382	5.33%	17,850,626	4.72%
Hotel and catering	14,346,947	3.20%	10,453,293	2.77%
Transportation, warehouse and postal services	11,942,822	2.66%	13,234,858	3.50%
Agriculture, forestry, farming and fishery	9,568,453	2.13%	8,763,214	2.32%
Education	7,116,681	1.59%	5,389,116	1.43%
Water, environment and public facilities management	6,992,349	1.56%	5,090,059	1.35%
Information transmission, software and IT services	4,355,364	0.97%	4,905,431	1.30%
Resident services, repairing and other services	4,315,647	0.96%	4,303,530	1.14%
Financial services	3,801,543	0.85%	6,774,640	1.79%
Energy and utilities	2,796,589	0.62%	2,690,972	0.71%
Healthcare and social welfare	2,697,011	0.60%	2,902,965	0.77%
Culture, sports and entertainment	2,408,736	0.54%	2,769,936	0.73%
Others	3,114,654	0.69%	1,606,953	0.43%
Subtotal	303,198,145	67.59%	266,039,075	70.38%
Discounted bills	30,412,068	6.78%	3,595,751	0.95%
Personal loans	114,990,033	25.63%	108,354,084	28.67%
Total	448,600,246	100.00%	377,988,910	100.00%

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

	As at 30 June 2019	As at 31 December 2018
By geography		
Guangzhou	371,997,768	325,735,533
Pearl River Delta (except Guangzhou)	26,818,779	20,418,951
Guangdong Province (except Pearl River Delta)	26,651,757	11,045,722
Central China	13,541,224	11,576,959
Yangtze River Delta	2,611,258	2,836,743
Western China	2,104,692	1,971,869
Bohai Rim	1,329,359	1,102,843
North-east China	469,689	504,697
Others	3,075,720	2,795,593
Total	448,600,246	377,988,910

	As at 30 June 2019	As at 31 December 2018
By collateral type		
Unsecured loans	56,005,242	28,833,498
Guaranteed loans	104,148,040	89,552,568
Collateralised loans	253,407,114	226,734,975
Pledged loans	35,039,850	32,867,869
Total	448,600,246	377,988,910

	Overdue loans and advances to customers				Total
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	
30 June 2019					
Unsecured loans	257,625	1,186,133	103,455	24,954	1,572,167
Guaranteed loans	1,782,038	817,913	279,398	278,939	3,158,288
Collateralised loans	1,400,301	1,893,286	778,755	716,234	4,788,576
Pledged loans	108,655	21,114	31,945	131	161,845
Total	3,548,619	3,918,446	1,193,553	1,020,258	9,680,876

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

	Overdue loans and advances to customers				Total
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	
31 December 2018					
Unsecured loans	678,684	628,409	104,995	28,994	1,441,082
Guaranteed loans	581,242	833,913	362,886	212,403	1,990,444
Collateralised loans	2,593,905	978,411	461,551	822,196	4,856,063
Pledged loans	133,602	23,484	5,336	1,103	163,525
Total	3,987,433	2,464,217	934,768	1,064,696	8,451,114

(vi) Restructuring loans and advances to customers

As at 30 June 2019 and 31 December 2018, the original value of the Group's restructuring loans and advances were RMB8,233,702 thousands and RMB4,608,808 thousands respectively.

As at 30 June 2019 and 31 December 2018, the original value of the Group's restructuring loans and advances in stage I were RMB698,774 thousands and RMB917,943 thousands respectively.

(b) Liquidity risk

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

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

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

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

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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

30 June 2019	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	-	24,685,171	-	-	-	-	-	64,102,039	88,787,210
Deposits with banks and other financial institutions (1)	-	10,353,734	22,098,383	12,113,221	18,533,630	400,000	-	-	63,498,968
Financial assets at fair value through profit or loss	1,737,998	18,271,930	4,034,464	4,702,088	33,240,895	38,658,290	3,804,795	153,936	104,604,396
Financial assets at amortized cost	293,844	-	684,451	4,644,528	13,712,060	39,002,525	14,575,727	-	72,913,135
Financial assets at fair value through other comprehensive income	602,760	-	2,326,360	2,122,007	14,189,723	35,012,015	21,419,222	-	75,672,087
Loans and advances to customers	3,851,108	8,769,594	11,339,893	27,962,524	126,260,992	164,767,809	91,460,149	-	434,412,069
Other financial assets	272,136	-	368,417	25,795	169,041	144,647	-	-	980,036
Total financial assets	6,757,846	62,080,429	40,851,968	51,570,163	206,106,341	277,985,286	131,259,893	64,255,975	840,867,901
Financial liabilities:									
Borrowings from central bank	-	-	-	680,000	4,233,400	-	-	21,226	4,934,626
Deposits from banks and other financial institutions (2)	-	4,392,243	8,175,215	19,112,534	2,950,657	-	-	-	34,630,649
Customer deposits (3)	-	250,517,836	35,266,502	33,462,866	121,015,871	169,441,665	198,372	8,960,851	618,863,963
Debt securities issued	-	-	8,296,082	31,866,148	53,271,063	1,000,000	9,998,677	-	104,431,970
Other financial liabilities	-	824,683	1,816,809	1,489,465	5,882,822	2,542,176	5,074	-	12,561,029
Total financial liabilities	-	255,734,762	53,554,608	86,611,013	187,353,813	172,983,841	10,202,123	8,982,077	775,422,237
Net liquidity gap	6,757,846	(193,654,333)	(12,702,640)	(35,040,850)	18,752,528	105,001,445	121,057,770	55,273,898	65,445,664

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45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

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

31 December 2018	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	-	41,792,478	-	-	-	-	-	59,797,236	101,589,714
Deposits with banks and other financial institutions (1)	-	5,290,343	31,492,970	5,764,214	12,957,098	-	-	-	55,504,625
Financial assets at fair value through profit or loss	1,546,185	29,295,722	2,362,107	3,149,818	12,917,501	36,806,718	3,521,960	197,144	89,797,155
Financial assets at amortized cost	-	-	2,417,654	3,506,058	16,350,551	44,162,158	13,921,804	-	80,358,225
Financial assets at fair value through other comprehensive income	318,983	-	2,110,127	5,648,678	14,110,621	23,143,484	12,365,858	-	57,697,751
Loans and advances to customers	4,502,485	-	21,250,972	18,931,317	93,036,007	145,754,140	81,493,050	-	364,967,971
Other financial assets	-	-	-	419,794	138,846	148,408	-	-	707,048
Total financial assets	6,367,653	76,378,543	59,633,830	37,419,879	149,510,624	250,014,908	111,302,672	59,994,380	750,622,489
Financial liabilities:									
Borrowings from central bank	-	-	-	76,320	2,603,000	-	-	23,584	2,702,904
Deposits from banks and other financial institutions (2)	-	5,319,969	20,423,962	23,973,745	26,869,648	-	-	-	76,587,324
Customer deposits (3)	-	278,972,393	27,130,686	35,912,335	104,534,499	86,092,674	1,035,325	8,657,250	542,335,162
Debt securities issued	-	-	703,585	20,395,806	30,582,784	-	14,193,260	-	65,875,435
Other financial liabilities	-	2,438,119	-	1,841,087	6,719,902	1,439,252	-	-	12,438,360
Total financial liabilities	-	286,730,481	48,258,233	82,199,293	171,309,833	87,531,926	15,228,585	8,680,834	699,939,185
Net liquidity gap	6,367,653	(210,351,938)	11,375,597	(44,779,414)	(21,799,209)	162,482,982	96,074,087	51,313,546	50,683,304

(1) Includes financial assets held under resale agreements.

(2) Includes financial assets sold under repurchase agreements.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) **Market risk**

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

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

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

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

Limit management, sensitivity analysis and duration model are the major market risk management tools used by the Group.

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

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

(i) **Currency risk**

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

(ii) **Interest rate risk**

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

The Group manages its interest rate risk by:

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group follows the following capital management principles:

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

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

The Group's regulatory capital consists of the following:

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

45 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

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

	As at 30 June 2019	As at 31 December 2018
Net common equity tier 1 capital	55,951,219	53,540,602
Net tier 1 capital	65,989,399	53,680,940
Net capital	85,256,769	72,806,946
Risk-weighted assets	569,290,079	509,836,938
Common equity tier 1 capital adequacy ratio	9.83%	10.50%
Tier 1 capital adequacy ratio	11.59%	10.53%
Capital adequacy ratio	14.98%	14.28%

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

30 June 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	40,017,702	233,448	40,251,150
– Funds and other investments	18,271,930	–	46,081,316	64,353,246
Financial assets at fair value through other comprehensive income				
– Debt securities	–	59,365,314	–	59,365,314
– Funds and other investments	–	–	16,306,773	16,306,773
Total	18,271,930	99,383,016	62,621,537	180,276,483

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	13,117,647	236,251	13,353,898
– Funds and other investments	29,300,527	–	47,142,730	76,443,257
Financial assets at fair value through other comprehensive income				
– Debt securities	–	46,861,054	–	46,861,054
– Funds and other investments	–	–	10,836,697	10,836,697
Total	29,300,527	59,978,701	58,215,678	147,494,906

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The following tables present the changes in Level 3 assets for the period ended 30 June 2019 and the year ended 31 December 2018:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2019	236,251	47,142,730	10,836,697	58,215,678
Purchase	–	11,191,688	6,840,320	18,032,008
Total gains and losses				
– Realized gains and losses	(2,803)	(103,954)	(5,443)	(112,200)
– Other comprehensive income	–	–	47,151	47,151
Settlement	–	(12,149,148)	(1,411,952)	(13,561,100)
At 30 June 2019	233,448	46,081,316	16,306,773	62,621,537

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Debt securities	Funds and other investments		
At 1 January 2018	239,883	67,870,615	17,925,979	86,036,477
Purchase	–	14,083,814	–	14,083,814
Total gains and losses				
– Realized gains and losses	(3,632)	1,386,316	182,001	1,564,685
– Other comprehensive income	–	–	140,868	140,868
Settlement	–	(36,198,015)	(7,412,151)	(43,610,166)
At 31 December 2018	236,251	47,142,730	10,836,697	58,215,678

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

	Fair value		Valuation techniques	Unobservable input
	As at 30 June 2019	As at 31 December 2018		
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	233,448	236,251	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	46,081,316	47,142,730	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial assets at fair value through other comprehensive income				
– Funds and other investments	16,306,773	10,836,697	Discounted cash flow	Risk-adjusted discount rate, cash flow
Total	62,621,537	58,215,678		

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

As at 30 June 2019 and 31 December 2018, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

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

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the period of 2019 and the year of 2018.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments for which fair values are disclosed

As at 30 June 2019, financial assets and liabilities not presented at fair value on the condensed consolidated interim statement of financial position mainly represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued" (31 December 2018: represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Financial assets held under resale agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Borrowings from central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Financial assets sold under repurchase agreements", "Customer deposits" and "Debt securities issued").

	As at 30 June 2019	As at 31 December 2018
Carrying amount:		
Financial assets at amortized cost	72,913,135	80,358,225
Debt securities issued	104,431,970	65,875,435
Fair Value:		
Financial assets at amortized cost	73,313,418	80,819,890
Debt securities issued	104,595,006	65,273,232

47 EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, Guangdong Nanxiong Rural Commercial Bank started operations in July 2019. It is a subsidiary acquired by the Group. Other than that, the Group has no significant event after the reporting period.

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

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

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

(1) Liquidity ratios

	As at June 30, 2019	As at December 31, 2018
Liquidity ratios (RMB and foreign currency)	78.16%	76.91%

(2) Liquidity coverage ratio

	As at June 30, 2019	As at December 31, 2018
High-quality liquid assets	117,656.96	129,697.70
Cash outflows in future 30 days	88,007.42	47,821.89
Liquidity coverage ratio	133.69%	271.21%

(3) Net stable funding ratio

	As at June 30, 2019	As at March 31, 2019	As at December 31, 2018
Available and stable funds	516,048.92	485,647.69	472,991.87
Required stable funds	478,857.18	414,032.13	410,749.41
Net stable funding ratio	107.77%	117.30%	115.15%

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

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

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

2 CURRENCY CONCENTRATION

	As at June 30, 2019			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	15,938.89	2,336.38	265.29	18,540.56
Spot liabilities	(15,870.53)	(2,336.09)	(265.22)	(18,471.84)
Net long/(short) position	68.36	0.29	0.07	68.72

	As at December 31, 2018			Subtotal
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	8,550.35	2,422.83	274.02	11,247.20
Spot liabilities	(8,482.22)	(2,422.54)	(273.95)	(11,178.71)
Net long/(short) position	68.13	0.29	0.07	68.49

Above information is calculated in accordance with regulations promulgated by the CBRC (China Banking Regulatory Commission). The Group had no structural position as at June 30, 2019 and December 31, 2018.

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

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

3 INTERNATIONAL CLAIMS

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

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

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

	As at June 30, 2019		
	Banks and other financial sector institutions	Non-bank private sectors	Total
Asia Pacific	16,363.57	227.11	16,590.68
of which attributed to Hong Kong	9,472.09	–	9,472.09
North and South America	20.67	–	20.67
Europe	8.05	–	8.05
Oceania	4.07	–	4.07
Total	16,396.36	227.11	16,623.47

	As at December 31, 2018		
	Banks and other financial sector institutions	Non-bank private sectors	Total
Asia Pacific	13,800.30	1,294.29	15,094.59
of which attributed to Hong Kong	8,599.30	–	8,599.30
North and South America	1,389.92	–	1,389.92
Europe	15.60	–	15.60
Oceania	5.10	–	5.10
Total	15,210.92	1,294.29	16,505.21

UNREVIEWED SUPPLEMENTARY FINANCIAL INFORMATION

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

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

Principal amount of overdue loans and advances to customers by geographical region	As at June 30, 2019	As at December 31, 2018
Guangzhou	7,567.19	7,143.34
Pearl River Delta (Excluding Guangzhou)	226.87	89.50
Guangdong Province (Excluding Pearl River Delta)	743.31	2.54
Yangtze River Delta	127.34	88.80
Northeastern China	136.73	127.62
Bohai Rim	32.80	38.12
Western China	61.53	48.22
Central China	443.81	335.09
Others	57.66	57.53
Total	9,397.24	7,930.76

DEFINITIONS

“the Company”, “the Bank”, “our Bank” or “Guangzhou Rural Commercial Bank”	Guangzhou Rural Commercial Bank Co., Ltd.
“Group”	Guangzhou Rural Commercial Bank Co., Ltd. and its subsidiaries
“Articles of Association” or “Articles”	the articles of association of the Bank, which was passed by the shareholders of the Bank at the general meeting held on September 6, 2018 and was approved by the CBIRC, Guangdong Bureau on November 30, 2018 to take effect after the issuance of Offshore Preference Shares (as amended, supplemented or otherwise revised from time to time)
“Sannong”	agriculture, rural areas and farmers
“county bank(s)”	bank institutions that are approved by CBIRC to be incorporated in rural areas to provide services to local farmers or enterprises
“One Belt, One Road”	“Silk Road Economic Belt” and the “21st Century Maritime Silk Road”
“Reporting Period”	from January 1, 2019 to June 30, 2019
“CBIRC”	China Banking Insurance Regulatory Commission
“Guangdong Bureau of CBIRC”	Guangdong Bureau of China Banking and Insurance Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“AGM”	annual general meeting of the Bank
“Board of Directors”	the board of directors of the Bank
“Board of Supervisors”	the board of supervisors of the Bank
“H Shares”	the foreign shares which are registered in Mainland China and listed in Hong Kong
“Domestic Shares”	the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB
“Offshore Preference Shares”	71,500,000 non-cumulative perpetual offshore preference shares with a nominal value of RMB100 per share issued by the Bank and listed on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“RMB”	the lawful currency of the People’s Republic of China
“USD”	the lawful currency of the United States of America
“IFRS”	International Financial Reporting Standards and International Accounting Standards (“IAS”), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board (“IASB”)
“Latest Practicable Date”	August 28, 2019



广州农商银行

GUANGZHOU RURAL COMMERCIAL BANK